Saudi Telecom Company
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Ernst & Young & Co. (Certified Public Accountants)
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Independent auditor's report
To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

Opinion
We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

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

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

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

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Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Revenue recognition	
The Group's revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 59 billion for the year ended 31 December 2020. We considered this a key audit matter as the application of accounting standard for revenue recognition in the telecommunication sector includes number of key judgments and estimates. Additionally, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment, dependency on IT applications, large volumes of data, changes caused by price updates and promotional offers affecting the various products and services offered during the accounting period, as well as the materiality of the amounts involved. *Refer to note 4.5 for the accounting policy related to revenue recognition and note 35 for the related disclosures.*	Our audit procedures included, among others, the following: • Involved our IT specialists in testing the design, implementation and operating effectiveness of system internal controls related to revenue recognition. • Evaluated the appropriateness of revenue recognition policies. • Reviewed a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger. • Tested the accuracy of customer invoice generation on a sample basis and tested a sample of the credits and discounts applied to customer invoice. • Tested cash receipts for a sample of customers back to the invoice. • Performed analytical procedures by comparing expectations of revenue with actual revenue and analysing variances. • Assessed the appropriateness of the relevant disclosures in the consolidated financial statement.

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Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Accounting for zakat and withholding tax claims from the General Authority of Zakat and Tax (GAZT)	
As at 31 December 2020, the Group received the following claims from GAZT, relating to Zakat and withholding tax: **Zakat:** The Group received zakat assessments for the years ended 31 December 2008, 2009 and from 2015 to 2017 with additional zakat claimed by GAZT which was challenged by the Group. **Withholding Tax:** The Group received withholding tax assessments from GAZT for the service of renting international operators' networks outside the Kingdom of Saudi Arabia for the years from 2004 to 2015. The Group's management believes that this service should not be subject to withholding tax and has objected against such assessments which are still underway before the relevant committee. We considered this as a key audit matter as accounting for zakat and withholding tax involves management estimates in addition to the materiality of the additional amounts claimed. *Refer to note 4.10 for the accounting policy related to zakat and withholding taxes and notes 34 and 45-E for the related disclosures.*	Our audit procedures performed included, among others, the following: • Reviewed correspondences between the Group and GAZT to determine the amount of the additional assessments made by GAZT. • Attended meetings with those charged with governance and the Group's management to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees. • Involved our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by GAZT and judgements made by management in this matter. • Reviewed prior year's decisions from the relevant committee on zakat assessment. • Assessed the appropriateness of the relevant disclosures included in the consolidated financial statements.

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Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Allowance for impairment of trade receivable	
As at 31 December 2020, the Group's trade receivables amounted to SR 17.6 billion against which an impairment allowance of SR 2.9 billion is maintained. The Group uses the expected credit loss model (ECL) as required by International Financial Reporting Standard 9 (Financial Instrument) (IFRS 9) to calculate allowance for impairment in trade receivable. Further, the Group perform an assessment based on a set of relevant qualitative factors for some of the customers categories. We considered this as a key audit matter as it involves complex calculations and use of assumptions by management in addition to the materiality of the amounts involved. *Refer to notes 4.18.3 and 5.2.5 for the accounting and critical judgements policies related to allowance for impairment of trade receivable and note 17 for the related disclosures.*	Our audit procedures performed included, among others, the following: • Assessed the design, implementation, and operating effectiveness of the key controls over the following: - Recording of trade receivables and settlements. - Trade receivables aging reports. • Tested a sample of trade receivables to assess whether ECL has been recorded on a timely manner. • Assessed significant assumptions, including collection rates, recovery rates, impairment ratios and those relating to future economic events that are used to calculate the expected credit loss. • Tested the mathematical accuracy of the ECL model. • Tested on sample basis, the calculation performed by management of allowances done for some of the customers categories. Also obtained an understanding of the latest development and the basis of measuring the allowance and considered whether key judgments were appropriate given the circumstances. • Assessed the appropriateness of the relevant disclosures included in the consolidated financial statements.

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Independent auditor's report
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Key Audit Matters (continued)

Key audit matter	**How our audit addressed the key audit matter**
Capitalization and useful lives of property, plant and equipment (PPE)	
The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment. Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses in the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management assumptions. Further, there are a number of areas where management judgments impacts the carrying values and depreciation of PPE which include: - Decision to capitalize or expense costs; - Review of the useful lives of PPE including the impact of changes in the Group's strategy; and - The timing of commencement of depreciation based on when they are ready for their intended use. We considered this as a key audit matter since it involves management's assumptions and estimates as well as the materiality of the amounts involved. *Refer to note 4.11 for the accounting policy related to property, plant and equipment and note 9 for the related disclosures.*	Our audit procedures performed included, among others, the following: • Tested the effectiveness of the key controls in place over the capitalization and depreciation of PPE and assessed the Group's policies. • Performed analytical procedures on depreciation of PPE by comparing actual depreciation rates with expected rates and analysed variances. • Tested, on a sample basis, the reasonableness of useful lives estimation performed by the management. In addition to the above, we also performed the following procedures on the capitalized cost: • Assessed the Group's capitalisation policy for compliance with relevant accounting standards; • Tested, on a sample basis, the implementation of expenditure policy during the year, including the review of minutes of meetings where capital expenditure plan was approved. • Tested, on a sample basis, capitalisation of project expenses in compliance with the Group's capitalisation policy including instances where actual costs differed from the expenditure plan. • Assessed the appropriateness of the relevant disclosures included in the consolidated financial statements.

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Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of property, plant and equipment and intangible assets</td></tr>
<tr><td>As at 31 December 2020, the Group's consolidated financial position included property, plant and equipment amounting to SR 47.9 billion and intangible assets amounting to SR 10.5 billion.

At each reporting date, the Group perform an assessment of the recoverable value of these assets, or relevant cash-generating units ('CGUs') for any indication of impairment.

This involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating or capital costs and other economic assumptions used by the Group.

We considered this as a key audit matter as it involves management's assumptions and estimates as well as the materiality of the amounts involved.

Refer to notes 4.14 and 5.1.2 for the accounting and critical judgements policies related to valuation of property, plant and equipment and intangible assets.</td><td>Our audit procedures performed included, among others, the following:
• Reviewed management's impairment indicator testing.
• Assessed management's assumptions and estimates used to determine the recoverable value of the assets based on our knowledge of the Group and the industry it operates in.
• Assessed management's methods of identifying individual CGUs.
• Assessed mathematical accuracy of cash flow models.
• Assessed the appropriateness of the relevant disclosures included in the consolidated financial statements.</td></tr>
</table>

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Independent auditor's report
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Other Information Included in the Group's 2020 Annual Report
Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2020 annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2020 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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Independent auditor's report
To the Shareholders of Saudi Telecom Company (continued)
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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

for Ernst & Young & Co.
(Certified Public Accountants)

Rashid S. AlRashoud
Certified Public Accountant
License No. 366

Riyadh: 17 Sha'aban 1442H
(30 March 2021)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
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Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	*31 December 2020*	*31 December 2019*
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	9	47,847,623	45,085,342
Investment properties	10	36,980	-
Intangible assets and goodwill	11	10,466,408	9,906,688
Right of use assets	12	2,892,814	2,887,933
Investments in associates and joint ventures	7	6,704,947	6,618,526
Contract costs	13	637,470	922,922
Contract assets	14	457,657	648,069
Financial assets and others	15	7,069,285	7,415,284
TOTAL NON-CURRENT ASSETS		76,113,184	73,484,764
CURRENT ASSETS			
Inventories	16	1,008,645	1,721,530
Trade and other receivables	17	16,084,416	21,372,368
Short term murabahas	18	10,433,849	2,181,416
Cash and cash equivalents	19	9,004,286	8,031,010
Contract assets	14	6,059,440	6,793,755
Financial assets and others	15	3,268,280	4,473,685
		45,858,916	44,573,764
Assets held for sale	20	-	267,728
TOTAL CURRENT ASSETS		45,858,916	44,841,492
TOTAL ASSETS		121,972,100	118,326,256
EQUITY AND LIABILITIES			
EQUITY			
Issued capital	22	20,000,000	20,000,000
Statutory reserves	23	10,000,000	10,000,000
Treasury shares	24	(300,000)	-
Other reserves	25	(3,262,245)	(2,745,608)
Retained earnings		37,508,027	34,508,202
Equity attributable to the equity holders of the Parent Company		63,945,782	61,762,594
Non-controlling interests	26	1,321,233	1,292,452
TOTAL EQUITY		65,267,015	63,055,046
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	27	8,637,605	8,923,476
End of service benefits provision	28	5,239,313	4,812,805
Lease liabilities	29	2,237,853	2,164,415
Provisions	30	725,625	891,210
Contract liabilities	31	771,915	771,915
Financial liabilities and others	32	6,201,591	5,100,617
TOTAL NON-CURRENT LIABILITIES		23,813,902	22,664,438
CURRENT LIABILITIES			
Trade and other payables	33	20,296,791	18,242,158
Provisions	30	4,158,923	5,411,404
Contract liabilities	31	1,901,237	2,917,989
Zakat and income tax	34	1,903,791	1,482,278
Lease liabilities	29	742,185	716,762
Short term borrowings	27	318,485	389,339
Financial liabilities and others	32	3,569,771	3,446,842
TOTAL CURRENT LIABILITIES		32,891,183	32,606,772
TOTAL LIABILITIES		56,705,085	55,271,210
TOTAL EQUITY AND LIABILITIES		121,972,100	118,326,256

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

The accompanying notes from 1 to 51 form an integral part of these consolidated financial statements

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2020	2019
Revenues	35	**58,953,318**	54,367,531
Cost of revenues	36	**(24,998,923)**	(21,976,306)
GROSS PROFIT		**33,954,395**	32,391,225
OPERATING EXPENSES			
Selling and marketing	37	**(6,053,632)**	(5,581,969)
General and administration	38	**(5,810,763)**	(5,544,276)
Depreciation and amortisation	9, 11,12	**(9,358,875)**	(8,784,587)
TOTAL OPERATING EXPENSES		**(21,223,270)**	(19,910,832)
OPERATING PROFIT		**12,731,125**	12,480,393
OTHER INCOME AND EXPENSES			
Cost of early retirement program		**(600,000)**	(600,000)
Finance income	39	**413,873**	639,161
Finance cost	40	**(623,925)**	(765,154)
Net other expenses		**(42,995)**	(76,062)
Net share in results of investments in associates and joint ventures		**52,953**	49,597
Net other gains (losses)	41	**424,612**	(40,960)
TOTAL OTHER EXPENSES		**(375,482)**	(793,418)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		**12,355,643**	11,686,975
Zakat and income tax	34	**(1,170,446)**	(762,144)
NET PROFIT		**11,185,197**	10,924,831
Net profit attributable to:			
Equity holders of the Parent Company		**10,994,875**	10,664,666
Non-controlling interests		**190,322**	260,165
		11,185,197	10,924,831

Earnings per share, based on net profit attributable to equity holders of the Parent Company (in Saudi Riyals):

	Notes	2020	2019
Basic	42	**5.50**	5.33
Diluted	42	**5.50**	5.33

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

The accompanying notes from 1 to 51 form an integral part of these consolidated financial statements

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2020	2019
NET PROFIT		**11,185,197**	10,924,831
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to consolidated statement of profit or loss:			
Re-measurement of end of service benefit provision	28	**(568,893)**	(710,054)
Items that may be reclassified subsequently to consolidated statement of profit or loss:			
Foreign currency translation differences		**(16,542)**	(1,479)
Fair value changes from cash flow hedges		**1,820**	(484)
Net share of other comprehensive income of associates and joint ventures		**52,531**	214,013
Total items that may be reclassified subsequently to consolidated statement of profit or loss		**37,809**	212,050
TOTAL OTHER COMPREHENSIVE LOSS		**(531,084)**	(498,004)
TOTAL COMPREHENSIVE INCOME		**10,654,113**	10,426,827
Total comprehensive income attributable to:			
Equity holders of the Parent Company		**10,478,455**	10,163,477
Non-controlling interests		**175,658**	263,350
		10,654,113	10,426,827

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

The accompanying notes from 1 to 51 form an integral part of these consolidated financial statements

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		12,355,643	11,686,975
Adjustments for:			
Depreciation and amortisation	9, 11,12	9,358,875	8,784,587
Impairment loss and amortisation of contract costs and contract assets		623,652	506,951
Impairment loss on trade receivables	37	1,072,959	662,043
Allowance for slow moving inventories	16	3,433	57,086
Finance income	39	(413,873)	(639,161)
Finance costs	40	623,925	765,154
Provision for end of service benefits and other provisions		560,627	935,304
Net share in results of investments in associates and joint ventures		(52,953)	(49,597)
Share- based payment expenses	47	6,116	-
Net other (gains) losses	41	(424,612)	40,960
Movements in:			
Trade receivables and others		4,215,494	(7,574,857)
Inventories		709,452	(988,430)
Contract costs		(220,515)	(296,936)
Contract assets		807,042	(1,573,106)
Other assets		921,405	(2,317,470)
Trade payables and others		605,602	4,714,301
Contract liabilities		(564,499)	(130,160)
Other liabilities		(434,684)	(3,469,086)
Cash generated from operations		29,753,089	11,114,558
Less: Zakat and income tax paid	34	(750,643)	(742,882)
Less: Provision for end of service benefits paid	28	(677,741)	(451,050)
Net cash generated from operating activities		28,324,705	9,920,626
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(9,150,117)	(9,426,711)
Additions to intangible assets		(1,690,470)	(1,941,453)
Proceeds from sale of property and equipment		16,748	140,307
Proceeds from sale of an associate		760,862	-
Dividends from associates		-	37,931
Acquisition of a new subsidiary		-	(232,669)
Proceeds from finance income		516,006	642,431
Proceeds and payments related to financial assets, net		(7,882,206)	8,803,038
Net cash used in investing activities		(17,429,177)	(1,977,126)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the equity holders of the Parent Company		(7,973,418)	(12,001,610)
Dividends paid to non-controlling interests		(102,781)	(104,104)
Purchase of treasury shares		(300,000)	-
Repayment of lease liabilities		(831,642)	(712,467)
Repayment of borrowings	27	(402,386)	(350,948)
Proceeds from borrowings	27	21,363	5,381,417
Finance costs paid		(330,354)	(279,933)
Net cash used in financing activities		(9,919,218)	(8,067,645)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		976,310	(124,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		8,031,010	8,153,865
Net foreign exchange difference		(3,034)	1,290
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	9,004,286	8,031,010

Chief Financial Officer	Chief Executive Officer	Authorized Board Member	Chairman

The accompanying notes from 1 to 51 form an integral part of these consolidated financial statements

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(All amounts in Saudi Riyals thousands unless otherwise stated)

		Total equity attributable to the equity holders of the Parent Company							
	Notes	*Issued capital*	*Statutory reserves*	*Treasury shares*	*Other reserves*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance as at 1 January 2019		20,000,000	10,000,000	-	(1,903,878)	37,417,562	65,513,684	1,147,914	66,661,598
Net profit		-	-	-	-	10,664,666	10,664,666	260,165	10,924,831
Other comprehensive loss		-	-	-	(501,189)	-	(501,189)	3,185	(498,004)
Total comprehensive income		-	-	-	(501,189)	10,664,666	10,163,477	263,350	10,426,827
Dividends to the equity holders of the Parent Company	49	-	-	-	-	(14,000,000)	(14,000,000)	-	(14,000,000)
Dividends to non-controlling interests		-	-	-	-	-	-	(118,812)	(118,812)
Share of changes in other reserves of a joint venture's equity		-	-	-	85,433	-	85,433	-	85,433
Transfers		-	-	-	(425,974)	425,974	-	-	-
Balance as at 31 December 2019		20,000,000	10,000,000	-	(2,745,608)	34,508,202	61,762,594	1,292,452	63,055,046
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		-	-	-	-	10,994,875	10,994,875	190,322	11,185,197
Other comprehensive loss		-	-	-	(516,420)	-	(516,420)	(14,664)	(531,084)
Total comprehensive income		-	-	-	(516,420)	10,994,875	10,478,455	175,658	10,654,113
Dividends to the equity holders of the Parent Company	49	-	-	-	-	(7,995,050)	(7,995,050)	-	(7,995,050)
Dividends to non-controlling interests		-	-	-	-	-	-	(144,327)	(144,327)
Share-based payment transactions	47	-	-	-	6,116	-	6,116	-	6,116
Purchase of treasury shares	24	-	-	(300,000)	-	-	(300,000)	-	(300,000)
Acquisition of a share in non-controlling interest		-	-	-	(4,369)	-	(4,369)	(2,550)	(6,919)
Share of changes in other reserves of a joint venture's equity		-	-	-	(1,964)	-	(1,964)	-	(1,964)
Balance as at 31 December 2020		20,000,000	10,000,000	(300,000)	(3,262,245)	37,508,027	63,945,782	1,321,233	65,267,015

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

The accompanying notes from 1 to 51 form an integral part of these consolidated financial statements

(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 ultimate controlling party of the Company is the Government through the Public Investment Fund (PIF) which owns 70% of the total shares of the Company.

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. In addition, 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	Chairman

2. BASIS OF PREPARATION AND CONSOLIDATION

2.1 Basis of preparation

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

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

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

The preparation of the consolidated financial statements in accordance with IFRS as endorsed by SOCPA requires the use of certain significant accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The significant accounting policies (See Note 4) applied in preparing these consolidated financial statements are consistent with those applied in comparative periods presented.

2.2 Basis of consolidation

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (see Note 6).

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

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

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

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

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

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

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

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

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

2. BASIS OF PREPARATION AND CONSOLIDATION (CONTINUED)

2.2 Basis of consolidation (continued)

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

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

3. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

3.1 NEW IFRS STANDARDS, ISSUED AND ADOPTED

Amendments to IFRS and IFRIC that were applied by the Group with effective date on 1 January 2020 and had no material impact as follows:

Amendments and interpretations
Amendments on some references to the Conceptual Framework for Financial Reporting
Amendments to IAS 39, IFRS 7 and IFRS 9 - Interest Rate Benchmark Reform
Amendments to IFRS 3 – Definition of a Business
Amendments to IAS 1 and IAS 8 – Definition of Material
Amendments to IFRS 16 – Covid-19 Related Rent Concessions (effective 1 June 2020)

3.2 Other Amendments of relevant IFRS's issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group at their effective dates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combinations

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combinations (continued)

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

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

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

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

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

If the initial accounting for the business combination is not completed by the end of the reporting period which constitutes the period in which the combination occurred, the Group present the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition and if it is determined that this will affect the measurement of amounts recognized as of that date. The Group recognizes additional assets or liabilities during the measurement period if new information about facts or circumstances existed at the date of the acquisition and if it will result in recognition of assets or liabilities from that date. The measurement period ends once the group obtains those information existed at the acquisition date or as soon as it becomes sure of the lack of access to more information.

4.2 Investments in associates and joint ventures

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Investments in associates and joint ventures (continued)

A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of governing body of the investee, participation in policy-making, including participation in decisions about dividends or other distributions; material transactions between the Group and its investee; interchange of managerial personnel; or provision of essential technical information.

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

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

Unrealised gain or losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the consolidated statement of profit or loss in the acquisition year.

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of profit or loss the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss includes the disposal of the related assets or liabilities.

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

4.3 Shared-based payment transactions

The Company's executive employees receive remuneration in the form of share-based payments under the employee long term incentives program, whereby employees render services as consideration for Company's shares (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value of the equity instrument at the grant date. The grant date is the date on which the Company and the employee agree on the share-based agreement, so that, a common understanding of the terms and conditions of the agreement exists between the parties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Shared-based payment transactions (continued)

Share-based payment expense is included as part of employees benefits expense over the period in which the service and the performance conditions are fulfilled (the vesting period), with the corresponding amount recorded under other reserves within equity in accordance with the requirements of the International Financial Reporting Standard (2): Share-based Payment. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the consolidated statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

4.4 Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the shares. Any difference between the carrying amount of the shares and the consideration, if reissued, is recognized in other reserves within equity.

4.5 Revenue recognition

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15. Revenue is recognized based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

The timing of revenues recognition is either at a point in time or over time depending upon the satisfaction of the performance obligation by transferring control of goods or services to the customer.

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

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

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

In determining the transaction price, the Group considers the effects of variable consideration. If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the products and services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Lease contracts

The Group as a lessee

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

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

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

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

The Group as a lessee

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

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

(a) increasing the carrying value to reflect interest on the lease liability.
(b) reducing the carrying value to reflect the lease payments made.
(c) remeasuring the carrying value to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

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

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

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation on related right of use assets is calculated using the estimated useful life of the leased asset.

The Group as a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. The group as a Lessor will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any benefits granted as an incentive to enter into an operating lease, are distributed in a straight-line basis over the lease term. Total benefits from incentives are recognized as a reduction in rental income on a straight-line basis, unless there is another basis that better represents the period of time in which the economic benefits of the leased asset are exhausted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Lease contracts (continued)

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

4.7 Foreign currencies

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

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

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

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

4.8 Government grants

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 Government grants (continued)

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

4.9 Employee benefits

4.9.1 Retirement benefit costs and end of service benefits

Payments to defined contribution schemes are charged as an expense as they fall due. Payments made to state-managed pension schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution scheme.

Employee's end of service benefits provision is calculated annually by actuaries in accordance with the projected unit credit method as per (IAS 19) Employee Benefits, taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average salary incremental rate, average employees years of service and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate.

Due to the fact that the Kingdom does not have a deep market in high quality corporate bonds, the discount rate is determined based on available information of Saudi Arabia sovereign bond yields with a term consistent with the estimated term of the defined benefit obligation as at the reporting date.

Re-measurement of net liabilities that includes actuarial gains and losses arising from the changes in assumptions used in the calculation, is recognized directly in other comprehensive income. Re-measurements are not reclassified to the consolidated statement of profit and loss in subsequent periods.

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

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

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

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

4.9.2 Other short and long -term employee benefits

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

4.10 Zakat and Taxation

4.10.1 Zakat

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Zakat and Taxation (continued)

4.10.2 Current and deferred taxes

Tax related to subsidiaries located outside the Kingdom is calculated in accordance with tax laws applicable in those countries.

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

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

4.10.3 Value Added Tax ("VAT")

Expenses, and assets are recognized net of the amount of VAT, except:

• When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and/or
• When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

4.11 Property and equipment

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

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

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

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

When significant parts of property and equipment are to be replaced (except land), the Group recognises such parts as individual assets with specific useful life. All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized.

Depreciation is charged and reduces the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss within other operating income or expenses.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Investment properties

Investment properties are non-current assets (land or building - or part of it - or both) for the purpose of achieving rental income or capital development or both. These investment properties are not for sale in the normal course of the Group business, or for use in providing services or for administrative purposes. In addition.

Investment property is recognized as an asset when it is probable that future economic benefits will flow to the Group, associated with the property and can be measured reliably. Investment properties are initially measured at cost, including transaction costs. It is subsequently measured after recognition according to the "cost model", i.e. at cost minus accumulated depreciation and accumulated impairment losses, if any. Except for land, it is not depreciated.

Regular repair and maintenance costs that do not materially exceed the estimated useful life of the asset are recognized in the consolidated statement of profit or loss when incurred.

Investment properties are derecognised upon disposal (that is, on the date of losing control over them) and no future economic benefit is expected upon disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of profit or loss during the period of disposal.
Transfers from / to investment property to / from property and equipment are made only when the company changes the purpose of using the property.

The Group appoints an independent external valuer approved by the Saudi Authority for Accredited Valuers (Taqeem) to obtain fair value estimates for investment properties annually for the purpose of determining if there is a decrease in the value and also for the purpose of related disclosures in the consolidated financial statements of the Group.

4.13 Intangible assets other than goodwill

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

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

4.13.1 Software

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

4.13.2 Licence and frequency spectrum fees

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

4.13.3 Indefeasible Rights of Use (“IRU”)

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***4.13 Intangible assets other than goodwill* (continued)**

4. 13.4 Derecognition of intangible assets

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

4.14 Impairment of tangible and intangible assets other than goodwill

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

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

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

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

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

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

4.15 Inventories

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

4.16 Provisions

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 Assets' decommissioning liabilities

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

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

4.18 Financial instruments

4.18.1 Classification, recognition, and presentation

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

The Group classifies its financial assets within the following categories:

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

The classification depends on the entity's business model for managing the financial assets (for debt instruments) and the contractual terms of the cash flows.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Derivatives embedded in host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss.

4.18.2 Measurement

4.18.2.1 Initial measurement

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

4.18.2.2 Subsequent measurement of financial assets

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

a. Financial assets measured at amortised cost:

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18.2 Measurement (continued)

4.18.2.2 Subsequent measurement of financial assets (continued)

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

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

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

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

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

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

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

The Group considers a financial asset in default at various past due days depending on the classification of financial assets and their contractual payments terms, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18.2 Measurement (continued)

4.18.2.3 Subsequent measurement of financial liabilities

a. Amortised cost

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

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

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

b. Liabilities at fair value through profit or loss

Financial liabilities falling under this category include:
- liabilities held for trading
- derivative liabilities not designated as hedging instruments
- those designated as at FVTPL

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

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

1- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that financial liability is presented in the consolidated statement of comprehensive income
2- the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss

4.18.3 Impairment of financial instruments

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

4.18.4 Derecognition of financial assets

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

4.18.5 Derecognition of financial liabilities

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.6 Offsetting between financial assets and financial liabilities

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

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

4.18.7 Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as financing income.

Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in consolidated statement of income.

4.18.8 Derivative financial instruments and hedge accounting

The Group uses profit rate swaps to hedge its profit rate risks. These derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised assets or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

A hedging relationship qualifies for hedge accounting if it meets the effectiveness requirements. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the period or periods during which the hedged cash flows affect profit or loss.

If the cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Cash and cash equivalents

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

4.20 Fair values

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

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value, providing the maximum limit for the use of relevant inputs that are observable and the minimum use of inputs that can be not observable. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.21 Asset held for Sale

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

4.22 Segmental Information

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23 Cash dividends

The Company's dividends policy is approved by the General Assembly and the Company recognises a liability to pay a dividend when the distribution is authorised. A corresponding amount is recognised directly in equity.

4.24 Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group are required to make judgements about the carrying amounts of assets and liabilities and the accompanying disclosures that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods.

5.1 Significant estimates in applying accounting policies

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

5.1.1 Revenue recognition

Gross versus net presentation

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

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

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

5.1.2 Impairment of non-financial assets

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

5.2 Key sources of estimation uncertainty

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

5.2.1 Arrangements with multiple deliverables

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

5.2.2 Customer activation service fees

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

5.2.3 Provisions

In respect of provisions including decommissioning provision, the Group provides for anticipated outflows of resources considered probable. Estimates are used in assessing the likely amount of the settlement. The ultimate liability may vary from the amounts provided and would be dependent on the eventual outcome. See Note 30 for details. Provisions are recorded by discounting the future cash flows at a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognised in the consolidated statement of profit or loss as a finance cost.

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

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

5.2.5 Provision for impairment losses on trade receivables and contract assets

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

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

5.2.6 Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

5.2.7 Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

5.2.8 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and market volatility.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

6. SUBSIDIARIES

Subsidiaries owned directly by the Company are as follows:

Name of subsidiary		***Country of incorporation***	***Effective shareholding percentage***	
			31 December 2020	*31 December 2019*
Arabian Internet and Communications Services Company Limited ("Solutions by stc")	(1)	Kingdom of Saudi Arabia	**100%**	100%
Telecom Commercial Investment Company Limited ("TCIC")	(2)	Kingdom of Saudi Arabia	**100%**	100%
stc Bahrain BSC (C) ("stc Bahrain)	(3)	Kingdom of Bahrain	**100%**	100%
Aqalat Company Limited ("Aqalat")	(4)	Kingdom of Saudi Arabia	**100%**	100%
Saudi Telecom Specialized Company ("Specialized by stc")	(5)	Kingdom of Saudi Arabia	**100%**	100%
Sapphire Company Limited ("Sapphire")	(6)	Kingdom of Saudi Arabia	**100%**	100%
stc Turkey Holdings Ltd ("stc Turkey")	(7)	British Virgin Islands	**100%**	100%
stc Asia Telecom Holdings Ltd ("stc Asia")	(8)	British Virgin Islands	**100%**	100%
stc Gulf Investment Holding S.P.C. ("stc Gulf")	(9)	Kingdom of Bahrain	**100%**	100%
Saudi Telecom Channels Company (Channels by stc)	(10)	Kingdom of Saudi Arabia	**100%**	100%
Kuwait Telecommunications Company ("stc Kuwait")	(11)	Kuwait	**51.8%**	51.8%
Telecommunications Towers Company Ltd. ("TAWAL")	(12)	Kingdom of Saudi Arabia	**100%**	100%
Saudi Digital Payments Company ("stc Pay")	(13)	Kingdom of Saudi Arabia	**100%**	100%
Smart Zone Real Estate Company	(14)	Kingdom of Saudi Arabia	**100%**	100%
Advanced Technology and Cybersecurity Company	(15)	Kingdom of Saudi Arabia	**100%**	-

1. Arabian Internet and Communications Services Company Limited ("Solutions by stc") was established in the Kingdom in April 2002 and is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Group acquired 100% of share capital of the Arabian Internet and Communications Services Company Limited for SR 100 million. During the year 2020, the share capital of Solutions by stc was increased to SR 1,200 million.
2. Telecom Commercial Investment Company (TCIC) was established in the Kingdom in October 2007 with a capital of SR 1 million with the purpose of operating and maintaining of telecommunication networks, organizing computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs in the Saudi market.

6. SUBSIDIARIES (CONTINUED)

3. stc Bahrain was established in the Kingdom of Bahrain in February 2009 with a capital of BD 75 million equivalent to about SR 746 million at the exchange rate as of that date. stc Bahrain provides all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on 3 March 2010. During the first quarter of 2018, stc Bahrain has fully acquired “MENA Telecom Company Limited” in the Kingdom of Bahrain (as a subsidiary). The main activity is to provide Internet services.
4. Aqalat was established in the Kingdom in March 2013 with a capital of SR 70 million fully owned by the Company with the purpose of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Company.
5. Saudi Telecom Specialized Company (Specialized by stc) was established in February 2002 in the Kingdom. The Company acquired 100% of the SR 252 million share capital in January 2014. Specialized by stc operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices.
6. Sapphire was established in the Kingdom in June 2014 with a capital of SR 100 million fully owned by the Company to operate in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, advance payment devices, points-of-sale devices, telecom operator services, establish telecom sales and service centres. In November 2017, the Group’s Board of Directors has decided to wind up Sapphire and integrating its business with Saudi Telecom Company starting from 1 January 2018. The legal procedures for the liquidation of the company is expected to be completed during 2021.
7. stc Turkey is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 8 April 2007. It is a special purpose vehicle established to provide services and support required in respect of investment activities of the Group.

   In April 2008, stc Turkey acquired 35% of Oger Telecom Limited’s (“OTL”) USD 3.6 billion share capital, equivalent to approximately SR 13.5 billion, at the exchange rate as at that date.

   During 2016, and due to the continuing losses and the depletion of the Group's entire investment balance in OTL, the Group has stopped recognizing its share in OTL additional losses. (See Note 7.1)
8. stc Asia is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 24 July 2007 and is a special purpose vehicle that invests in companies operating primarily in the Malaysia. It holds an investment in stc Malaysia Holdings Ltd (“stc Malaysia”), (a wholly owned subsidiary by stc Asia), which was incorporated under the Commercial Companies Law in the British Virgin Islands.

   stc Malaysia Holdings Ltd in turn holds the Group’s 25% stake in Binariang GSM Holdings (“BGSM”) (See Note 7.2). The principal activity of both stc Asia and its subsidiary is to provide services and support required in respect of investment activities of the Group.
9. stc Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008 and has wholly-owned subsidiaries in the Kingdom of Bahrain, as listed below. The primary objective of this company and its following subsidiaries is to provide services and support required in respect of investment activities of the Group:
   1- stc Gulf Investment Holding 1 S.P.C.
   2- stc Gulf Investment Holding 2 S.P.C.
   3- stc Gulf Investment Holding 3 S.P.C.

   stc Gulf Investment Holding 3 S.P.C. and stc Gulf Investment Holding 2 S.P.C. holds 100% (2019: 100%) in Intigral Holding BSC (C) (“Intigral Holding”). Intigral Holding was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral Holding is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. During 2018, the company increased its capital to reach BD 101 million equivalent to SR 1.008 million at the exchange rate as at 31 December 2018.

6. SUBSIDIARIES (CONTINUED)

10. Saudi Telecom Channels Company ("Channels by stc") was established in the Kingdom in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centres' maintenance and operation. The Company operates in Saudi Market with subsidiaries in Bahrain and Oman whom are working in the same field. Saudi Telecom Company acquired 60% of Channels SR 100 million share capital in December 2011. On January 2017, the Company acquired the remaining shares in Channels by stc by SR 400 million. Accordingly, Channels by stc became a wholly-owned subsidiary of Saudi Telecom Company.

11. In December 2007, the Company acquired 26% share capital of stc Kuwait for an amount of Kuwaiti Dinar ("KD") 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. stc Kuwait operates in the field of mobile services in the Kuwaiti market and commenced its commercial operation on 4 December 2008 and was listed as a joint stock company on the Kuwait Stock Exchange on 14 December 2014.

    In November 2015, the Company has submitted a voluntary offer to acquire the issued shares of stc Kuwait not already owned by the Company, which represented 74% of stc Kuwait issued shares. The offer presented by the Company to stc Kuwait's shareholders amounted to KD 1 per share (equivalent to SR 12.37 at the exchange rate as at that date).

    The offer ended on 31 January 2016 and the number of shares accepted under the offer amounted to 128,860,518 shares which representing 25.8% of total issued shares to stc Kuwait. Saudi Telecom Company has thus become owning 51.8% of the total issued shares of stc Kuwait. (See Note 26)

    In May 2019, stc Kuwait acquired 99% of Qualitynet General Trading and Contracting Company W.L.L. (QualityNet), which operates in Kuwait providing internet services.

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

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

    On 21 November 2020, the Group signed an agreement with Western Union to sell a stake in stc Pay with a value of SR 750 million (equivalent to USD 200 million) and the proceeds to be used to finance the capital of stc Pay. The transaction is expected to be completed during 2021 as follows:

    - Upon completion of the transaction, Western Union will pay SR 500 million (equivalent to USD 133.3 million) for a 10% stake in stc Pay.
    - Western Union will pay an amount of SR 250 million (equivalent to USD 66.67 million), in case stc Pay obtains a digital banking services license, increasing the shareholding of Western Union to 15%.
    - The Group will inject an additional amount of SR 802 million into the capital of stc Pay in case stc Pay obtains a digital banking services license.

    During the fourth quarter of 2020, the Company increased the share capital of stc Pay by an amount of SR 548 million (including the transfer of its shareholder's loan amounting to SR 148 million into capital) resulting into a total share capital of stc Pay reaching SR 948 million.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

6. SUBSIDIARIES (CONTINUED)

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

15. During the fourth quarter of 2020, the Company established Advanced Technology and Cyber Security Company - a limited liability company 100% owned by Saudi Telecom Company, with a cash capital of SR 120 million to provide cybersecurity services.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

7.1 Investments in associates

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

7.1.1 Details of associates

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

Name of Associates		***Country of incorporation***	***Proportion of ownership interest / voting rights***	
			31 December 2020	*31 December 2019*
Arab Satellite Communications Organisation ("Arabsat")	1	Kingdom of Saudi Arabia	**36.66%**	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2	Kingdom of Saudi Arabia	**10%**	10%
Oger Telecom Limited ("OTL")	3	United Arab Emirates	**35%**	35%

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

2) Virgin Mobile Saudi Consortium ("VMSC") was established during 2013 as a mobile virtual network operator and started its operations during the year of 2014. The Company owns 10% of VMSC's share capital. The Group's ability to exercise significant influence is evidenced by the material transactions between VMSC and the Company through the reliance of VMSC's on the Company's technical network.

3) Oger Telecom Limited ("OTL") is a holding company registered in Dubai, the United Arab Emirates. In April 2008, Saudi Telecom Company through one of its subsidiaries (stc Turkey Holding Ltd) acquired 35% of OTL's share capital amounting to approximately USD 3.6 billion, equivalent to approximately SR 13.5 billion at the exchange rate as at that date. On 1 January 2016, the Group's investment in OTL was completely extinguished and the Group discontinued recognising its share of further losses. OTL was facing financial difficulties to settle its borrowings dues and its ability to comply with the financial covenants agreed with lenders. During 2018, OTL has completed necessary procedures to liquidate its main subsidiaries and restructure its investments in Turkey and South Africa in order to meet the financial obligations of the lenders. During 2019, liquidation of OTAS (subsidiary of OTL in Turkey) commenced while the liquidation of OTL commenced in 2020.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.1 Investments in associates (continued)

7.1.2 Financial information of material associates

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

Arabsat

	31 December 2020	*31 December 2019*
Statement of financial position		
Current assets	**1,504,156**	1,605,861
Non-current assets	**6,035,861**	5,665,128
Current liabilities	**(466,154)**	(441,864)
Non-current liabilities	**(2,118,849)**	(1,833,238)

	For the year ended 31 December	
	2020	*2019*
Statement of income and other comprehensive income		
Revenue	**846,166**	945,228
Profit for the year	**56,211**	182,622
Other comprehensive income (loss) for the year	**71,153**	(28,294)
Total comprehensive income for the year	**127,364**	154,328

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

	31 December 2020	*31 December 2019*
Net assets of the associate	**4,955,014**	4,995,887
Proportion of the Group's ownership interest in Arabsat	**36.66%**	36.66%
Carrying amount of the Group's interest in Arabsat	**1,816,508**	1,831,492

7.1.3 Financial information on not individually material associates

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

	2020	2019
The Group's share of gain from continued operations	**722**	1,301
Aggregate carrying amount of the Group's interests in these associates	**4,104**	3,382

Carrying amount of the Group's interest in associates:

	31 December 2020	*31 December 2019*
Material associate (7.1.2)	**1,816,508**	1,831,492
Not individually material associates (7.1.3)	**4,104**	3,382
Total carrying amount of the Group's interest in associates	**1,820,612**	1,834,874

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.2 Investments in joint ventures

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

7.2.1 Details of joint ventures

Below is the detail of joint ventures as at:

Name of joint venture		*Country of incorporation*	*Proportion of ownership interest/voting rights*	
			31 December 2020	*31 December 2019*
Arab Submarine Cables Company Limited	1	Kingdom of Saudi Arabia	**50%**	50%
Contact Centres Company ("CCC")	2	Kingdom of Saudi Arabia	**49%**	49%
Binariang GSM Holding ("BGSM")	3	Malaysia	**25%**	25%

1) Arab Submarine Cables Company Limited was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom and the Republic of Sudan for the telecommunications between them and any other country.

The operations of the Company started in June 2003 and Saudi Telecom Company acquired 50% of its SR 75 million share capital in September 2002. In November 2016, the company's capital was reduced to SR 25 million.

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

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

In September 2007, the Company acquired (through its subsidiaries stc Asia holding and stc Malaysia holding) 25% of Binariang group GSM MYR 20.7 billion share capital, equivalent to approximately SR 23 billion at the exchange rate as at that date.

During 2013, the Company conducted a review of its foreign investment in Binariang group holding GSM (joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result, the Company signed an amendment to the shareholders' agreement with other shareholders of Binariang group GSM with respect to certain operational matters of Aircel (one of Binariang group subsidiaries at that time). Consequently, the group ceased to account for its investment in Aircel using the equity method effective from the second quarter 2013.

7.2.2 Financial information of material joint ventures

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

Binariang group Holding GSM	***31 December 2020***	*31 December 2019*
Statement of financial position		
Current assets	**3,085,413**	3,794,720
Non-current assets	**27,709,097**	27,175,812
Current liabilities	**(5,055,081)**	(5,769,520)
Non-current liabilities	**(13,690,970)**	(13,671,417)

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.2 Investments in joint ventures (continued)

7.2.2 Financial information of material joint ventures (continued)

Binariang group Holding GSM (continued)

The above amounts of assets and liabilities include the following:

	31 December 2020	*31 December 2019*
Cash and cash equivalents	**939,249**	1,342,939
Current financial liabilities (excluding trade and other payables and provisions)	**(1,159,860)**	(1,057,839)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(12,919,626)**	(13,067,091)

	For the year ended 31 December	
	2020	*2019*
Statement of income and other comprehensive income		
Revenues	**8,502,456**	8,338,076
Profit for the year	**725,187**	426,750
Other comprehensive loss for the year	**(8,985)**	(5,306)
Total comprehensive income for the year	**716,202**	421,444
Depreciation and amortisation	**(1,294,595)**	(1,292,642)
Finance income	**88,900**	85,337
Finance cost	**(911,640)**	(945,861)
Income tax expense	**(436,868)**	(451,076)

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

	31 December 2020	*31 December 2019*
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	**376,046**	364,400
Proportion of the Group's ownership interest in the joint venture	**94,012**	91,100
Goodwill and fair value adjustments, net	**1,184,070**	1,184,070
Adjustments: the carve-out of Aircel Group and others	**3,535,414**	3,443,422
Carrying amount of the Group's interest in the joint venture	**4,813,496**	4,718,592

7.2.3 Financial information on not individually material joint ventures

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

	2020	*2019*
The Group's share of profit from operations	**12,208**	6,060
The Group's share of other comprehensive (loss) income	**(6,428)**	1,341
The Group's share of total comprehensive income	**5,780**	7,401
Aggregate carrying amount of the Group's interests in these joint ventures	**70,839**	65,060

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.2 Investments in joint ventures (continued)

Carrying amount of the Group's share in the joint ventures

	31 December 2020	*31 December 2019*
Material joint venture (7.2.2)	**4,813,496**	4,718,592
Not individually material joint ventures (7.2.3)	**70,839**	65,060
Total carrying amount of the Group's share in the joint ventures	**4,884,335**	4,783,652

8. SEGMENT INFORMATION

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

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

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

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

	2020	*2019*
Revenues (1)		
Saudi Telecom Company	**42,898,826**	40,259,106
Channels by stc	**17,527,801**	17,409,802
Other operating segments (2)	**15,733,883**	12,628,185
Eliminations / adjustments	**(17,207,192)**	(15,929,562)
Total revenues	**58,953,318**	54,367,531
Cost of operations (excluding depreciation and amortisation)	**(36,863,318)**	(33,102,551)
Depreciation and amortisation	**(9,358,875)**	(8,784,587)
Cost of early retirement program	**(600,000)**	(600,000)
Finance income	**413,873**	639,161
Finance cost	**(623,925)**	(765,154)
Net other expenses	**(42,995)**	(76,062)
Net share in results of investments in associates and joint ventures	**52,953**	49,597
Net other gains (losses)	**424,612**	(40,960)
Zakat and income tax	**(1,170,446)**	(762,144)
Net profit	**11,185,197**	10,924,831
Net profit attributable to:		
Equity holders	**10,994,875**	10,664,666
Non-controlling interests	**190,322**	260,165
	11,185,197	10,924,831

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

	2020	*2019*
Saudi Telecom Company	**26,736,799**	26,299,935
Channels by stc	**1,384,058**	1,418,463
Other operating segments (2)	**6,401,124**	4,910,725
Eliminations / adjustments	**(567,586)**	(237,898)
Gross profit	**33,954,395**	32,391,225

(All Amounts in Saudi Riyals thousands unless otherwise stated)

8. SEGMENT INFORMATION (CONTINUED)

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

	31 December 2020	*31 December 2019*
Assets		
Saudi Telecom Company	**129,915,566**	125,104,941
Channels by stc	**5,527,646**	4,560,238
Other operating segments (2)	**37,788,535**	34,355,695
Eliminations / Adjustments	**(51,259,647)**	(45,694,618)
Total Assets	**121,972,100**	118,326,256
Liabilities		
Saudi Telecom Company	**52,654,060**	49,484,795
Channels by stc	**3,943,509**	3,122,999
Other operating segments (2)	**24,302,252**	22,438,203
Eliminations / Adjustments	**(24,194,736)**	(19,774,787)
Total Liabilities	**56,705,085**	55,271,210

Additions to Property and equipment, intangible assets and goodwill

Following are the additions to Property and equipment and Intangible assets with goodwill (See Notes 9 and 11) based on the segments for the year ended 31 December:

	2020	*2019*
Saudi Telecom Company	**10,104,014**	9,109,544
Channels by stc	**185,082**	116,352
Other operating segments (2)	**1,646,304**	2,535,992
	11,935,400	11,761,888

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 17,207 million for the year ended 31 December 2020 (2019: SR 15,930 million,) inter-segment sales and adjustments (between the Group's Companies) which were eliminated at consolidation.

(2) Other operating segments include: stc Kuwait, stc Bahrain, Solutions by stc, Specialized by stc, stc Gulf, Sapphire, Aqalat, Telecommunications Towers Company, Saudi Digital Payments Company (stc pay) and advanced technology and cybersecurity Company. (See Note 6).

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

Information about major customers

Included in revenues arising from sales to major customers are revenues of approximately SR 9,252 million for the year ended 31 December 2020 (2019: SR 6,873 million) resulting from sales to the Government and Government entities (See Note 21.2). No other single customers contributed 10% or more to the Group's revenues.

Information about geographical segmentation

Geographical segmentation of revenues (See Note 35) and non-current assets are as follows:

	Revenues for the year ended		***Non-current assets as at***	
	31 December 2020	*31 December 2019*	***31 December 2020***	*31 December 2019*
Kingdom of Saudi Arabia	**54,166,010**	49,970,303	**64,689,191**	62,160,408
Others (*)	**4,787,308**	4,397,228	**11,423,993**	11,324,356
	58,953,318	54,367,531	**76,113,184**	73,484,764

(*) "Others" includes: state of Kuwait and kingdom of Bahrain.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

9. PROPERTY AND EQUIPMENT

	Lands and buildings	*Telecommunication network and equipment*	*Other assets [3]*	*Capital work in progress*	*Total*
Cost					
As at 1 January 2020	**15,324,054**	**90,480,495**	**8,894,524**	**4,790,492**	**119,489,565**
Additions	**184,558**	**224,868**	**113,668**	**8,717,317**	**9,240,411**
Disposals / transfers	**97,605**	**7,338,364**	**(2,444)**	**(9,087,094)**	**(1,653,569)**
Effect of foreign currency exchange differences	**12**	**(20,888)**	**(414)**	**(1,747)**	**(23,037)**
As at 31 December 2020	**15,606,229**	**98,022,839**	**9,005,334**	**4,418,968**	**127,053,370**
Accumulated depreciation					
As at 1 January 2020	**8,813,521**	**59,916,331**	**5,674,371**	**-**	**74,404,223**
Depreciation for the year	**412,413**	**5,648,627**	**228,309**	**-**	**6,289,349**
Disposals / transfers	**(269,161)**	**(1,087,313)**	**(118,802)**	**-**	**(1,475,276)**
Effect of foreign currency exchange differences	**3**	**(12,172)**	**(380)**	**-**	**(12,549)**
As at 31 December 2020	**8,956,776**	**64,465,473**	**5,783,498**	**-**	**79,205,747**
Net book value as at 31 December 2020	**6,649,453**	**33,557,366**	**3,221,836**	**4,418,968**	**47,847,623**

(All Amounts in Saudi Riyals thousands unless otherwise stated)

9. PROPERTY AND EQUIPMENT (CONTINUED)

	Lands and buildings	*Telecommunication network and equipment*	*Other assets (3)*	*Capital work in progress*	*Total*
Cost					
As at 1 January 2019	14,892,365	83,769,469	8,461,774	3,672,535	110,796,143
Additions	82,187	192,850	72,192	8,921,089	9,268,318
Additions related to the acquisition of a new subsidiary	-	127,979	17,593	7,589	153,161
Disposals / transfers	349,868	6,385,512	342,993	(7,811,160)	(732,787)
Effect of foreign currency exchange differences	(366)	4,685	(28)	439	4,730
As at 31 December 2019	15,324,054	90,480,495	8,894,524	4,790,492	119,489,565
Accumulated depreciation					
As at 1 January 2019	8,524,319	54,880,178	5,471,237	-	68,875,734
Additions related to the acquisition of a new subsidiary	-	119,262	3,739		123,001
Depreciation for the year	373,337	5,363,373	340,838	-	6,077,548
Disposals / transfers	(84,075)	(449,106)	(141,437)	-	(674,618)
Effect of foreign currency exchange differences	(60)	2,624	(6)	-	2,558
As at 31 December 2019	8,813,521	59,916,331	5,674,371	-	74,404,223
Net book value as at 31 December 2019	6,510,533	30,564,164	3,220,153	4,790,492	45,085,342

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

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

(All Amounts in Saudi Riyals thousands unless otherwise stated)

9. PROPERTY AND EQUIPMENT (CONTINUED)

1. Lands and buildings include lands with total value of SR 2,204 million as at 31 December 2020 (2019: SR 2,203 million). This includes lands with ongoing ownership transfer to the Company with a value of SR 187 million (2019: SR 200 million).
2. Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to 21 April 1998), referred to in Note 1-A, the ownership of the assets was transferred to the Company on 2 May 1998, but the transfer of legal title for some lands are still ongoing. The value of lands with legal titles transferred to the Company up to 31 December 2020 amounted to SR 1,895 million (2019: SR 1,879 million). Ownership transfer of the remaining lands with total value of SR 128 million (2019: SR 144 million) is ongoing, which constitutes part of the amount referred to in paragraph (a) above.
3. Other assets include furniture, fixtures, motor vehicles, computers and tools.
4. During the year, the Group disposed of assets with a net book value of SR 167 million (2019: SR 465 million) resulting in a loss amounting to SR 150 million (2019: SR 325 million) (See Note 41).
5. Non-cash additions amounted to SR 90 million (2019: 18 million).
6. Property and equipment include land and building owned by stc Bahrain that are pledged against murabaha borrowings amounting to SR 27 million (2019: SR 54 million). (See Note 27)
7. The following table shows the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	2020	*2019*
Cost of revenues	**5,127,663**	4,931,664
Selling and marketing expenses	**6,500**	16,239
General and administrative expenses	**1,155,186**	1,129,645
	6,289,349	6,077,548

10. INVESTMENT PROPERTIES

	31 December 2020	*31 December 2019*
Lands (*)	**36,980**	-

(*) During the fourth quarter of 2020, the Group transferred a land with a book value of SR 37 million from property and equipment to investment properties for the purpose of real estate development and investment.

For the purpose of disclosure requirements in accordance with International Accounting Standard No. (40) “Investment properties”, the Group has appointed Century 21 Saudi Company License No. (752/18/323) as an independent, professionally qualified valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem) for the purpose of estimating the fair value of this land as at 31 December 2020, which amounted to SR 148 million. The fair value measurement is classified into level 3 based on valuation techniques applied i.e. residual and market comparable approaches.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

11. INTANGIBLE ASSETS AND GOODWILL

	Computer software	*Telecommunication Licenses*	*Goodwill* [(1)]	*Others* [(2)]	*Total*
Cost					
As at 1 January 2020	11,648,737	7,975,574	143,038	2,773,783	22,541,132
Additions	155,836	18,677	-	2,520,476	2,694,989
Disposals/Transfers	1,341,983	870,753	-	(2,385,393)	(172,657)
Effect of foreign currency exchange differences	(61)	(1,032)	(315)	(476)	(1,884)
As at 31 December 2020	13,146,495	8,863,972	142,723	2,908,390	25,061,580
Accumulated amortisation					
As at 1 January 2020	8,832,150	2,668,854	-	1,133,440	12,634,444
Amortisation for the year	1,390,056	448,658	-	296,282	2,134,996
Disposals/Transfers	(14,415)	-	-	(159,439)	(173,854)
Effect of foreign currency exchange differences	(53)	21	-	(382)	(414)
As at 31 December 2020	10,207,738	3,117,533	-	1,269,901	14,595,172
Net book value as at 31 December 2020	2,938,757	5,746,439	142,723	1,638,489	10,466,408

(All Amounts in Saudi Riyals thousands unless otherwise stated)

11. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Computer software	*Telecommunication Licenses*	*Goodwill* [(1)]	*Others* [(2)]	*Total*
Cost					
As at 1 January 2019	10,410,881	7,695,620	75,613	1,994,841	20,176,955
Additions	103,182	43,705	-	1,859,295	2,006,182
Additions related to the acquisition of a new subsidiary	-	238,141	67,425	28,661	334,227
Disposals/Transfers	1,134,674	-	-	(1,109,051)	25,623
Effect of foreign currency exchange differences	-	(1,892)	-	37	(1,855)
As at 31 December 2019	11,648,737	7,975,574	143,038	2,773,783	22,541,132
Accumulated amortisation					
As at 1 January 2019	7,497,478	2,277,146	-	842,212	10,616,836
Amortisation for the year	1,309,535	392,398	-	249,138	1,951,071
Disposals/Transfers	25,137	-	-	42,021	67,158
Effect of foreign currency exchange differences	-	(690)	-	69	(621)
As at 31 December 2019	8,832,150	2,668,854	-	1,133,440	12,634,444
Net book value as at 31 December 2019	2,816,587	5,306,720	143,038	1,640,343	9,906,688

(All Amounts in Saudi Riyals thousands unless otherwise stated)

11. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

1) Goodwill pertains to the Company acquisition of Solutions by stc amounting to SR 75.6 million (2019: SR 75.6 million) and stc Kuwait acquisition of Qualitynet amounting to SR 67.1 million (2019: SR 67.4 million).
2) Others includes contractual intangible assets such as submarine cable networks, content agreements, indefeasible rights of use (IRU) and computer software under development.
3) Non-cash additions amounted to SR 1,005 million (2019: SR 399 million).

Intangible assets are amortized using the following estimated useful lives:

Computer software	5 – 7 years
Telecommunication licenses	15 – 25 years
Others	3-20 years

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

Country	*End of amortisation period*	*31 December 2020*	*31 December 2019*
Saudi Arabia	2026 / 2030 / 2032 / 2033 / 2034	**3,149,093**	2,540,590
Kuwait	2021 / 2033 / 2039	**1,890,077**	2,033,350
Bahrain	2025/2031/2034/2038	**707,269**	732,780
		5,746,439	5,306,720

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

	2020	*2019*
Cost of revenues	**634,581**	641,036
Selling and marketing expenses	**2,429**	3,493
General and administrative expenses	**1,497,986**	1,306,542
	2,134,996	1,951,071

12. RIGHT OF USE ASSETS

	Lands and Buildings	*Motor Vehicles*	*Leased Towers*	*Total*
At 1 January 2020	**2,551,155**	**202,947**	**133,831**	**2,887,933**
Additions	**1,139,274**	**7,463**	**-**	**1,146,737**
Depreciation	**(842,254)**	**(55,609)**	**(36,667)**	**(934,530)**
Disposal and others	**(203,572)**	**(3,754)**	**-**	**(207,326)**
At 31 December 2020	**2,644,603**	**151,047**	**97,164**	**2,892,814**
At 1 January 2019	2,375,639	8,281	171,604	2,555,524
Additions	1,012,209	212,075	-	1,224,284
Depreciation	(700,786)	(17,409)	(37,773)	(755,968)
Disposal and others	(135,907)	-	-	(135,907)
At 31 December 2019	2,551,155	202,947	133,831	2,887,933

(All Amounts in Saudi Riyals thousands unless otherwise stated)

12. RIGHT OF USE ASSETS (CONTINUED)

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	2 – 31 years
Motor Vehicles	3 – 5 years
Others	2-10 years

The Group elected not to recognize right-of-use assets for short-term and low-value leases, and hence the lease payments associated with these contracts were recognized as expenses during the year in the consolidated statement of profit or loss amounted to SR 148 million (2019: SR 329 million).

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

	2020	*2019*
Cost of revenues	**733,622**	562,514
Selling and marketing expenses	**10,798**	7,539
General and administrative expenses	**190,110**	185,915
	934,530	755,968

13. CONTRACT COSTS

Contract costs consist of the following:

	31 December 2020	*31 December 2019*
Costs to obtain the contracts (1)	**145,878**	299,118
Costs to fulfil the contracts (2)	**491,592**	623,804
	637,470	922,922

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

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

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

	2020	*2019*
Cost of revenues (See Note 36)	**268,352**	315,797
Selling and marketing expenses (See Note 37)	**237,614**	88,346
	505,966	404,143

14. CONTRACT ASSETS

	31 December 2020	*31 December 2019*
Unbilled revenue	**6,701,324**	7,596,729
Less: Allowance for impairment losses	**(184,227)**	(154,905)
	6,517,097	7,441,824
Current (1)	**6,059,440**	6,793,755
Non-current (2)	**457,657**	648,069
	6,517,097	7,441,824

(All Amounts in Saudi Riyals thousands unless otherwise stated)

14. CONTRACT ASSETS (CONTINUED)

(1) Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and networks installation contracts unbilled yet. Upon completion of a billing cycle, the amounts recognized as contract assets are reclassified to trade receivables. Majority of balances are billed within 31 days except for balances subject for settlement agreements with telecom operators which could be extended to one year.

(2) Non-current contract assets represents balances related to unbilled receivables on sold devices. The term of the contracts for the sold devices ranges between 18 and 24 months.

15. FINANCIAL ASSETS AND OTHERS

15-1 Financial assets

	31 December 2020	*31 December 2019*
Financial assets measured at FVTPL (1)	**1,119,413**	1,550,869
Financial assets at amortised cost		
Sukuk (2) (3)	**5,371,446**	5,355,659
Loans to employees (4)	**411,665**	438,481
Others (5)	**167,498**	355,013
	5,950,609	6,149,153
	7,070,022	7,700,022
Current	**180,397**	376,589
Non-current	**6,889,625**	7,323,433
	7,070,022	7,700,022

1) During 2019, the Group reclassified its investment in the units of stc Ventures Fund and STV LP Fund from financial assets measured at fair value through OCI (FVOCI) to financial assets measured at fair value through profit or loss (FVTPL).

- stc Ventures Fund is a fund investing in emerging, small and medium-sized companies operating in the field of Communications and Information Technology in Saudi and other global markets. Investment units were valued at SR 186 million as at 31 December 2020 (2019: SR 724 million).
- STV LP Fund is a fund investing in internationally in high-growth pioneer private technology companies with total value of SR 1,875 million (equivalent to USD 500 million) financed in five equal instalments of SR 375 million (equivalent to USD 100 million) each. During 2018, the first and second instalments were paid by the Company in total of SR 750 million (equivalent to USD 200 million). During 2020, the third instalment was paid by the Company amounted to SR 375 million (equivalent to USD 100 million). Investment units were valued at SR 934 million as at 31 December 2020 (2019: SR 846 million).

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

	Tranche I	***Tranche II***
Nominal Investment value	***1,762,000***	***2,140,000***
Investment duration	**5 years**	**10 years**
Yield	**3.17%**	**3.9%**

3) On 31 December 2007, stc Asia Holding Company Limited (a subsidiary) invested in Sukuk issued by Binariang GSM Holding ("BGSM") in the amount of RM 1,508 million (equivalent to SR 1,383 million) for a period of 50 years (callable after 10 years) with an annual profit margin of 10.75% up to 28 December 2017 and then a profit margin of 9.25% for subsequent periods. These sukuk are not past due or low in value with a book value of SR 1,408 million as of 31 December 2020 (2019: SR 1,383 million).

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

5) Mainly represent a Group subsidiary customers retentions amounting to SR 80 million as at 31 December 2020 (2019: SR 80 million).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

15. FINANCIAL ASSETS AND OTHERS (CONTINUED)

15-2 Other assets

	31 December 2020	*31 December 2019*
Advances	**2,366,620**	3,062,320
Prepaid expenses	**498,020**	508,362
Deferred expenses	**128,578**	95,494
Others	**274,325**	522,771
	3,267,543	4,188,947
Current	**3,087,883**	4,097,096
Non-current	**179,660**	91,851
	3,267,543	4,188,947

16. INVENTORIES

	31 December 2020	*31 December 2019*
Goods held for resale	**1,370,361**	2,113,405
Less: Allowance for slow moving inventories	**(361,716)**	(391,875)
	1,008,645	1,721,530

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

	2020	*2019*
Balance at 1 January	**391,875**	340,998
Reversal/adjustment during the year	**(33,592)**	(6,209)
Charged during the year	**3,433**	57,086
Balance at 31 December	**361,716**	391,875

17. TRADE AND OTHER RECEIVABLES

	31 December 2020	*31 December 2019*
Trade receivables	**17,660,288**	22,375,635
Less: allowance for impairment loss	**(2,859,566)**	(2,818,056)
	14,800,722	19,557,579
- Non trade receivables	**1,283,694**	1,814,789
	16,084,416	21,372,368

(All Amounts in Saudi Riyals thousands unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

17.1 Trade receivables

Ageing analysis of trade receivables as follows:

	31 December 2020		*31 December 2019*	
	Gross amount	***Allowance for impairment loss***	*Gross amount*	*Allowance for impairment loss*
Not past due	**1,857,114**	**(93,817)**	3,249,052	(105,185)
Past due:				
1 – 30 days	**1,741,599**	**(86,989)**	1,437,935	(104,748)
31 – 90 days	**1,915,619**	**(176,347)**	1,473,426	(221,096)
91 – 150 days	**1,347.984**	**(260,365)**	1,194,900	(395,545)
151 – 365 days	**5,961,701**	**(451,239)**	4,232,337	(518,467)
>365 days	**4,836,271**	**(1,790,809)**	10,787,985	(1,473,015)
	17,660,288	**(2,859,566)**	22,375,635	(2,818,056)

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

	2020	*2019*
Balance at 1 January	**2,818,056**	2,475,741
Allowance for impairment loss for the year (Note 37)	**1,072,959**	662,043
Amounts written off	**(760,045)**	(128,647)
Amounts recovered	**(271,404)**	(191,081)
Balance at 31 December	**2,859,566**	2,818,056

The average expected credit loss during the year ended 31 December 2020 was 16.2% (31 December 2019: 12.6%). The expected credit loss is estimated as per approved accounting policies which consider, in determining the recoverability of a trade receivable, any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the financial year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The impairment assessment on customers accounts is done on a collective basis. While the assessment for impairment in relation to key customers and related parties is done on an individual basis.

17.2 Government and government related entities

Trade receivables balance from Government entities amounted to SR 13,889 million as at 31 December 2020 (2019: SR 18,508 million) (See Note 21.2). No other clients represent more than 10% of the total balance of trade receivables.

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

	31 December 2020	*31 December 2019*
Less than a year	**10,275,707**	7,903,051
More than one year to two years	**3,153,841**	6,393,629
More than two years	**459,707**	4,211,395
	13,889,255	18,508,075

18. SHORT TERM MURABAHAS

The Group invests part of its excess cash in Murabahas that have maturity of 91 days or more but less than a year with several banks, with an annual profit rate ranging from 0.53% to 2.63 % (2019: 2.00% to 5.00%).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

19. CASH AND CASH EQUIVALENTS

	31 December 2020	31 December 2019
Short term murabaha (with 3 months maturity or less)	**7,350,738**	6,476,407
Cash at banks	**1,616,677**	1,494,694
Cash in hand and checks under collections	**36,871**	59,909
	9,004,286	8,031,010

The Group invests a part of its surplus cash in murabahas three months or less with several banks with a profit rate ranging between 0.05 % -2.52 % (2019: 1.00%-3.70%).

20. ASSETS HELD FOR SALE

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

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

- About SR 6.4 billion (equivalent up to USD 1.7 billion) of convertible bonds, unsecured and without interest.
- About SR 5.2 billion (equivalent up to USD 1.4 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 until all regulatory and indemnity 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 SR 496 million (equivalent to approximately USD 132 million) excluding the holdback.

Based on the information received by the Group during the second quarter of 2020 related to the holdback amount that is related to regulatory, tax and indemnity requirements necessary to finish the acquisition deal, the Group has assessed the recoverability of the holdback amount and recognized an amount of SR 152 million (equivalent to USD 41 million) as profit during the second quarter of 2020.

The profit recognized is included within net other gains (losses) item in the consolidated statement of profit or loss (see Note 41).

21. RELATED PARTY TRANSACTIONS

21.1 Trading transactions and balances with related parties (Associates and Joint Ventures – See Note 7)

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

	2020	*2019*
Telecommunication services provided	**309,161**	430,682
Telecommunication services received	**71,119**	29,050

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

The following balances were outstanding as at the end of the financial year:

	Amounts due from related parties		***Amounts due to related parties***	
	31 December 2020	*31 December 2019*	***31 December 2020***	*31 December 2019*
Associates	**354,554**	292,020	**63,820**	38,910
Joint ventures	**47,249**	12,215	**157,830**	168,173
	401,803	304,235	**221,650**	207,083

(All Amounts in Saudi Riyals thousands unless otherwise stated)

21. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Revenues related to transactions with government and government entities for the year ended 31 December 2020 amounted to SR 9,646 million (2019: SR 7,154 million) and expenses related to transactions with government and government entities for the year ended 31 December 2020 (including government charges) amounted to SR 3,753 million (2019: SR 2,759 million).

As at 31 December 2020, accounts receivable from government entities totalled SR 13,889 million (2019: SR 18,508 million) (See Note 17.2) and as at 31 December 2020, accounts payable to government entities SR 1,058 million (2019: SR 953 million). Among the commercial transactions with government entities, the Group invested to SR 3,902 million in the Sukuk issued by the Ministry of Finance during the first quarter of 2019. (See Note 15.1).

The total balance of receivables with government related entities as of 31 December 2020: SR 657 million (2019: SR 513 million). The total balance of accounts payable with government related entities as of 31 December 2020: SR 305 million (2019: SR 79 million).

21.3 Loans to related parties

	31 December 2020	*31 December 2019*
Loans to senior executives	**4,598**	5,358

21.4 Benefits, remuneration and compensation of board members and senior executives

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

	2020	*2019*
Short-term benefits and remunerations	**311,146**	280,381
Provision for leave and end of service benefits	**88,794**	60,061
Share-based payments	**6,116**	-
Termination and other benefits	**1,535**	2,884

22. ISSUED CAPITAL

	31 December 2020	*31 December 2019*
Issued and fully paid capital comprises		
2 billion fully paid ordinary shares	**20,000,000**	20,000,000

23. STATUTORY RESERVE

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

24. TREASURY SHARES

During the year the Company completed the purchase of 2,982,700 of its own shares with an amount of SR 300 million to be allocated to the Employees' Long-term Incentives Program (see Note 47).

The following is the number of outstanding shares (in thousands) during the year ended 31 December 2020:

The number of outstanding shares as at 1 January 2020	**2,000,000**
The number of treasury shares purchased during the year	**(2,983)**
The number of outstanding shares as at 31 December 2020	**1,997,017**

The following is the number of treasury shares (in thousands) during the year ended 31 December 2020:

The number of treasury shares as at 1 January 2020	**-**
The number of treasury shares purchased during the year	**2,983**
The number of treasury shares as at 31 December 2020	**2,983**

25. OTHER RESERVES

	Foreign currency translation reserve	Cash flow hedge reserve	Investments at FVOCI reserve	Other reserves	Total
As at 1 January 2020	**12,924**	**(143,210)**	**-**	**(2,615,322)**	**(2,745,608)**
Re-measurement of the end of service benefit provision (See Note 28)	**-**	**-**	**-**	**(564,438)**	**(564,438)**
Exchange difference on translation of foreign operations	**(6,333)**	**-**	**-**	**-**	**(6,333)**
Net gain on cash flow hedges	**-**	**1,820**	**-**	**-**	**1,820**
Share from associates and joint ventures	**-**	**-**	**-**	**52,531**	**52,531**
Acquisition of a share in non-controlling interest	**-**	**-**	**-**	**(4,369)**	**(4,369)**
Share-based payment transactions	**-**	**-**	**-**	**6,116**	**6,116**
Share of changes in other reserves of a joint venture's equity	**-**	**-**	**-**	**(1,964)**	**(1,964)**
As at 31 December 2020	**6,591**	**(141,390)**	**-**	**(3,127,446)**	**(3,262,245)**
As at 1 January 2019	14,403	(142,726)	425,974	(2,201,529)	(1,903,878)
Assets measured at FVOCI	-	-	(425,974)	-	(425,974)
Re-measurement of the end of service benefit provision (See Note 28)	-	-	-	(708,582)	(708,582)
Exchange difference on translation of foreign operations	(1,479)	-	-	-	(1,479)
Net loss on cash flow hedges	-	(484)	-	-	(484)
Share from associates and joint ventures	-	-	-	294,789	294,789
As at 31 December 2019	12,924	(143,210)	-	(2,615,322)	(2,745,608)

(All Amounts in Saudi Riyals thousands unless otherwise stated)

26. NON-CONTROLLING INTERESTS

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

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

Name of Subsidiary	*Proportion of ownership and voting rights acquired by non-controlling interests*		*Profit allocated to non-controlling interests for the year ended 31 December*		*Non-controlling interests as of 31 December*	
	2020	*2019*	***2020***	*2019*	***2020***	*2019*
stc Kuwait	**48.2%**	48.2%	**190,067**	259,545	**1,319,615**	1,285,155
Individually immaterial subsidiaries			**255**	620	**1,618**	7,297
			190,322	260,165	**1,321,233**	1,292,452

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

	31 December 2020	*31 December 2019*
Statement of financial position		
Current assets	**2,131,676**	2,345,244
Non-current assets	**2,688,227**	2,749,547
Current liabilities	**(1,797,803)**	(2,114,100)
Non-current liabilities	**(284,310)**	(314,393)
Net assets	**2,737,790**	2,666,298
Group's share of net assets	**1,418,175**	1,381,143
Non-controlling interests	**1,319,615**	1,285,155

	For the year ended in 31 December	
	2020	*2019*
Statement of income and other comprehensive income		
Revenues	**3,481,056**	3,629,941
Profit for the year	**394,641**	538,898
Other comprehensive loss for the year	**(3,986)**	(3,053)
Total comprehensive income for the year	**390,655**	535,845
Group's share of comprehensive income	**202,359**	277,567
Non-controlling interests of comprehensive income	**188,296**	258,278

	For the year ended in 31 December	
	2020	*2019*
Statement of cash flows		
Operating activities	**801,906**	1,168,667
Investing activities	**(94,577)**	(1,254,811)
Financing activities	**(500,318)**	(74,581)
Net increase (decrease) in cash and cash equivalents	**207,011**	(160,725)

(All Amounts in Saudi Riyals thousands unless otherwise stated)

27. BORROWINGS

Total loans paid during the year ended 31 December 2020 amounted to SR 402 million (2019: SR 351 million). Total loans received during the year ended 31 December 2020 amounted to SR 21 million (2019: SR 5,381 million). A list of the loans are as follows:

Nature of borrowing	***Date of borrowing***	***Date of final instalment***	***Currency***	***Profit rate***	***Current portion***		***Non-current portion***	
					Balance as at 31 December 2020	*Balance as at 31 December 2019*	***Balance as at 31 December 2020***	*Balance as at 31 December 2019*
Sukuk (1)	June 2014	June 2024	SAR	3 months SAIBOR + 0.7%	**-**	-	**2,000,000**	2,000,000
Sukuk (2)	May 2019	May 2029	USD	3.89%	**-**	-	**4,671,615**	4,670,038
Murabaha (3)	May 2009	December 2021	BHD	1 month BIBOR + 0.25%	**26,829**	26,828	**-**	26,829
Murabaha (4)	July 2017	May 2022	BHD	1 month BIBOR + 1.60%	**250,447**	251,137	**254,981**	504,623
Murabaha	December 2018	November 2025	BHD	2.10%	**3,291**	3,062	**16,167**	18,673
Murabaha (5)	December 2017	December 2022	MYR	6 months KLIBOR + 0.65%	**-**	-	**1,407,530**	1,383,358
Murabaha (6)	February 2019	February 2022	SAR	SAIBOR + 0.65%	**-**	-	**202,000**	180,673
Murabaha	May 2019	April 2023	KWD	3.75%	**37,918**	46,427	**85,312**	139,282
Tawaruq	May 2019	February 2020	KWD	3.5%	**-**	61,885	**-**	-
Total					**318,485**	389,339	**8,637,605**	8,923,476

(All Amounts in Saudi Riyals thousands unless otherwise stated)

27. BORROWINGS (CONTINUED)

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

(2) At the General Assembly meeting on 19 Shaaban of 1440 H (corresponding to April 24, 2019), the Company approved the establishment of an international sukuk program and the issuance of sukuk in accordance with directly or by establishing a special purpose vehicles that is established and used to issue primary or secondary sukuk in one or several parts or one or several stages, or through a series of issues in US dollars, not exceeding the amount of USD 5,000 million for the total value of the sukuk issues and parts of sukuk program referred to above at any time.

Based on the above, the Saudi Telecom Sukuk Company Limited during the second quarter of 2019 (a company established for the purpose of issuing sukuk under the sukuk program referred to above in US dollar) launched the first issue of the sukuk program in the amount of USD 1,250 million (equivalent to SR 4,688 million) For 10 years. This program is an international sukuk in US dollar, with a total number of sukuk 6,250 sukuk with a nominal value of USD 200 thousand for the sukuk with an annual return of 3.89% and a maturity of ten years.

(3) stc Bahrain has murabaha facilities secured by a land and a building. The risk of return has been hedged for a large portion of the Murabaha facility. (See Note 9)

(4) stc Bahrain has an unsecured Murabaha facility of BD 84.8 million (equivalent to SR 844 million). stc Bahrain has entered into cash flow hedging arrangements to hedge the profit rate risk. The book value of murabaha facilities is not materially different from their fair value because the effect of discount, credit risk and other market risks are not considered material. The facility is repayable in 13 instalments starting from June 2019 and ending in May 2022.

(5) stc Asia Holding Limited acquired a variable commission loan on 28 December 2017 from several banks on a five year repayment period. These facilities are secured by a letter of guarantee provided by the Company.

(6) These facilities are secured by a letter of guarantee provided by the Company.

28. RETIREMENT BENEFITES PLANS

End of service benefit provision

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

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

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

Calculation of end of service benefit provision was done using the most recent actuarial valuation as at 31 December 2020. During the financial year, Actuarial assumptions relating to the discount rate have been updated, resulting in an increase in the present value of the defined benefit obligations (DBO).

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The significant actuarial assumptions during 2020, used in determining the end of service benefit obligation, represent the discount rate of (2.1 %-3.5 %) and the expected increase in salary (2.0 %-5.0 %) (2019: discount rate of (3.2%-4.3%) and the expected increase in salary (2.7%-5.7%). The change in these assumptions during the year 2020 resulted into a recognition of actuarial losses amounting to SR 569 million (2019: 710 million).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

28.RETIREMENT BENEFITES PLANS (CONTINUED)

End of service benefit provision (continued)

The net expenses recognized in the consolidated statement of profit or loss are as follows for the year ended 31 December:

	2020	*2019*
Services cost	**452,615**	367,423
Interest cost	**100,457**	193,490
	553,072	560,913

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

	2020	*2019*
Balance at 1 January	**4,812,805**	3,919,362
Expenses recognized in the consolidated statement of profit or loss	**553,072**	560,913
Actuarial losses recognised in the consolidated statement of comprehensive income	**568,893**	710,054
paid during the year	**(677,741)**	(451,050)
Exchange differences and others	**(17,716)**	73,526
Balance at 31 December	**5,239,313**	4,812,805

The following table shows the change in DBO balance based on increase / decrease in the below assumptions:

		2020	**Impact on defined benefit obligation**	
	Change in Assumption	***Base Value***	**Increase in assumption**	**Decrease in assumption**
Discount rate	25 basis points	5,239,313	5,103,985	5,381,525
Salary change rate	25 basis points	5,239,313	5,379,518	5,105,003

		2019	Impact on defined benefit obligation	
	Change in Assumption	*Base Value*	Increase in assumption	Decrease in assumption
Discount rate	25 basis points	4,812,805	4,685,595	4,940,015
Salary change rate	25 basis points	4,812,805	4,939,579	4,686,031

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

Defined contribution plans

The Group is participating in a pension schemes for its employees which are managed by government institutions in the countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2020 is SR 457 million (2019: SR 443 million).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

29. LEASE LIABILITIES

Following is the movement on lease liabilities:

	2020	*2019*
Balance as at 1 January	**2,881,177**	2,367,348
Additions during the year	**1,329,097**	1,174,990
Payments during the year	**(831,642)**	(712,467)
Annual interest costs	**99,162**	137,576
Other adjustments	**(497,756)**	(86,270)
Balance as at 31 December	**2,980,038**	2,881,177
Current	**742,185**	716,762
Non-current	**2,237,853**	2,164,415
	2,980,038	2,881,177

30. PROVISIONS

	31 December 2020	*31 December 2019*
Legal and regulatory provisions [1]	**4,672,859**	6,064,510
Decommissioning provision [2]	**211,689**	238,104
	4,884,548	6,302,614
Current	**4,158,923**	5,411,404
Non-current	**725,625**	891,210
	4,884,548	6,302,614

	2020	*2019*
Legal and regulatory provision [1]		
Balance as at 1 January	**6,064,510**	7,336,057
Additions during the year	**121,340**	507,825
Payment / settlements during the year	**(1,512,991)**	(1,779,372)
Balance as at 31 December	**4,672,859**	6,064,510
Decommissioning provision [2]		
Balance as at 1 January	**238,104**	381,205
Additions during the year	**64,737**	172,226
Reductions / adjustment resulting from re-measurement and others	**(91,152)**	(315,327)
Balance as at 31 December	**211,689**	238,104

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

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

(All Amounts in Saudi Riyals thousands unless otherwise stated)

31. CONTRACT LIABILITIES

	31 December 2020	*31 December 2019*
Deferred revenue from services	**2,101,996**	3,084,836
Customer loyalty programme	**571,156**	605,068
	2,673,152	3,689,904
Current [(1)]	**1,901,237**	2,917,989
Non-current [(2)]	**771,915**	771,915
	2,673,152	3,689,904

(1) The current portion of contract liabilities relates to unearned revenue pertaining to unutilised prepaid cards units sold and the value of customer loyalty program points not yet redeemed. Revenue recognized during the year that was included in the contract liability balance at the beginning of the year amounted to SR 2.917 million (2019: SR 2.538 million).

(2) The non-current portion of contract liabilities relates to amounts received by one of the group subsidiaries from a key customer to construct a fibre optic network for which capital work completed amounted to SR 591 million (see Note 45.c) .

32. FINANCIAL LIABILITIES AND OTHERS

32-1 Financial liabilities

	31 December 2020	*31 December 2019*
Dividends payable	**2,151,116**	2,111,161
Financial liabilities related to frequency spectrum licenses	**2,276,505**	1,530,184
Derivative liabilities and others	**61,957**	95,842
	4,489,578	3,737,187
Current	**2,208,687**	2,145,276
Non-current	**2,280,891**	1,591,911
	4,489,578	3,737,187

32-2 Other liabilities

	31 December 2020	*31 December 2019*
Deferred income (*)	**3,814,889**	3,341,943
Government charges	**1,085,873**	956,478
Statutory dues and others	**381,022**	511,851
	5,281,784	4,810,272
Current	**1,361,084**	1,301,566
Non-current	**3,920,700**	3,508,706
	5,281,784	4,810,272

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

	31 December 2020	*31 December 2019*
Government grants (*)	**3,772,251**	3,320,684
Others	**42,638**	21,259
	3,814,889	3,341,943

(*) The government grants represent grants provided by Communication and Information Technology Commission ("CITC") to the Company to build telecommunication network in different areas in the kingdom (See Note 4.8).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

33. TRADE AND OTHER PAYABLES

	31 December 2020	*31 December 2019*
Accrued expenses	**9,225,565**	8,364,626
Trade payables	**4,398,284**	6,550,812
Notes payable	**2,626,750**	-
Other trade payables	**1,868,378**	993,526
Employee accruals	**1,468,512**	1,382,581
Capital supplier dues and retentions	**678,154**	880,864
Customer refundable deposits	**31,148**	69,749
	20,296,791	18,242,158

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

34. ZAKAT AND INCOME TAX

	31 December 2020	*31 December 2019*
Zakat (a)	**1,878,148**	1,452,645
Income taxes (b)	**25,643**	29,633
	1,903,791	1,482,278

(All Amounts in Saudi Riyals thousands unless otherwise stated)

34. ZAKAT AND INCOME TAX (CONTINUED)

a. Zakat

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

	2020	2019
Share capital – beginning of the year	**20,000,000**	20,000,000
Additions:		
Retained earnings, reserves , provisions and others – beginning of the year	**78,939,795**	78,470,418
Adjusted net profit	**10,356,060**	10,129,061
Adjusted total shareholders' equity	**109,295,855**	108,599,479
Deductions:		
Net property (adjusted) and investments	**62,600,896**	58,227,066
Dividends paid	**7,973,418**	12,000,000
Deferred expenses and other balances	**2,932,137**	1,962,266
Total adjusted deductions	**73,506,451**	72,189,332
Zakat base	**35,789,404**	36,410,147
Zakat on wholly owned companies for the year	**922,538**	938,538
Zakat adjustments during the year	**228,372**	(203,893)
Add: zakat on partially owned companies for the year	**3,210**	6,463
Total zakat provision charged during the year	**1,154,120**	741,108

Zakat provision

	2020	2019
Balance at beginning of the year	**1,452,645**	1,443,224
Charge during the year	**1,154,120**	741,108
Settlements during the year	**(6,457)**	(3,907)
Amounts paid during the year	**(722,160)**	(727,780)
Balance at end of the year	**1,878,148**	1,452,645

The Group submitted all zakat returns until the end of 2019, 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 this is in accordance with the executive regulations for collecting zakat.

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 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 material additional provisions are required.

The Group also reached a final settlement with General Authority of Zakat and Tax (GAZT) in regards with the objections submitted on zakat assessments for the years 2014 and 2018 by paying an amount of SR 205 million.

The Group has also received zakat assessments that include differences related to the zakat declarations submitted for the years from 2015 to 2017 amounting to SR 865 million, and the Group objected to them within the statutory deadline. The Group believes that the result of this objection will be in its favour and no material additional provisions are required.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

34. ZAKAT AND INCOME TAX (CONTINUED)

b. Income tax

The Group's share of income tax payable by subsidiaries is in accordance with the prevailing tax regulations in their countries. Income tax expense incurred for the year ended 31 December 2020 amounts to SR 16 million (2019: SR 21 million). Income tax paid during the year ended 31 December 2020 amounted to 28.5 million (2019: SR 15.1 million).

35. REVENUES

	For the year ended 31 December	
	2020	*2019*
Rendering of services	**49,898,621**	45,642,945
Sale of goods	**8,820,161**	8,556,090
Others	**234,536**	168,496
	58,953,318	54,367,531

Geographical segmentation of revenues is provided in the operating segments note (see Note 8)

36. COST OF REVENUES

	For the year ended 31 December	
	2020	*2019*
Cost of devices sold	**8,712,228**	7,492,197
Network access charges	**4,740,007**	4,515,488
Government charges *(*)*	**3,806,823**	3,108,508
Employees costs	**3,338,050**	3,059,466
Repair and maintenance	**2,568,972**	2,112,045
Cards recharge and printing cost	**955,120**	1,302,581
Amortisation and impairment of contract costs (See Note 13)	**268,352**	315,797
Others	**609,371**	70,224
	24,998,923	21,976,306

"Others" comprises mainly: rent of property, equipment and vehicles, telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

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

	For the year ended 31 December	
	2020	*2019*
Commercial service provisioning fees	**2,740,751**	2,237,983
Frequency spectrum fees	**407,022**	360,039
License fees	**397,859**	373,237
Others	**261,191**	137,249
	3,806,823	3,108,508

(All Amounts in Saudi Riyals thousands unless otherwise stated)

37. SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2020	*2019*
Employees costs	**2,407,936**	2,152,253
Impairment loss on trade receivables (See Note 17.1)	**1,072,959**	662,043
Sales commissions	**674,488**	786,809
Advertising and publicity	**653,902**	769,601
Amortisation and impairment of contract costs (See Note 13)	**237,614**	88,346
Call centre expenses	**194,110**	260,898
Repairs and maintenance	**189,363**	320,765
Sport activities sponsorship cost	**163,056**	83,245
impairment on contract assets	**117,686**	102,807
Others	**342,518**	355,202
	6,053,632	5,581,969

"Others" comprises mainly: security and safety, telephone and utility expenses.

38. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2020	*2019*
Employees costs	**3,472,104**	3,303,365
Repair and maintenance	**925,692**	880,471
Consultancy, legal and professional fees	**322,924**	404,776
Sadad service fees	**126,839**	120,211
Utilities expenses	**116,506**	99,025
Security and safety expenses	**101,140**	141,181
Others	**745,558**	595,247
	5,810,763	5,544,276

"Others" comprises mainly: rent of property, equipment and vehicles, insurance premiums, office equipment, freight, handling, postage and courier expenses.

39. FINANCE INCOME

	For the year ended 31 December	
	2020	*2019*
Income from sukuk	**295,767**	279,025
Income from murabaha	**118,106**	360,136
	413,873	639,161

40. FINANCE COST

	For the year ended 31 December	
	2020	*2019*
Financing costs relating to sukuk	**232,838**	193,635
Financing costs relating to murabaha	**83,596**	144,429
Financing cost relating to lease liabilities	**99,162**	137,576
Unwinding of discounts on provisions and financial liabilities	**208,329**	289,514
	623,925	765,154

41. NET OTHER GAINS (LOSSES)

	For the year ended 31 December	
	2020	*2019*
Gain on sale of equity investments (see Note 20)	**647,804**	-
Loss on sale/disposal of property and equipment	**(150,388)**	(324,546)
Net gain (loss) arising on financial assets measured at FVTPL	**(83,389)**	287,480
Net foreign exchange gain (losses) and others	**10,585**	(3,894)
	424,612	(40,960)

42. EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share for the year ended 31 December:

	2020	*2019*
Net profit attributable to equity holders of the Parent Company	**10,994,875**	10,664,666
Number of shares "in thousands":		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**1,999,207**	2,000,000
Weighted average number of repurchased ordinary shares	**793**	-
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	**2,000,000**	2,000,000
Earnings per share attributable to **equity holders of the Parent Company (in Saudi Riyals):**		
- Basic	**5.50**	5.33
- Diluted	**5.50**	5.33

(All Amounts in Saudi Riyals thousands unless otherwise stated)

43. FINANCIAL INSTRUMENTS

43.1 Capital management

The Group manages its capital to ensure that:

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

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

The Group is not subject to any externally imposed capital requirements. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2020.

The Group reviews the capital structure on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

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

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

	2020	*2019*
Debt (a)	**8,956,090**	9,312,815
EBITDA (b)	**22,090,000**	21,264,980
Debt to EBITDA	**41%**	44%
Debt	**8,956,090**	9,312,815
Debt + Equity (c)	**74,223,105**	72,367,861
Debt to (Debt + Equity)	**12%**	13%

a. Debt is defined as current and non-current borrowings as described in Note 27.
b. EBITDA is defined as operating profit for the year adjusted for depreciation and amortization expenses.
c. Equity is defined as total equity including issued capital, reserves, retained earnings and non-controlling interest.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

43. FINANCIAL INSTRUMENTS (CONTINUED)

43.2 *Fair value of financial instruments*

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety (See Note 4-20).

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

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

financial instruments Categories

	31 December 2020		
	Carrying amount	***Fair value***	***Fair value measurement hierarchy***
Financial assets			
At fair value through profit or loss: stc Ventures Fund and STV LP Fund (See Note 15)	**1,119,413**	**1,119,413**	**Level 3**
Financial liabilities			
At fair value through profit or loss: Derivative liabilities (See Note 32)	**9,882**	**9,882**	**Level 2**

financial instruments Categories

	31 December 2019		
	Carrying amount	*Fair value*	*Fair value measurement hierarchy*
Financial assets			
At fair value through profit or loss: stc Ventures Fund and STV LP Fund (See Note 15)	1,550,869	1,550,869	Level 3
Financial liabilities			
At fair value through profit or loss: Derivative liabilities (See Note 32)	7,373	7,373	Level 2

(All Amounts in Saudi Riyals thousands unless otherwise stated)

43. FINANCIAL INSTRUMENTS (CONTINUED)

43.2 Fair value of financial instruments (continued)

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:

	2020	2019
Net asset value as at 1 January	**1,550,869**	1,394,568
Contributions paid to the funds during the year	**375,700**	-
Distributions received from the funds during the year	**(723,767)**	(97,344)
Net unrealised (loss) gain recognised in the consolidated statement of profit or loss (*)	**(83,389)**	253,645
Net asset value as at 31 December	**1,119,413**	1,550,869

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

The Group believes that the other financial assets and liabilities carried at cost in the consolidated financial statements approximate their fair value.

There are no transfers between levels of the fair value hierarchy during year ended 31 December 2020.

43.3 Profit rate risk

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

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

The sensitivity analyses below have been determined based on the exposure to profit rates for non-derivative instruments at the end of the financial year. These show the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the year were outstanding for the whole year. A 20-basis point increase or (decrease) represents management's assessment of the reasonably possible change in profit rates. If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SR 13 million (2019: SR 18 million). This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

43.4 Foreign currency risk management

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

(All Amounts in Saudi Riyals thousands unless otherwise stated)

43. FINANCIAL INSTRUMENTS (CONTINUED)

43.5 Credit risk management

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

Other than the concentration of credit risk disclosed in Note 17, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consists of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms.

On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for impairment loss (See Note 17).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries with regard to financing arrangements. The Group's maximum exposure in this respect is the maximum amount the Group may have to pay if the guarantee is called on. There is no indication and instance that the Group will incur any loss with respect to its financial guarantees as the date of the preparation of this consolidated financial statement (Note 45).

43.6 Liquidity risk management

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

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

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

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

		Undiscounted Cash Flows		
	Carrying amount	***1 year or less***	***Above 1 – 5 years***	***Above 5 years***
31 December 2020				
Trade and other payables (Note 33)	**20,296,791**	**20,296,791**	**-**	**-**
Borrowings (Note 27)	**8,956,090**	**318,485**	**3,985,545**	**4,673,463**
Dividends payable (Note 32)	**2,151,116**	**2,151,116**	**-**	**-**
Lease liabilities (Note 29)	**2,980,038**	**742,185**	**2,313,448**	**940,218**
Other financial liabilities (Note 32)	**2,328,580**	**50,041**	**1,836,648**	**1,269,814**
Derivative liabilities (Note 32)	**9,882**	**7,530**	**2,353**	**-**
31 December 2019				
Trade and other payables (Note 33)	18,242,158	18,242,158	-	-
Borrowings (Note 27)	9,312,815	389,339	2,931,485	6,053,423
Dividends payable (Note 32)	2,111,161	2,111,161	-	-
Lease liabilities (Note 29)	2,881,177	716,762	2,505,360	483,919
Other financial liabilities (Note 32)	1,618,653	28,592	1,078,141	1,068,815
Derivative liabilities (Note 32)	7,373	5,523	1,243	607

The Group has unused financing facilities amounting to SR 6,263 million as at 31 December 2020 (2019: SR 4,611 million). The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

In accordance with the terms of the agreements with the operators, commercial debtors and creditors are settled in connection to call routing and roaming fees and only the net amounts are settled or collected. Accordingly, the net amounts are presented in the consolidated statement of financial position.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

43. FINANCIAL INSTRUMENTS (CONTINUED)

43.6 Liquidity risk management (continued)

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

	Gross amounts	***Amounts set off***	***Net amounts***
31 December 2020			
Financial assets			
Trade and other receivables	**22,035,748**	**(5,951,332)**	**16,084,416**
Financial liabilities			
Trade and other payables	**26,248,123**	**(5,951,332)**	**20,296,791**
31 December 2019			
Financial assets			
Trade and other receivables	26,131,053	(4,758,685)	21,372,368
Financial liabilities			
Trade and other payables	23,000,843	(4,758,685)	18,242,158

43.7 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	1 January 2020	***Cash flows***	***Non-monetary changes***	***31 December 2020***
Short-term borrowings	**389,339**	**(402,386)**	**331,532**	**318,485**
Lease liabilities current	**716,762**	**(831,642)**	**857,065** (*)	**742,185**
Long-term borrowings	**8,923,476**	**21,363**	**(307,234)**	**8,637,605**
Lease liabilities non-current	**2,164,415**	**-**	**73,438**	**2,237,853**
	12,193,992	**(1,212,665)**	**954,801**	**11,936,128**

	1 January 2019	*Cash flows*	*Non-monetary changes*	*31 December 2019*
Short-term borrowings	320,533	(242,147)	310,953 (*)	389,339
Lease liabilities - current	1,471,935	(712,467)	(42,706)	716,762
Long-term borrowings	3,965,479	5,272,616	(314,619)	8,923,476
Lease liabilities non- current	895,413	-	1,269,002	2,164,415
	6,653,360	4,318,002	1,222,630	12,193,992

* Mainly includes reclassification from non-current to current portion.

44. CAPITAL COMMITMENTS

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

(b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for USD 300 million (equivalent to SR 1,125 million) as at 31 December 2020 (31 December 2019: USD 300 million (equivalent to SR 1,125 million).

45. CONTINGENT ASSETS AND LIABILITIES

(a) The Group has outstanding letters of guarantee on behalf the parent and the subsidiaries amounting to SR 4,222 million as at 31 December 2020 (31 December 2019: SR 4,514 million).

(b) The Group has outstanding letters of credit as at 31 December 2020 amounting to SR 977 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 consolidated financial statements.

(e) The Group 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 Group 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 Group believes that this assessment will not result into any additional provisions.

(f) During the fourth quarter of the year 2020, the group reached a settlement regarding the assessment of the value-added tax issued by the General Authority for Zakat and Income for the year 2018 and January of 2019, by paying an amount of SR 15 million with an exemption of fines.

(g) 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.

(h) On 28 December 2020, the Group received claims from the Communications and Information Technology Commission related to imposing government fees for selling devices in installments for the period from 2018 until the end of the third quarter of 2020, totaling SR 641 million. Based on the opinions of the specialized consultants in this regard and the nature of these sales, The Group believes that the result will be in its favour and no material additional provisions are required.

(i) In April 2017, Kuwait's Cassation Court invalidated a portion of the regulatory tariff decree levied on mobile telecommunication companies in Kuwait since 26 July 2011 by Kuwait's Ministry of Communications. Accordingly, stc Kuwait had filed a claim for the recovery of the excess amount paid from change in regulation date till date. On 30 June 2020, the Court of appeal of Kuwait has issued a verdict in favor of stc Kuwait obliging the appellant to pay amount of KD 18.3 million (equivalent to SR 225 million).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

46. THE ACQUISITION OF A SHARE IN "VODAFONE EGYPT"

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 SR 8,970 million (equivalent to approximately USD 2,392 million). The final purchase consideration was to be determined upon signing the final agreements. The MoU expired without reaching an agreement to conclude the transaction.

47. EMPLOYEES LONG-TERM INCENTIVES PROGRAM

The Company's Board of Directors has approved the purchase of number of Company's shares with a maximum of 5.5 million shares and 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 extraordinary general assembly (EGM) to approve the Program and to purchase the shares within a period of (8) months starting EGM's date of approval. The EGM has voted on the approval of this Program during its meeting held on 27 Shaban 1441 H (corresponding to 20 April 2020). 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 possession.

The Program intends to attract, motivate and retain the executive employees responsible for the achievement of the Group's goals and strategy. The Program provides a share-based payment plan for eligible executives 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.

During the year of 2020, the Group granted the first tranche of the Program as follows:

Grant date	1 July 2020
Total number of shares granted	785 thousand shares
Fair value per share on grant date (*)	SR 94.4
Vesting date	1 July 2021/2022/2023
Settlement method	Equity-based

Total expenses related to the Program during the year ended 31 December 2020 amounted to SR 6.1 million, which were included as part of employees benefits expense in the consolidated profit or loss statement, with the corresponding amount recorded under other reserves within equity in accordance with the requirements of International Financial Reporting Standard (2): Share-based Payment.

(*) The fair value was calculated based on the market price after deducting the expected dividends per share on the grant date.

48. IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

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

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the group has assessed its impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families, and fully activating the technical solutions and providing digital channels with greater capabilities and facilities to ensure the continuity of services provided to the customers and reach them to their location for their own safety.

At the end of the second quarter of 2020, the government of the Kingdom of Saudi Arabia has allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted, and commitment to social distancing. During the fourth quarter of 2020, several vaccines which passed the testing phase effectively began to be manufactured and distributed globally to many countries, including the Kingdom of Saudi Arabia.

48. IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK (CONTINUED)

As of the date of preparing these consolidated financial statements, the Group's operations and financial results have not incurred significant impact from the virus outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in telecom sector.

The impact of the pandemic on the Group's operations and financial results was assessed using some judgments, estimates and assumptions that contain sources of uncertainty as it depends on several future factors and developments that cannot be reliably forecasted.

49. 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 this policy, the Company distributed the following cash dividends during the year ended 31 December 2020 at a rate of:

- SR 1 per share for the fourth quarter of 2019.
- SR 1 per share for the first quarter of 2020.
- SR 1 per share for the second quarter of 2020.
- SR 1 per share for the third quarter of 2020.

In addition, in line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the fourth quarter of 2020 at a rate of SR 1 per share.

On 12 Shaaban 1442H (corresponding to 25 March 2021) the board of directors also recommended to distribute additional cash dividends for the year 2020 at the rate of SR 1 per share, this recommendation is to be presented to the General Assembly at its next meeting for voting.

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 (See note 47). Therefore, no cash dividends were distributed for the shares that were repurchased during the year of 2020 as follows:

- 182 thousand shares for the second quarter of 2020 were repurchased before the eligibility of dividend distribution to shareholders
- 1,785 thousand shares for the third quarter of 2020 (including above shares).
- 2,983 thousand shares for the fourth quarter of 2020 (including the above shares).

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

At its meeting held on 12 Shabaan 1441 H (corresponding to 25 March 2021), the Board of Directors approved the consolidated financial statements for the year ended 31 December 2020.

51. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2020.