



Saudi Telecom Company
(A Saudi Joint Stock Company)

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

**Second Quarter
2022**

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

<u>INDEX</u>	<u>PAGES</u>
Independent auditor's review report	2
Interim condensed consolidated statement of financial position	3
Interim condensed consolidated statement of profit or loss	4
Interim condensed consolidated statement of comprehensive income	5
Interim condensed consolidated statement of cash flows	6
Interim condensed consolidated statement of changes in equity	7
Notes to the interim condensed consolidated financial statements	8-22



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

Introduction:

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

Scope of Review:

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

Conclusion:

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

For Ernst & Young
Professional Services

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



Riyadh: 10 Muharram 1444H
(8 August 2022)

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Note</u>	<u>30 June 2022</u> <u>(Unaudited)</u>	<u>31 December 2021</u> <u>(Audited)</u>
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	5	46,295,211	47,205,038
Investment properties	6	96,536	70,523
Intangible assets and goodwill	7	10,719,891	10,734,798
Right of use assets	8	2,976,693	2,951,652
Investments in associates and joint ventures	22	5,338,204	5,924,858
Contract costs		456,520	521,374
Contract assets		555,979	535,809
Financial assets and others	9	8,624,556	8,367,291
TOTAL NON-CURRENT ASSETS		75,063,590	76,311,343
CURRENT ASSETS			
Inventories		928,499	917,510
Contract assets		6,928,619	5,732,865
Trade and other receivables	11,12	32,334,664	25,464,155
Financial assets and others	9	3,286,403	3,127,894
Short term murabahas		438,778	7,944,349
Cash and cash equivalents	21-1	12,550,037	8,281,301
TOTAL CURRENT ASSETS		56,467,000	51,468,074
TOTAL ASSETS		131,530,590	127,779,417
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Treasury shares	17	(250,838)	(286,563)
Other reserves		2,174,811	1,572,457
Retained earnings		39,862,062	37,984,611
Equity attributable to the equity holders of the Parent Company		71,786,035	69,270,505
Non-controlling interests		1,989,822	2,115,474
TOTAL EQUITY		73,775,857	71,385,979
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings		8,787,302	7,846,606
End of service benefit provision	13	4,860,500	5,466,916
Lease liabilities	14	2,273,105	2,353,593
Contract liabilities		771,915	771,915
Provisions		561,866	550,741
Financial liabilities and others	15	5,633,351	5,843,115
TOTAL NON-CURRENT LIABILITIES		22,888,039	22,832,886
CURRENT LIABILITIES			
Trade and other payables		18,482,403	17,114,298
Contract liabilities		3,975,983	3,591,950
Provisions		3,241,651	3,647,727
Zakat and income tax	16	1,579,487	1,833,840
Short term borrowings		1,387,707	1,456,684
Lease liabilities	14	934,667	869,574
Financial liabilities and others	15	5,264,796	5,046,479
TOTAL CURRENT LIABILITIES		34,866,694	33,560,552
TOTAL LIABILITIES		57,754,733	56,393,438
TOTAL EQUITY AND LIABILITIES		131,530,590	127,779,417


Chief Financial Officer


Delegated Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended 30 June		For the six months period ended 30 June	
		2022	2021	2022	2021
Revenues	4	16,938,819	15,898,770	33,930,061	31,594,267
Cost of revenues		(7,764,737)	(7,546,572)	(15,605,578)	(14,684,968)
GROSS PROFIT		9,174,082	8,352,198	18,324,483	16,909,299
OPERATING EXPENSES					
Selling and marketing		(1,433,050)	(1,519,889)	(2,803,010)	(2,870,088)
General and administration		(1,536,831)	(1,205,797)	(3,017,556)	(2,571,504)
Depreciation and amortisation	5,7,8	(2,484,550)	(2,376,226)	(4,960,492)	(4,735,814)
TOTAL OPERATING EXPENSES		(5,454,431)	(5,101,912)	(10,781,058)	(10,177,406)
OPERATING PROFIT		3,719,651	3,250,286	7,543,425	6,731,893
OTHER INCOME AND EXPENSES					
Cost of early retirement program		(123,798)	(81,323)	(202,898)	(161,642)
Finance income		113,702	90,804	223,175	192,668
Finance cost		(173,660)	(148,072)	(325,992)	(291,812)
Net other expenses		(32,380)	(50,288)	(89,973)	(54,404)
Net share in results and impairment of investments in associates and joint ventures	22	(282,896)	39,244	(512,228)	61,164
Net other losses		(24,791)	(8,788)	(20,841)	(30,714)
TOTAL OTHER EXPENSES		(523,823)	(158,423)	(928,757)	(284,740)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		3,195,828	3,091,863	6,614,668	6,447,153
Zakat and income tax	16	(281,162)	(219,591)	(577,623)	(574,921)
NET PROFIT		2,914,666	2,872,272	6,037,045	5,872,232
Net profit attributable to:					
Equity holders of the Parent Company		2,837,345	2,821,209	5,872,447	5,773,303
Non-controlling interests		77,321	51,063	164,598	98,929
		2,914,666	2,872,272	6,037,045	5,872,232

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

- Basic	17	1.42	1.41	2.94	2.89
- Diluted	17	1.42	1.41	2.94	2.89



Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND SIX MONTHS PERIODS ENDED 30 JUNE 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended 30 June		For the six months period ended 30 June	
		2022	2021	2022	2021
NET PROFIT		2,914,666	2,872,272	6,037,045	5,872,232
OTHER COMPREHENSIVE INCOME:					
<i>Item that will not be reclassified subsequently to consolidated statement of profit or loss:</i>					
Remeasurement of end of service benefit provision	13	636,103	21,412	692,339	168,730
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Foreign currency translation differences		(19,540)	15,132	(38,848)	29,985
Net share of other comprehensive income of associates and joint ventures		(59,255)	(3,712)	(72,686)	7,111
Total items that may be reclassified subsequently to consolidated statement of profit or loss		(78,795)	11,420	(111,534)	37,096
TOTAL OTHER COMPREHENSIVE INCOME		557,308	32,832	580,805	205,826
TOTAL COMPREHENSIVE INCOME		3,471,974	2,905,104	6,617,850	6,078,058
<i>Total comprehensive income attributable to:</i>					
Equity holders of the Parent Company		3,401,121	2,849,146	6,473,704	5,965,673
Non-controlling interests		70,853	55,958	144,146	112,385
		3,471,974	2,905,104	6,617,850	6,078,058



Chief Financial Officer



Delegated Chief Executive Officer



Authorized Board Member

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Saudi Telecom Company
A Saudi Joint Stock Company


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

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	For the six months period ended	
		30 June	
		2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		6,614,668	6,447,153
Adjustments for:			
Depreciation and amortization	5,7,8	4,960,492	4,735,814
Impairment loss and amortization of contract costs and contract assets		205,069	285,813
Impairment loss on trade receivables		383,690	389,047
Allowance for slow moving inventories		4,383	39,376
Finance income		(223,175)	(192,668)
Finance costs		325,992	291,812
Provision for end of service benefit and other provisions		291,600	442,479
Net share in results and impairment of investments in associates and joint ventures	22	512,228	(61,164)
Share- based payment expenses	23	45,781	7,483
Net other losses		20,841	30,714
Changes in :			
Trade receivables and others		(6,939,259)	(7,526,708)
Inventories		(14,692)	(46,035)
Contract costs		(62,078)	(149,100)
Contract assets		(1,294,352)	(151,980)
Other assets		259,105	32,593
Trade payables and others		999,315	(3,126,413)
Contract liabilities		384,022	431,830
Other liabilities		(838,442)	772,126
Cash generated from operations		5,635,188	2,652,172
Less: Zakat and income tax paid	16	(767,878)	(1,101,333)
Less: Provision for end of service benefit paid		(222,182)	(208,342)
Net cash generated from operating activities		4,645,128	1,342,497
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	5	(2,617,223)	(2,234,253)
Additions to intangible assets	7	(930,534)	(594,493)
Additions to investment properties		(26,583)	-
Proceeds from sale of property and equipment		550	5,376
Subsidiary's acquisition of a new entity	21-2	(231,027)	-
Proceeds from finance income		205,180	165,019
Proceeds and payments related to financial assets and others, net		7,159,406	7,737,671
Net cash from investing activities		3,559,769	5,079,320
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the equity holders of the Parent Company		(3,977,796)	(5,972,504)
Dividends paid to non-controlling interests		(273,133)	(178,998)
Repayment of lease liabilities		(428,148)	(460,637)
Repayment of borrowings		(97,372)	(195,272)
Proceeds from borrowings		990,075	-
Finance costs paid		(139,677)	(134,924)
Net cash used in financing activities		(3,926,051)	(6,942,335)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,278,846	(520,518)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		8,281,301	9,004,286
Net foreign exchange difference		(10,110)	9,322
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	21-1	12,550,037	8,493,090


Chief Financial Officer


Delegated Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company
A Saudi Joint Stock Company

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2022

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<u>Total equity attributable to the equity holders of the Parent Company</u>						Non- controlling interests	Total equity	
	Note	Share capital	Statutory reserves	Treasury shares	Other reserves	Retained earnings			Total
Balance as at 1 January 2021		20,000,000	10,000,000	(300,000)	(3,262,245)	37,508,027	63,945,782	1,321,233	65,267,015
Net profit		-	-	-	-	5,773,303	5,773,303	98,929	5,872,232
Other comprehensive income		-	-	-	192,370	-	192,370	13,456	205,826
Total comprehensive income		-	-	-	192,370	5,773,303	5,965,673	112,385	6,078,058
Dividends to the equity holders of the Parent Company		-	-	-	-	(5,991,052)	(5,991,052)	-	(5,991,052)
Dividends to non-controlling interests		-	-	-	-	-	-	(181,425)	(181,425)
Share-based payment transactions	23	-	-	-	12,231	-	12,231	-	12,231
Net share of other reserves of a joint venture		-	-	-	(17,719)	-	(17,719)	-	(17,719)
Balance as at 30 June 2021		20,000,000	10,000,000	(300,000)	(3,075,363)	37,290,278	63,914,915	1,252,193	65,167,108
Balance as at 1 January 2022		20,000,000	10,000,000	(286,563)	1,572,457	37,984,611	69,270,505	2,115,474	71,385,979
Net profit		-	-	-	-	5,872,447	5,872,447	164,598	6,037,045
Other comprehensive income (loss)		-	-	-	601,257	-	601,257	(20,452)	580,805
Total comprehensive income		-	-	-	601,257	5,872,447	6,473,704	144,146	6,617,850
Dividends to the equity holders of the Parent Company	24	-	-	-	-	(3,994,996)	(3,994,996)	-	(3,994,996)
Dividends to non-controlling interests		-	-	-	-	-	-	(273,087)	(273,087)
Share-based payment transactions	23	-	-	35,725	6,603	-	42,328	3,289	45,617
Net share of other reserves of a joint venture		-	-	-	(5,506)	-	(5,506)	-	(5,506)
Balance as at 30 June 2022		20,000,000	10,000,000	(250,838)	2,174,811	39,862,062	71,786,035	1,989,822	73,775,857


Chief Financial Officer


Delegated Chief Executive Officer


Authorized Board Member

The accompanying notes from 1 to 25 form an integral part of these interim condensed consolidated financial statements.

Saudi Telecom Company A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

1- GENERAL INFORMATION

A) ESTABLISHMENT OF THE COMPANY

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

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

B) GROUP ACTIVITIES

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

- 1) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- 2) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- 3) Prepare the required plans and necessary studies to develop, implement and provide telecommunication and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.
- 4) Expand and develop telecommunication networks, systems, and infrastructure by utilizing the most current devices and equipment in telecom technology, especially in the fields of providing and managing services, applications and software.
- 5) Provide integrated communication and information technology solutions, which include, among other things, telecom, IT services, managed services, cloud services, and internet of things, etc.
- 6) Provide information-based systems and technologies to customers including providing telecommunication means for the transfer of internet services.
- 7) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintenance of devices, equipment, and components and executing contracting works that are related to different telecom networks including fixed, moving and private networks. In addition, computer programs and other intellectual properties.
- 8) Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
- 9) Acquire loans and own fixed and movable assets for intended use.
- 10) Provide financial and managerial support and other services to subsidiaries.
- 11) Provide development, training, asset management and other related services.
- 12) Provide solutions for decision support, business intelligence and data investment.
- 13) Provide supply chain and other related services.
- 14) Provide digital banking services.
- 15) Provide cybersecurity services.
- 16) Construction, maintenance and repair of telecommunication and radar stations and towers.

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

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

2- BASIS OF PREPARATION

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

3- THE GROUP'S ACCOUNTING POLICIES

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

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

4- SEGMENT INFORMATION

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

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	2022	2021	2022	2021
Revenues ⁽¹⁾				
Saudi Telecom Company	12,220,501	11,223,506	24,519,806	22,481,879
Channels by stc	2,770,270	5,327,799	5,848,640	10,257,636
Solutions	2,254,471	1,937,200	4,672,948	3,803,993
Other operating segments ⁽²⁾	2,669,047	2,352,574	5,202,074	4,606,871
Eliminations / adjustments	(2,975,470)	(4,942,309)	(6,313,407)	(9,556,112)
Total revenues	16,938,819	15,898,770	33,930,061	31,594,267
Cost of operations (excluding depreciation and amortization)	(10,734,618)	(10,272,258)	(21,426,144)	(20,126,560)
Depreciation and amortization	(2,484,550)	(2,376,226)	(4,960,492)	(4,735,814)
Cost of early retirement	(123,798)	(81,323)	(202,898)	(161,642)
Finance income	113,702	90,804	223,175	192,668
Finance cost	(173,660)	(148,072)	(325,992)	(291,812)
Net other expenses	(32,380)	(50,288)	(89,973)	(54,404)
Net share in results and impairment of investments in associates and joint ventures	(282,896)	39,244	(512,228)	61,164
Net other losses	(24,791)	(8,788)	(20,841)	(30,714)
Zakat and income tax	(281,162)	(219,591)	(577,623)	(574,921)
Net profit	2,914,666	2,872,272	6,037,045	5,872,232
Net profit attributable to:				
Equity holders of the Parent Company	2,837,345	2,821,209	5,872,447	5,773,303
Non-controlling interests	77,321	51,063	164,598	98,929
	2,914,666	2,872,272	6,037,045	5,872,232

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	2022	2021	2022	2021
Saudi Telecom Company	7,502,841	6,635,563	14,961,594	13,506,882
Channels by stc	568,861	373,703	1,147,971	776,128
Solutions	544,510	459,839	1,077,201	865,299
Other operating segments ⁽²⁾	1,465,775	1,280,585	2,900,579	2,527,151
Eliminations / adjustments	(907,905)	(397,492)	(1,762,862)	(766,161)
Gross profit	9,174,082	8,352,198	18,324,483	16,909,299

Information about geographical segmentation:

Following is the geographical segmentation of revenues for the three and six months periods ended 30 June:

	For the three months period ended 30 June		For the six months period ended 30 June	
	2022	2021	2022	2021
Kingdom of Saudi Arabia	15,678,288	14,693,348	31,404,541	29,215,186
Outside the Kingdom of Saudi Arabia	1,260,531	1,205,422	2,525,520	2,379,081
	16,938,819	15,898,770	33,930,061	31,594,267

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- SEGMENT INFORMATION (CONTINUED)

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

	<u>30 June 2022</u>	<u>31 December 2021</u>
Assets		
Saudi Telecom Company	134,758,640	133,034,376
Channels by stc	8,213,104	8,146,496
Solutions	8,096,852	7,172,748
Other operating segments ⁽²⁾	35,368,714	34,662,393
Eliminations / adjustments	(54,906,720)	(55,236,596)
Total assets	<u>131,530,590</u>	<u>127,779,417</u>
Liabilities		
Saudi Telecom Company	48,928,178	51,024,262
Channels by stc	6,852,616	6,603,833
Solutions	5,729,878	4,902,180
Other operating segments ⁽²⁾	21,645,158	20,409,577
Eliminations / adjustments	(25,401,097)	(26,546,414)
Total liabilities	<u>57,754,733</u>	<u>56,393,438</u>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,975 million and SR 6,313 of inter-segment sales and adjustments (between the Group's Companies) for the three and six months periods ended 30 June 2022 (for the three and six months periods ended 30 June 2021: SR 4,942 million and SR 9,556 million, respectively) which were eliminated at consolidation.

(2) Other operating segments include: Telecommunications Towers Company "TAWAL", stc Bank, stc Kuwait, stc Bahrain, Public Telecommunications Company "specialized by stc", Advanced Technology and Cybersecurity Company "sirar by stc", Aqalat, RSS, Gulf Digital Media Model Company, stc Gulf Investment Holding, stc GCC Cable Systems W.L.L., Innovation Fund Investment Company and Digital Centers for Data and Telecommunications.

5- PROPERTY AND EQUIPMENT

During the six months period ended 30 June 2022, the Group acquired property and equipment with total cost of SR 2,620 million, including non-cash additions with an amount of SR 3 million (30 June 2021: SR 2,364 million, including non-cash additions with an amount of SR 130 million).

During the six months period ended 30 June 2022, the Group disposed of property and equipment with a net book value of SR 62 million (30 June 2021: SR 31 million) resulting in a loss on sale of property and equipment for the six months period ended 30 June 2022 with an amount SR 61 million (for the six months period ended 30 June 2021: SR 26 million).

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

	<u>For the three months</u> <u>period ended 30 June</u>		<u>For the six months</u> <u>period ended 30 June</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cost of revenues	1,397,032	1,353,097	2,806,926	2,706,814
Selling and marketing expenses	1,950	1,489	3,974	3,230
General and administration expenses	279,253	292,937	554,947	587,838
	<u>1,678,235</u>	<u>1,647,523</u>	<u>3,365,847</u>	<u>3,297,882</u>

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

6- INVESTMENT PROPERTIES

	<i>30 June 2022</i>	<i>31 December 2021</i>
Land	36,980	36,980
Work in-progress (*)	59,556	33,543
	96,536	70,523

(*) During the six months period ended 30 June 2022, the Group added projects in progress amounting to SR 26 million (30 June 2021: SR 24 million).

The fair value of the land amounted to SR 264 million as at 30 June 2022 (31 December 2021: SR 254 million), which was valued by Esnad Real Estate appraisal Company License No. (784/18/323) appointed as an independent, professionally qualified valuer accredited by the Saudi Authority for Accredited Valuers (Taqeem). The fair value measurement is classified within level 3 based on valuation techniques applied (residual value method).

7- INTANGIBLE ASSETS AND GOODWILL

During the six months period ended 30 June 2022, the net additions in intangible assets amounted to SR 931 million, including non-cash additions with an amount of nil (30 June 2021: SR 693 million, including non-cash additions with an amount of SR 99 million).

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

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Cost of revenues	164,458	141,913	323,829	278,111
Selling and marketing expenses	1,453	783	2,935	1,565
General and administration expenses	408,964	369,661	808,395	736,901
	574,875	512,357	1,135,159	1,016,577

8- RIGHT OF USE ASSETS

During the six months period ended 30 June 2022, the net additions in right of use assets amounted to SR 543 million (30 June 2021: SR 354 million) all of which are non-cash additions.

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Cost of revenues	181,985	166,279	360,024	324,833
Selling and marketing expenses	2,908	3,772	5,715	6,593
General and administration expenses	46,547	46,295	93,747	89,929
	231,440	216,346	459,486	421,355

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

9- FINANCIAL ASSETS AND OTHERS

9-1 Financial assets

	<u>30 June 2022</u>	<u>31 December 2021</u>
Financial assets measured at FVTPL	2,530,624	2,135,246
Financial assets at amortised cost:		
Sukuk	5,235,533	5,315,129
Customers' trust accounts of stc Bank	1,576,849	1,151,208
Loans to employees	351,070	353,076
Others	510,561	567,710
	<u>7,674,013</u>	<u>7,387,123</u>
	<u>10,204,637</u>	<u>9,522,369</u>
Current	1,735,522	1,298,301
Non-current	8,469,115	8,224,068
	<u>10,204,637</u>	<u>9,522,369</u>

9-2 Other assets

	<u>30 June 2022</u>	<u>31 December 2021</u>
Advances	1,073,106	1,446,265
Prepaid expenses	341,777	237,979
Deferred expenses	206,349	147,935
Others	85,090	140,637
	<u>1,706,322</u>	<u>1,972,816</u>
Current	1,550,881	1,829,593
Non-current	155,441	143,223
	<u>1,706,322</u>	<u>1,972,816</u>

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value:

<i>30 June 2022</i>	<i>Carrying amount</i>	<i>Fair value</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
<i>At fair value through profit or loss:</i>				
stc Ventures Fund and STV LP Fund	2,530,624	-	-	2,530,624
<i>31 December 2021</i>	<i>Carrying amount</i>	<i>Fair value</i>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
<i>At fair value through profit or loss:</i>				
stc Ventures Fund and STV LP Fund	2,135,246	-	-	2,135,246
<u>Financial liabilities</u>				
<i>At fair value through profit or loss:</i>				
Other financial liabilities	675	-	675	-

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

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

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

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

	<u>30 June 2022</u>	<u>31 December 2021</u>
Net assets value as at beginning of the period	2,135,246	1,119,413
Contributions paid to the funds during the period	345,350	375,020
Distributions received from the funds during the period	(284)	(172,395)
Net unrealised gain recognised in the interim condensed consolidated statement of profit or loss ^(*)	50,312	813,208
Net assets value as at ending of the period	<u>2,530,624</u>	<u>2,135,246</u>

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

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

10- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at amortized cost:

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

<i>30 June 2022</i>	<u>Carrying amount</u>	<u>Fair value</u>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
Financial assets at amortized cost - Sukuk	<u>3,951,393</u>	-	<u>3,952,660</u>	-
<u>Financial liabilities</u>				
Borrowings - Sukuk	<u>4,674,098</u>	-	<u>4,591,794</u>	-
<i>31 December 2021</i>	<u>Carrying amount</u>	<u>Fair value</u>		
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
<u>Financial assets</u>				
Financial assets at amortized cost - Sukuk	<u>3,955,568</u>	-	<u>4,268,749</u>	-
<u>Financial liabilities</u>				
Borrowings - Sukuk	<u>4,673,254</u>	-	<u>5,381,490</u>	-

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

11- TRADE AND OTHER RECEIVABLES

	<u>30 June 2022</u>	<u>31 December 2021</u>
Trade receivables	34,505,051	27,194,290
Less: allowance for impairment loss	(2,792,967)	(2,758,363)
	31,712,084	24,435,927
Non trade receivables	622,580	1,028,228
	32,334,664	25,464,155

12- RELATED PARTY TRANSACTIONS

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

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

	For the three months period ended 30 June		For the six months period ended 30 June	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
	Services provided	97,372	83,769	200,702
Services received	129,191	66,893	240,761	178,463

The following balances are outstanding with related parties:

	Amounts due from related parties		Amounts due to related parties	
	<u>30 June 2022</u>	<u>31 December 2021</u>	<u>30 June 2022</u>	<u>31 December 2021</u>
	<i>Associates</i>	397,525	292,223	42,365
<i>Joint ventures</i>	21,647	27,717	205,620	158,634
	419,172	319,940	247,985	230,640

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

12- RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

Revenues from transactions with government and government related entities for the three and six months periods ended 30 June 2022 amounted to SR 3,868 million and SR 7,044 million, respectively (for the three and six months periods ended 30 June 2021 amounted SR 2,815 million and SR 5,625 million, respectively) and expenses related to transactions with government and government related entities for the three and six months periods ended 30 June 2022 (including government charges) amounted to SR 1,479 million and SR 2,991 million, respectively (for the three and six months periods ended 30 June 2021 amounted to SR 1,457 million and SR 2,778 million, respectively).

As at 30 June 2022, accounts receivable from government entities totalled SR 28,338 million (31 December 2021: SR 21,616 million) and accounts payable due to government entities totalled SR 1,137 million (31 December 2021: SR 1,062 million).

The total balance of accounts receivable with government related entities as at 30 June 2022 was SR 1,315 million (31 December 2021: SR 931 million). Total balance of accounts payable with government related entities as at 30 June 2022 was SR 342 million (31 December 2021: SR 120 million).

Receivable aging from government entities is as follows:

	<u>30 June 2022</u>	<u>31 December 2021</u>
Less than a year	13,991,767	12,675,429
More than one year to two years	9,366,394	7,626,172
More than two years	4,979,899	1,314,687
	<u>28,338,060</u>	<u>21,616,288</u>

Based on the table above, the receivables from government entities were discounted by an amount of SR 152 million to reflect the impact of time value of money as at 30 June 2022 (31 December 2021: nil).

13- END OF SERVICE BENEFIT PROVISION

Calculation of end of service benefit provision was performed using the most recent actuarial valuation as at 30 June 2022. During the period, the actuarial assumptions relating mainly to the discount rate have been updated which ranged from 4.0% - 4.5% for the six months period ended 30 June 2022 (for the six months period ended 30 June 2021: 1.8% - 3.0%), resulting in recording of net actuarial gain included in the interim condensed consolidated statement of comprehensive income for the three and six months periods ended 30 June 2022 amounting to SR 636 million and SR 692 million, respectively (for the three and six months periods ended 30 June 2021 amounted to SR 21 million and SR 169 million, respectively).

14- LEASE LIABILITIES

	<u>30 June 2022</u>	<u>31 December 2021</u>
Current	934,667	869,574
Non-current	2,273,105	2,353,593
	<u>3,207,772</u>	<u>3,223,167</u>

The interest expense on lease liabilities for the three and six months periods ended 30 June 2022 amounted to SR 23 million and SR 42 million respectively which was included in finance costs (for the three and six months periods ended 30 June 2021 amounted to SR 23 million and SR 45 million, respectively).

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

15- FINANCIAL LIABILITIES AND OTHERS

15-1 Financial liabilities

	<u>30 June 2022</u>	<u>31 December 2021</u>
Dividends payable	2,232,371	2,193,995
Government charges	1,236,098	1,170,805
Financial liabilities related to frequency spectrum licenses	1,739,938	2,017,113
Customers' deposits – stc Bank	1,412,058	1,197,294
Other financial liabilities	105,349	85,503
	<u>6,725,814</u>	<u>6,664,710</u>
Current	4,957,765	4,619,656
Non-current	1,768,049	2,045,054
	<u>6,725,814</u>	<u>6,664,710</u>

15-2 Other liabilities

	<u>30 June 2022</u>	<u>31 December 2021</u>
Deferred income	3,835,600	3,793,616
Others	336,733	431,268
	<u>4,172,333</u>	<u>4,224,884</u>
Current	307,031	426,823
Non-current	3,865,302	3,798,061
	<u>4,172,333</u>	<u>4,224,884</u>

16- ZAKAT AND INCOME TAX

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

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

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

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

17- EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share for the three and six months periods ended 30 June:

	For the three months period ended 30 June		For the six months period ended 30 June	
	2022	2021	2022	2021
Net profit attributable to equity holders of the Parent Company	2,837,345	2,821,209	5,872,447	5,773,303
Number of shares "in thousands":				
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	1,997,239	1,999,207	1,997,239	1,999,207
Weighted average number of repurchased ordinary shares	2,761	793	2,761	793
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	2,000,000	2,000,000	2,000,000	2,000,000
Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):				
Basic	1.42	1.41	2.94	2.89
Diluted	1.42	1.41	2.94	2.89

During the second quarter of the year 2022, the Board of Directors recommended to the Extraordinary General Assembly ("EGA") to increase the Company's share capital from SR 20,000 million to SR 50,000 million via the capitalization of SR 30,000 million of retained earnings (note 18). In case of the approval, the effect of the bonus shares issuance on the Company's earnings per share attributable to the equity holders of the Parent Company for the three and six months periods ended 30 June will be as follows:

	For the three months period ended 30 June		For the six months period ended 30 June	
	2022	2021	2022	2021
Earnings per share attributable to equity holders of the Parent Company (in Saudi Riyals):				
Basic	0.57	0.56	1.18	1.16
Diluted	0.57	0.56	1.18	1.16

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

	30 June 2022	31 December 2021
Outstanding shares as at the beginning of the period	1,997,149	1,997,017
Outstanding shares issued	351	132
Outstanding shares as at the end of the period	1,997,500	1,997,149
	30 June 2022	31 December 2021
Treasury shares as at the beginning of the period	2,851	2,983
Treasury shares re-issued	(351)	(132)
Treasury shares as at the end of the period	2,500	2,851

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

18- SHARE CAPITAL

During the second quarter of the year 2022, the Board of Directors recommended on 11 June 2022 (corresponding to 12 Thul-Qi'dah 1443H) to the EGA to increase the Company's share capital from SR 20,000 million to SR 50,000 million via the capitalization of SR 30,000 million of retained earnings. Each shareholder will be granted 1.5 shares for each 1 share owned at the eligibility date. The proposed increase in share capital of the Company is subject to the EGA and regulatory approvals.

19- CAPITAL COMMITMENTS

1. One of the Group's subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and information technology sector in the Kingdom of Bahrain and other GCC Countries with an amount of SR 1,125 million (equivalent to USD 300 million) as at 30 June 2022 (31 December 2021: SR 1,125 million (equivalent to USD 300 million)).
2. The Group has contractual commitments for the acquisition of property and equipment and intangible assets amounting to SR 6,222 million as at 30 June 2022 (31 December 2021: SR 4,193 million).

20- CONTINGENT ASSETS AND LIABILITIES

1. The Group has outstanding letters of guarantee on behalf of the parent and its subsidiaries amounting to SR 4,859 million as at 30 June 2022 (31 December 2021 : SR 4,695 million).
2. The Group has outstanding letters of credit as at 30 June 2022 amounting to SR 1,633 million (31 December 2021: SR 1,394 million).
3. On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounting to SR 742 million related to construction of a fiber optic network. Based on independent legal opinions obtained, the management believes that the customer's claim has no merit and therefore this claim has no material impact on the financial results of the Group.
4. The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Group's financial position or on the results of its operations as reflected in these interim condensed consolidated financial statements.
5. The Group received the Appeal Committee for Tax Violations and Disputes' decision with respect to the withholding tax assessment on international operators' networks rentals for the years from 2004 to 2015, rejecting its appeal with an amount of SR 1,500 million. The Group submitted a petition for reconsideration, as it believes that Saudi tax regulations do not impose withholding tax on international interconnection services since the source of income does not occur inside the Kingdom, and therefore these services should not be subject to withholding tax. Based on the opinions of tax specialists in this matter and the nature of the technical dispute, the Group believes that this assessment will not result into additional provisions.
6. The Group received claims from the Communications and Information Technology Commission related to imposing government fees on devices sold in instalments for the period from 2018 until the end of the first quarter of 2021, totalling SR 782 million for which the Group has objected within the statutory deadline. A preliminary court ruling was issued in favor of the Group in regards to one of the claims amounting to SR 641 million.

Saudi Telecom Company
A Saudi Joint Stock Company

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

21- SUBSIDIARIES

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

22- INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

During the year 2022, the Group recorded an impairment provision for the three and six months periods ended 30 June 2022 amounting to SR 298 million and SR 537 million (for the three and six months periods ended 30 June 2021: nil) related to its investment in BGSM (a joint venture) as a result of the decline in market conditions and quoted share prices of key underlying investment. The Group determined the recoverable amount of its investment in BGSM based on the value in use method.

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

23- EMPLOYEES LONG-TERM INCENTIVES PROGRAM

23-1 Group's long-term incentives program

During the first quarter of the year 2020, the Board of Directors approved on 17 March 2020 (corresponding to 22 Rajab 1441H) to repurchase a number of the Company's shares up to 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 EGA to approve the Program and to repurchase the shares within a period of (8) months from the EGA's date of approval. The EGA has voted on the approval of this Program during its meeting held on 27 Shaban 1441 H (corresponding to 20 April 2020).

During the second quarter of the year 2022, the Board of Directors approved on 28 June 2022 (corresponding to 29 Thul-Qi'dah 1443H) to repurchase a number of the Company's shares up to a maximum of 15 million shares and an amount not to exceed SR 453 million (the proposed shares to be repurchased reflects the proposed increase in the Company's capital by 150% based on the recommendation of the Board of Directors to increase the capital by granting bonus shares), to be allocated for the Program and to raise its recommendation to the EGA for voting. Further, the shares shall be repurchased within 12 months from EGA's approval date.

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

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

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

23-2 Subsidiary's long-term incentives program

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

24- DIVIDENDS

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

The dividends policy will remain subject to:

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

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

In line with the same policy, the Company will distribute cash dividends to the shareholders of the Company for the second quarter of 2022 at a rate of SR 1 per share.

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

24- DIVIDENDS (CONTINUED)

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.

During the second quarter of the year 2022, the Company's Board of Directors recommended on 11 June 2022 (corresponding to 12 Thul-Qi'dah 1443H) to increase the Company's share capital via the capitalization of SR 30,000 million of retained earnings. Each shareholder will be granted 1.5 shares for each 1 share owned at the eligibility date. The proposed increase in share capital of the Company is subject to the EGA and regulatory approvals.. The Board of Directors recommended on the same date to the GA to amend the dividends policy which was approved by the GA on 30 November 2021 (corresponding to 25 Rabi Thani 1443H) to reflect the new proposed increase in the share capital. The amended dividends policy should therefore be as follows:

The objective of the policy is based on maintaining a minimum dividend of SR 0.40 per share on a quarterly basis, effective from fourth quarter of 2021, for 3 years. The Company will consider and pay additional dividend subject to the Board of Directors recommendation to the GA after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. It is probable that additional dividends are likely to vary on a quarterly basis depending on the Company's performance.

25- APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee (delegated by the Board of Directors) approved the interim condensed consolidated financial statements for the three and six months periods ended 30 June 2022 on 4 Muharram 1444H (corresponding to 2 August 2022).