Saudi Telecom Company

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 - Five million five hundred thousand Saudi Riyal)
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com

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 2021, 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 2021, 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 Chartered and Professional Accountants ("IFRS as endorsed by SOCPA").

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 the audit of the consolidated financial statements of the current year. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the 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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Independent auditor's report (continued)
To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

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 63.4 billion for the year ended 31 December 2021. 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, as well as the materiality of the amounts involved. *Refer to note 4.5 for the accounting policy related to revenue recognition and note 34 for the related disclosures.*	Our audit procedures included, among others, the following: • Involved our IT specialists to test the design, implementation and operating effectiveness of system internal controls related to revenue recognition. • Assessed the Group's revenue recognition policies, for compliance with IFRS as endorsed by SOCPA. • Inspected a sample of revenues 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 customers invoices. • Tested cash receipts for a sample of customers back to the invoice. • Performed analytical procedures by comparing expectations of revenues with actual results and analysed variances. • Assessed the adequacy of the relevant disclosures in the consolidated financial statement.

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

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">Accounting for withholding tax claim from the Zakat, Tax and Customs Authority ("ZATCA")</td></tr>
<tr><td>As at 31 December 2021, the Group received the Appeal Committee for Tax Violations and Disputes ("appeal committee") decision with respect to the withholding tax assessments from ZATCA 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 in prior years. During 2021, the Group submitted to the appeal committee a petition for reconsideration.

We considered this as a key audit matter as accounting for withholding tax involves management estimates in addition to the materiality of the amounts claimed.

Refer to note 4.10 for the accounting policy related to withholding taxes and note 44-5 for the related disclosures.</td><td>Our audit procedures performed included, among others, the following:

• Inspected correspondences between the Group and ZATCA to determine the amount of the additional assessments made by ZATCA.

• Attended meetings with those charged with governance and the Group's management to obtain an update on the withholding tax matters and the results of their interactions with the relevant committees.

• Inspected the decisions from the relevant committee on withholding tax assessments.

• Involved our specialists in evaluating the key assumptions used by management of the exposures disclosed for withholding tax for the years assessed by ZATCA.

• Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.</td></tr>
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Independent auditor's report (continued)
To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

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">Allowance for impairment of trade receivable</td></tr>
<tr><td>As at 31 December 2021, the Group's gross trade receivables amounted to SR 27.2 billion against which an impairment allowance of SR 2.8 billion is maintained.

The Group uses the expected credit loss model (ECL) as required by IFRS as endorsed by SOCPA 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 5.7 for the accounting and critical judgements policies related to allowance for impairment of trade receivable and note 17 for the related disclosures.</td><td>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.

• 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.

• Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

In addition to the above, we also performed the following procedures for certain customers categories where the Group performed a standalone assessment:

• Inspected the respective meeting minutes for standalone assessments.

• Obtained an understanding of the latest development and the basis of measuring the allowance and assessed management assumption given the circumstances.

• Tested on sample basis, the calculation performed by management of the allowances.</td></tr>
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Independent auditor's report (continued)
To the Shareholders of Saudi Telecom Company
(A Saudi Joint Stock Company)

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">Capitalization of property and equipment</td></tr>
<tr><td>The Group has a substantial capital expenditures plan and therefore incurs significant annual expenditures 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 while expenses spent to maintain the network's operating capacity are recognized as expenses in the same year in which they are incurred. Accordingly, the assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 Property, Plant and Equipment requires judgement.

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

Refer to note 4.11 for the accounting policy related to property and equipment and note 9 for the related disclosures.</td><td>Our audit procedures performed included, among others, the following:

• Tested the design, implementation, and operating effectiveness of key controls in place over the capitalization and depreciation of property and equipment.

• Performed analytical procedures on depreciation of property and equipment by comparing actual depreciation amounts with expected amounts and analysed variances.

In addition to the above, we also performed the following procedures on the capitalized cost:

• Assessed the Group's capitalisation policy for compliance IFRS as endorsed by SOCPA.

• Tested, on a sample basis, the implementation of capital expenditures plan 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 adequacy of the relevant disclosures included in the consolidated financial statements.</td></tr>
</table>

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

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 and equipment and intangible assets</td></tr>
<tr><td>
As at 31 December 2021, the Group's consolidated financial position included property and equipment amounting to SR 47.2 billion and intangible assets amounting to SR 10.7 billion.
At each reporting date, the Group's management assesses whether there is any indication that property and equipment and intangible assets may be impaired.
For intangible assets with indefinite life or if impairment indication exists for property and equipment, an assessment of the recoverable value of these assets or relevant cash generating units ("CGU") for any impairment.
This involves significant judgments 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 5.2 for the accounting and critical judgements policies related to valuation of property and equipment and intangible assets.
</td><td>
Our audit procedures performed included, among others, the following:

Assessed the Group's impairment policies for property and equipment and intangible assets, for compliance with IFRS as endorsed by SOCPA.
Reviewed the assessment performed by management to assess whether there is any indication of impairment.

In addition to the above, we also performed the following procedures when impairment indication exists for property and equipment, or for indefinite life intangible assets:

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.
Tested the mathematical accuracy of cash flow models.
Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

</td></tr>
</table>

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

Other information included in The Group's 2021 Annual Report
Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2021 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.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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
Professional Services

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

سجل تجاري ١٠١٠٣٨٣٨٢١
CR. 1010383821
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

Riyadh: 27 Rajab 1443H
(28 February 2022G)

Saudi Telecom Company
A Saudi Joint Stock Company

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Note	31 December 2021	31 December 2020
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	9	**47,205,038**	47,847,623
Investment properties	10	**70,523**	36,980
Intangible assets and goodwill	11	**10,734,798**	10,466,408
Right of use assets	12	**2,951,652**	2,892,814
Investments in associates and joint ventures	7	**5,924,858**	6,704,947
Contract costs	13	**521,374**	637,470
Contract assets	14	**535,809**	457,657
Financial assets and others	15	**8,367,291**	7,069,285
TOTAL NON-CURRENT ASSETS		**76,311,343**	76,113,184
CURRENT ASSETS			
Inventories	16	**917,510**	1,008,645
Contract assets	14	**5,732,865**	6,059,440
Trade and other receivables	17	**25,464,155**	15,724,725
Financial assets and others	15	**3,127,894**	3,627,971
Short term murabahas	18	**7,944,349**	10,433,849
Cash and cash equivalents	19	**8,281,301**	9,004,286
TOTAL CURRENT ASSETS		**51,468,074**	45,858,916
TOTAL ASSETS		**127,779,417**	121,972,100
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	**20,000,000**	20,000,000
Statutory reserves	22	**10,000,000**	10,000,000
Treasury shares	23	**(286,563)**	(300,000)
Other reserves	24	**1,572,457**	(3,262,245)
Retained earnings		**37,984,611**	37,508,027
Equity attributable to the equity holders of the Parent Company		**69,270,505**	63,945,782
Non-controlling interests	25	**2,115,474**	1,321,233
TOTAL EQUITY		**71,385,979**	65,267,015
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term borrowings	26	**7,846,606**	8,637,605
End of service benefits provision	27	**5,466,916**	5,239,313
Lease liabilities	28	**2,353,593**	2,237,853
Provisions	29	**550,741**	725,625
Contract liabilities	30	**771,915**	771,915
Financial liabilities and others	31	**5,843,115**	6,201,591
TOTAL NON-CURRENT LIABILITIES		**22,832,886**	23,813,902
CURRENT LIABILITIES			
Trade and other payables	32	**17,114,298**	19,711,207
Provisions	29	**3,647,727**	4,158,923
Contract liabilities	30	**3,591,950**	1,901,237
Zakat and income tax	33	**1,833,840**	1,903,791
Short term borrowings	26	**1,456,684**	318,485
Lease liabilities	28	**869,574**	742,185
Financial liabilities and others	31	**5,046,479**	4,155,355
TOTAL CURRENT LIABILITIES		**33,560,552**	32,891,183
TOTAL LIABILITIES		**56,393,438**	56,705,085
TOTAL EQUITY AND LIABILITIES		**127,779,417**	121,972,100

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 2021
(All amounts in Saudi Riyals Thousands unless otherwise stated)

	Note	***2021***	*2020*
Revenues	34	**63,416,977**	58,953,318
Cost of revenues	35	**(29,622,948)**	(24,998,923)
GROSS PROFIT		**33,794,029**	33,954,395
OPERATING EXPENSES			
Selling and marketing	36	**(5,463,336)**	(6,053,632)
General and administration	37	**(5,490,093)**	(5,810,763)
Depreciation, amortisation and impairment	9, 11, 12	**(9,712,845)**	(9,358,875)
TOTAL OPERATING EXPENSES		**(20,666,274)**	(21,223,270)
OPERATING PROFIT		**13,127,755**	12,731,125
OTHER INCOME AND EXPENSES			
Cost of early retirement program		**(313,258)**	(600,000)
Finance income	38	**377,911**	413,873
Finance cost	39	**(618,956)**	(623,925)
Net other income (expenses)		**49,996**	(42,995)
Net share in results and impairment of investments in associates and joint ventures	7	**(778,028)**	52,953
Net other gains	40	**789,643**	424,612
TOTAL OTHER INCOME (EXPENSES)		**(492,692)**	(375,482)
NET PROFIT BEFORE ZAKAT AND INCOME TAX		**12,635,063**	12,355,643
Zakat and income tax	33	**(1,040,366)**	(1,170,446)
NET PROFIT		**11,594,697**	11,185,197
Net profit attributable to:			
Equity holders of the Parent Company		**11,311,342**	10,994,875
Non-controlling interests	25	**283,355**	190,322
		11,594,697	11,185,197

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

Basic	41	**5.66**	5.50
Diluted	41	**5.66**	5.50

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 2021
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2021	2020
NET PROFIT		**11,594,697**	11,185,197
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to consolidated statement of profit or loss:			
Remeasurement of end of service benefit provision	27	**312,523**	(568,893)
Net share of other comprehensive income of associates and joint ventures		**5,093**	6,379
Total items that may not be reclassified subsequently to consolidated statement of profit or loss		**317,616**	(562,514)
Items that may be reclassified subsequently to consolidated statement of profit or loss:			
Foreign currency translation differences		**20,103**	(16,542)
Net changes in fair value from cash flow hedges		**-**	1,820
Net share of other comprehensive income of associates and joint ventures		**79,686**	46,152
Total items that may be reclassified subsequently to consolidated statement of profit or loss		**99,789**	31,430
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**417,405**	(531,084)
TOTAL COMPREHENSIVE INCOME		**12,012,102**	10,654,113
Total comprehensive income attributable to:			
Equity holders of the Parent Company		**11,717,489**	10,478,455
Non-controlling interests		**294,613**	175,658
		12,012,102	10,654,113

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 2021
(All Amounts in Saudi Riyals Thousands unless otherwise stated)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit before zakat and income tax		**12,635,063**	12,355,643
Adjustments for:			
Depreciation, amortisation and impairment	9,11,12	**9,712,845**	9,358,875
Impairment loss and amortisation of contract costs and contract assets	35, 36	**492,758**	623,652
Impairment loss on trade receivables	36	**844,027**	1,072,959
Allowance for slow moving inventories		**39,755**	3,433
Finance income	38	**(377,911)**	(413,873)
Finance costs	39	**618,956**	623,925
Provision for end of service benefits and other provisions		**772,747**	560,627
Net share in results and impairment of investments in associates and joint ventures	7	**778,028**	(52,953)
Share- based payment expenses	45	**42,726**	6,116
Net other gains	40	**(789,643)**	(424,612)
Changes in :			
Trade receivables and others		**(11,236,400)**	4,540,765
Inventories		**51,364**	709,452
Contract costs		**(258,224)**	(220,515)
Contract assets		**129,958**	807,042
Other assets		**876,011**	921,405
Trade payables and others		**(2,991,346)**	280,331
Contract liabilities		**1,690,723**	(564,499)
Other liabilities		**(349,612)**	(434,684)
Cash generated from operations		**12,681,825**	29,753,089
Less: zakat and income tax paid	33	**(1,106,049)**	(750,643)
Less: provision for end of service benefits paid	27	**(355,621)**	(677,741)
Net cash generated from operating activities		**11,220,155**	28,324,705
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		**(6,030,788)**	(9,150,117)
Additions to intangible assets		**(2,179,186)**	(1,690,470)
Proceeds from sale of property and equipment		**21,171**	16,748
Proceeds from sale of an associate		**184,628**	760,862
Proceeds from the initial public offering of a stake in a subsidiary	6-1	**3,560,295**	-
Dividends from associates		**83,087**	-
Proceeds from finance income		**314,480**	516,006
Proceeds and payments related to financial assets, net		**2,331,730**	(7,882,206)
Net cash used in investing activities		**(1,714,583)**	(17,429,177)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the equity holders of the Parent Company		**(9,954,612)**	(7,973,418)
Dividends paid to non-controlling interests		**(184,172)**	(102,781)
Purchase of treasury shares		**-**	(300,000)
Payment of lease liabilities		**(976,719)**	(831,642)
Repayment of borrowings	26	**(731,248)**	(402,386)
Proceeds from borrowings	26	**1,123,981**	21,363
Transactions with non-controlling interests	6-14	**750,000**	-
Finance costs paid		**(262,407)**	(330,354)
Net cash used in financing activities		**(10,235,177)**	(9,919,218)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(729,605)**	976,310
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**9,004,286**	8,031,010
Net foreign exchange difference		**6,620**	(3,034)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	**8,281,301**	9,004,286

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 2021
(All Amounts in Saudi Riyals Thousands unless otherwise stated)

		Total equity attributable to the equity holders of the Parent Company							
	Note	***Share capital***	***Statutory reserves***	***Treasury shares***	***Other reserves***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total equity***
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	47	-	-	-	-	(7,995,050)	(7,995,050)	-	(7,995,050)
Dividends to non-controlling interests		-	-	-	-	-	-	(144,327)	(144,327)
Share-based payment transactions	45	-	-	-	6,116	-	6,116	-	6,116
Purchase of treasury shares		-	-	(300,000)	-	-	(300,000)	-	(300,000)
Acquisition of a non-controlling interest		-	-	-	(4,369)	-	(4,369)	(2,550)	(6,919)
Net share of other reserves of associates and joint ventures		-	-	-	(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
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		-	-	-	-	**11,311,342**	**11,311,342**	**283,355**	**11,594,697**
Other comprehensive income		-	-	-	**406,147**	-	**406,147**	**11,258**	**417,405**
Total comprehensive income		-	-	-	**406,147**	**11,311,342**	**11,717,489**	**294,613**	**12,012,102**
Dividends to the equity holders of the Parent Company	47	-	-	-	-	**(9,985,483)**	**(9,985,483)**	-	**(9,985,483)**
Dividends to non-controlling interests		-	-	-	-	-	-	**(181,425)**	**(181,425)**
Share-based payment transactions	23, 45	-	-	**13,437**	**28,187**	-	**41,624**	**1,799**	**43,423**
Transactions with non-controlling interest	6	-	-	-	**3,631,042**	-	**3,631,042**	**679,254**	**4,310,296**
Net share of other reserves of associates and joint ventures	7	-	-	-	**769,326**	**(849,275)**	**(79,949)**	-	**(79,949)**
Balance as at 31 December 2021		**20,000,000**	**10,000,000**	**(286,563)**	**1,572,457**	**37,984,611**	**69,270,505**	**2,115,474**	**71,385,979**

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

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 authorized the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone ("MoPTT") with its various components and technical and administrative facilities to the Company, 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% as at 31 December 2021 (2020: 70%). During the year 2021, the PIF through a secondary offering sold 6% of the Company's shares.

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

B) GROUP ACTIVITIES

The main activities of the Company and its subsidiaries (collectively referred to as the "Group") comprise the provision 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 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 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 the 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.

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 Chartered and Professional Accountants ("SOCPA") ("IFRS endorsed in the Kingdom").

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 in the Kingdom 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 (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 comprise the financial information of the Company and its subsidiaries (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 to risk, 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 derecognized) in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

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

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

2. BASIS OF PREPARATION AND CONSOLIDATION (CONTINUED)

2.2 Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognized 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 recognized 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, and 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 that were applied by the Group on 1 January 2021 and had no material impact are as follows:

Amendments and interpretations
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16: Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 16: Covid-19 Related Rent Concessions beyond 30 June 2021

3.2 OTHER AMENDMENTS OF RELEVANT IFRS'S ISSUED BUT NOT YET EFFECTIVE

The standards and amendments that are issued, but not yet effective, as of 31 December 2021 are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. These standards are not expected to have a material impact on the Group at their effective dates.

Amendments and interpretations
Amendments to IAS 1: Classification of Liabilities as Current or Non-current
Amendments to IFRS 3 : Reference to the Conceptual Framework
Amendments to IAS 16: Property, Plant and Equipment: Proceeds before intended use
Amendments to IAS 37: Onerous Contracts – Cost of fulfilling a contract
Amendments to IFRS 9 Financial Instruments: Fees in the "10 per cent" test for derecognition of financial liabilities
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 8: Definition of Accounting Estimates
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies

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 recognized 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 recognized at their fair value with limited exceptions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combinations (continued)

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 recognized at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then a gain on bargain purchase at a differential price is recognized 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 to the cash generating units or the group of cash generating units expected to benefit from business combination. Where goodwill is allocated to the cash generating unit and part of the operations of that unit are 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 the value of a 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 recognized. 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 recognized 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 relevant IFRS approved in Kingdom.

Any contingent consideration to be paid (if any) will be recognized at fair value at the acquisition date and classified as equity or a financial liability. Contingent consideration classified as a financial liability is subsequently remeasured at fair value with the changes in fair value recognized 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 recognized in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized 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 presents 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combinations (continued)

The Group recognizes additional assets or liabilities during the measurement period if new information becomes available about facts or circumstances that 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 all information that existed at the acquisition date or as soon as it becomes sure of the absence of 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. Significant influence is the Group's ability to participate in the financial and operating policy decisions of the investee but not to control or jointly control those policies.

A joint venture is a joint arrangement whereby the Group has joint control of the arrangement and has rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the governing body of the investee.

Factors to determine significant influence include holding directly or indirectly voting power of the investee, representation on the board of directors or equivalent governing body of the investee, participation in policy-making processes including participation in decisions about dividends or other distributions, material transactions between the entity and the 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 statements of the Group using the equity method of accounting. The investment in associates or joint ventures in the consolidated statement of financial position are initially recognized at cost and adjusted thereafter to recognize 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 the net investment. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes 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 recognized 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.

Unrealized 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 recognized 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 recognized immediately in the consolidated statement of profit or loss in the acquisition year.

The requirements of IFRSs approved in Kingdom are applied to determine whether it is necessary to recognize 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 (5.2).

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 recognized 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Investments in associates and joint ventures (continued)

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 recognized 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 the 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.

Share-based payment expense is included as part of employee benefit expenses 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 from the beginning to the 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 amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

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

When there is a high degree of uncertainty about the possibility of collection 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 revenue is recognized on the basis of the 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.

A contract modification exists when the parties to a contract approve a modification that creates new or changes existing rights and obligations of the parties to the contract. Revenue recognition under the existing contract is continued until the contract modification is approved.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 Revenue recognition (continued)

If the Group has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognizes any impairment loss that has occurred on assets dedicated to that contract.

4.5.1 Variable consideration
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.

4.5.2 Significant financing component
If a customer can pay for purchased equipment or services over a period of time, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

4.5.3 Contract balances

4.5.3.1 Contract Assets
A contract asset is the Group's right to consideration in exchange for goods and services transferred by the Group to the customer. If the Group transfers goods or services to a customer before the customer pays any consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

4.5.3.2 Contract Costs
Contract costs relate to incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognized as an asset when:

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

Contract costs recognized by the Group are amortized on a systematic basis that is consistent with the Group's transfer of related goods or services to the customer.

4.5.3.3 Contract Liabilities
A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

4.6 Lease contracts

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of a similar asset for a period of time in exchange for consideration.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Lease contracts (continued)

The Group as a lessee (continued)

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).

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 are 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

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.

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 financial 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 recognized 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. 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Foreign currencies (continued)

Gains or losses arising on settlement or translation of monetary items are recognized 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 recognized 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 recognized in OCI.

For the purposes of presenting the consolidated financial statements, 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 recognized 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 recognized until there is reasonable assurance that the Group will comply with the attached conditions and that the grants will be received.

Government grants are recognized in the consolidated statement of profit or loss on a systematic basis over the periods in which the Group recognizes 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 recognized as deferred revenue in the consolidated statement of financial position and transferred to the consolidated statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

When the Group receives government grants as compensation for expenses or losses already incurred or immediate financial support with no future related costs, these are recognized 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 recognized 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Employee benefits (continued)

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

Remeasurement 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. Remeasurements 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 finance cost.

4.9.2 Other short and long-term employee benefits

A liability is recognized 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 recognized 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 Zakat, Tax, and Customs Authority (“ZATCA”).

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 provisions for foreign entities are calculated using the liability method, based on 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 recognized 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 recognized. 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 recognized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Assets under construction are carried at cost, less any recognized 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 a property and equipment are to be replaced (except land), the Group recognizes such parts as individual assets with a 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 case they are capitalized.

Depreciation is charged and reduces the cost of assets, other than land, using mainly the straight-line method, over their estimated useful lives. An item of property and equipment is derecognized 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 recognized 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.

4.12 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.

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 extend the estimated useful life of the asset are recognized in the consolidated statement of profit or loss when incurred.

Investment properties are derecognized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Intangible assets other than goodwill

Intangible assets are presented in the consolidated statement of 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 amortized over the useful economic life and the estimated useful life and amortisation method are reviewed at the end of each financial year, 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 capitalized 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 recognized 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 amortized 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. 13.4 Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or on 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 recognized 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 recognized immediately in the consolidated statement of profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Impairment of tangible and intangible assets other than goodwill (continued)

An assessment is made at each reporting date to determine whether there is an indication that previously recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized 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 realizable value. Costs of inventories are determined using the weighted average method. Net realizable 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 recognized 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 recognized 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 recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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 it 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 for 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 recognized in the consolidated statement of 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.1 Classification, recognition, and presentation (continued)

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 amortized 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 amortized 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 amortized 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 recognized 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 timeframe established by regulation or convention in the market place (regular way trades) are recognized 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 amortized cost:

Assets that are held to collect contractual cash flows are measured at amortized 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.

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

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

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.2 Measurement (continued)

When a financial asset is derecognized, the accumulated gain or loss recognized previously in the consolidated statement of comprehensive income is reclassified to the consolidated statement of profit and loss. However, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of profit and loss in the 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 amortized cost	The following items are recognized 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 derecognized, the gain or loss is recognized in the consolidated statement of profit or loss.
At FVOCI	Gains and losses are recognized in the consolidated statement of comprehensive income, except for the following items, which are recognized in consolidated statement of profit or loss in the same manner as for financial assets measured at amortized 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 recognized in the consolidated statement of comprehensive income. Dividends are recognized in the consolidated statement of profit or loss unless they clearly represent a repayment of part of the cost of the investment. The amounts recognized in the consolidated statement of comprehensive income are not reclassified to the consolidated statement of profit or loss under any circumstances.
At FVTPL	Gains and losses, both on subsequent measurement and derecognition, are recognized 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.

4.18.2.3 Subsequent measurement of financial liabilities

a. Amortized cost

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

1. financial liabilities at FVTPL
2. 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
3. commitments to provide a loan at a below-market interest rate and not measured at fair value though profit or loss

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.2 Measurement (continued)

a. Amortized cost (continued)

4. financial guarantee contracts
5. contingent consideration recognized at fair value by the Group in a business combination to which IFRS 3 applies (shall subsequently be measured at fair value with changes recognized 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 derecognized, the gain or loss is recognized in consolidated statement of profit or loss.

b. Liabilities at fair value through profit or loss

Financial liabilities falling under this category include:

1. liabilities held for trading
2. derivative liabilities not designated as hedging instruments
3. those designated as at FVTPL

After initial recognition, the Group measures financial liabilities at fair value with changes recognized 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

c. Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are measured initially at their fair values and, if not designated as FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

1. the amount of ECL determined in accordance with IFRS 9; and
2. the amount recognized initially less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policy described in the accounting policies.

4.18.3 Impairment of financial assets

The Group recognizes allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in 2 stages. For credit exposures for which there has not been significant increase in credit risk since initial recognition, ECLs are provided for credit losses that will result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes an allowance base on lifetime ECLs at each reporting date. The Group established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For government, related parties and key private customers, the Group estimates the loss allowance based on the internal assessment to evaluate the collectability of the balances and such assessment is done based on the available information and negotiations underway. An estimate of the collectible amount is made when collection of the amount is no longer probable. For certain customer categories, this estimate is performed on an individual basis while other customer categories are assessed collectively and an allowance is applied according to the length of time past due.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.3 Impairment of financial assets (continued)

The Group employs statistical models to analyse the data collected and generate estimates of the probability of default of exposures with passage of time. The analysis includes the identification for any changes between default rates and key macro-economic factors across various geographies of the Group. For trade receivables, the average credit terms vary by customer type.

4.18.4 Derecognition of financial assets

Financial assets are derecognized from the consolidated statement of financial position when the rights to receive cash flows from the financial assets have expired, or when the financial asset 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

Financial liabilities are derecognized when and only when the underlying obligations are extinguished, cancelled or expires.

4.18.6 Offsetting between financial assets and financial liabilities

A financial asset and a financial liability are offset 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 recognized amounts of the asset and liability; and
2- The Group intends to settle on a net basis exists, or to realize 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 recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Financial instruments (continued)

4.18.8 Derivative financial instruments and hedge accounting (continued)

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 recognized in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized 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 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.

4.19 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 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 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 realizable 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 opportunity for the use of relevant inputs that are observable and the minimum use of inputs that are not observable. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

For assets and liabilities that are recognized 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 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.

4.22 Cash dividends

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.23 Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized 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 Group classifies all other liabilities as non-current.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND JUDGEMENTS

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 recognized 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 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 an 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.

5.2 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 usually 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.

5.3 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. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

5.4 Customer activation service fees

Customer activation service fees are deferred and recognized 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.

5.5 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 29 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 recognized in the consolidated statement of profit or loss as a finance cost.

5.6 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. Asset 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.

5.7 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 the Group's historical observed default 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 in 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 still collectable where credit quality did not deteriorate based on historical experience of the Group.

For government, related parties and key private customers, the Group estimates the loss allowance based on the internal assessment to evaluate the collectability of the balances and such assessment is done based on the available information and negotiations underway. An estimate of the collectible amount is made when collection of the amount is no longer probable. For certain customer categories, this estimate is performed on an individual basis while other customer categories are assessed collectively and an allowance is applied according to the length of time past due.

5.8 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.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in the circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the contract.

5.9 Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a 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.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

5.10 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.

6. SUBSIDIARIES

Subsidiaries owned directly by the Company are as follows:

Name of subsidiary		***Country of incorporation***	***Effective shareholding percentage***	
			31 December 2021	*31 December 2020*
Arabian Internet and Communications Services Company ("Solutions")	(1)	Kingdom of Saudi Arabia	**80%**	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 Limited Company ("Aqalat")	(4)	Kingdom of Saudi Arabia	**100%**	100%
Public Telecommunications Company ("Specialized by stc")	(5)	Kingdom of Saudi Arabia	**100%**	100%
Sapphire Company Limited ("Sapphire")	(6)	Kingdom of Saudi Arabia	**-**	100%
stc Turkey Holding Ltd ("stc Turkey")	(7)	British Virgin Islands	**100%**	100%
stc Asia Telecom Holding Ltd ("stc Asia")	(8)	British Virgin Islands	**100%**	100%
stc Gulf Investment Holding ("stc Gulf")	(9)	Kingdom of Bahrain	**100%**	100%
Gulf Digital Media Model Company Ltd ("GDMM")	(10)	Kingdom of Saudi Arabia	**100%**	100%
Saudi Telecom Channels Company ("Channels by stc")	(11)	Kingdom of Saudi Arabia	**100%**	100%
Kuwait Telecommunications Company ("stc Kuwait")	(12)	State of Kuwait	**51.8%**	51.8%
Telecommunications Towers Company ("TAWAL")	(13)	Kingdom of Saudi Arabia	**100%**	100%
stc Bank (previously "Saudi Digital Payments Company" or "stc Pay")	(14)	Kingdom of Saudi Arabia	**85%**	100%
Smart Zone Real Estate Company	(15)	Kingdom of Saudi Arabia	**100%**	100%
Advanced Technology and Cybersecurity Company ("sirar by stc")	(16)	Kingdom of Saudi Arabia	**100%**	100%
stc GCC Cables System W.L.L.	(17)	Kingdom of Bahrian	**100%**	-
Innovation Fund Investment Company	(18)	Kingdom of Saudi Arabia	**100%**	-

6. SUBSIDIARIES (CONTINUED)

1. Arabian Internet and Communications Services Company ("Solutions") was established 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 the share capital of Arabian Internet and Communications Services Company Limited for SR 100 million. During the year 2020, the share capital of Solutions was increased to SR 1,200 million.

   In September 2021, the Group completed the initial public offering "IPO" for 20% of its shareholding in its subsidiary – Solutions with total proceeds of SR 3,624 million before deducting total IPO costs of SR 63.7 million. As a result of this offering, the non-controlling interests increased by SR 428 million and equity attributable to the shareholders of the parent company (other reserves) increased by SR 3,132 million at the transaction date. In addition, at the completion of the IPO, 1% of the share capital of Solutions was allocated to be granted as part of its own employees' long-term incentive plan (see Note 45.2).

2. Telecom Commercial Investment Company Limited was established in October 2007 with a capital of SR 1 million with the purpose of operating and maintaining 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.

3. stc Bahrain was established 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 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 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. Public Telecommunications Company (Specialized by stc) was established in February 2002. 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 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, point-of-sale devices, telecom operator services, establish telecom sales and service centres. In November 2017, the Group's Board of Directors decided to wind up Sapphire and integrate its business with Saudi Telecom Company starting from 1 January 2018. During the year 2021, the Group has completed all legal and regulatory procedures of Sapphire liquidation.

7. stc Turkey is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 8 April 2008. 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 (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 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 Holding Ltd in turn holds the Group's 25% stake in Binariang GSM Sdn Bhd ("BGSM") (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.

6. SUBSIDIARIES (CONTINUED)

9. stc Gulf was incorporated 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 W.L.L.
   2- stc Gulf Investment Holding 2 W.L.L.
   3- stc Gulf Investment Holding 3 W.L.L.

   stc Gulf Investment Holding 3 W.L.L. and stc Gulf Investment Holding 2 W.L.L. hold 100% (2020: 100%) in Intigral Holding BSC (C) ("Intigral Holding"). Intigral Holding was established on 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 Group increased its capital to reach BD 101 million equivalent to SR 1.008 million at the exchange rate as at 31 December 2018.

   During the year 2021, the Group restructured the capital of Intigral to reach BD 20 million (equivalent to SR 199.6 million) through transfer of ownership of Gulf Digital Media Model Company to the stc.

10. Gulf Digital Media Model Company Ltd ("GDMM") is a limited liability company with a share capital of SR 811 million with the purpose of providing broadcasting and media production services. During the year 2021, the ownership of GDMM has been transferred to stc through the restructuring of Intigral Holding Company.

11. Saudi Telecom Channels Company ("Channels by stc") was established on 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 the 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. During the year 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.

12. During the year 2007, the Company acquired 26% of the 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.

    During the year 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 represents 25.8% of total issued shares of stc Kuwait. Saudi Telecom Company now owns 51.8% of the total issued shares of stc Kuwait. (Note 25)

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

13. During the year 2018, the Company established Telecommunications Towers Company (TAWAL), a closed joint stock company (formerly a "limited liability company") 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 year 2019, TAWAL obtained the necessary operating license from the Communications and Information Technology Commission (CITC) and the Group increased the capital of TAWAL by SR 2,300 million, for a total capital of SR 2,500 million.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

6. SUBSIDIARIES (CONTINUED)

14. During the year 2017, Solutions established Saudi Digital Payments Company (stc Pay) (currently "stc Bank") with a capital of SR 100 million and its main activity is to provide digital payments services.

    During the year 2019, Saudi Digital Payments Company ownership was transferred from Solutions to the Company. During the same year, the Company increased the capital by SR 300 million, for a total capital of SR 400 million. In January 2020, the Saudi Arabian Monetary Authority (SAMA) licensed Saudi Digital Payments Company as an electronic wallet company.

    During the year 2020, the Group signed an agreement with Western Union ("WU") to sell 15% of the Group's share in the Saudi Digital Payments Company for a total of SR 750 million (equivalent to USD 200 million).

    During 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) until the regulatory requirements are completed to conclude the agreement with WU. The non-controlling interests increased by SR 251 million and shareholders' equity (other reserves) increased by SR 499 million at the transaction date.

15. During the year 2019, the Company established Smart Zone Real Estate Company – a limited liability company 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.
16. During the year 2020, the Company established Advanced Technology and Cyber Security Company - a limited liability company with a cash capital of SR 120 million to provide cybersecurity services.
17. During the year 2021, the Group established stc GCC Cable Systems W.L.L. - a limited liability company with a capital of BHD 18.9 million (equivalent to SR 188.6 million) wholly owned by the Group as part of the agreement to invest in a fund aimed to drive innovation in the communications and information technology sector in the Kingdom of Bahrain and other GCC Countries. stc Gulf Cable Systems Company main activities include the sale and installation of telecommunications equipment and the construction of utilities projects.
18. During the year 2021, the Group has established the Innovation Fund Investment Company - a limited liability company with a total capital of SR 56.2 million wholly owned by the Group, and its main activity includes administrative services and IT and telecommunication support.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

7.1 Investments in associates

Investments in all associates are accounted for 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 2021	*31 December 2020*
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%
Virgin Mobile Kuwait	4	State of Kuwait	**10%**	-

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.1 Investments in associates (continued)

7.1.1 Details of associates (continued)

1) Arab Satellite Communications Organisation ("Arabsat") was established in 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 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. As at 31 December 2021, OTL has reached the final stages of liquidation with most of its assets and liabilities disposed of. As a result, the Group has reclassified to the consolidated statement of profit or loss an amount of SR 152 million in relation to its share in other reserves that may be reclassified to profit or loss (Note 7.1.3). Furthermore, an amount of SR 849 million relating to other reserves that may not be reclassified to consolidated statement of profit or loss has been reclassified directly to retained earnings.

4) Virgin Mobile Kuwait ("VMK") was established in 2021 as a mobile virtual network operator. During the year 2021, stc Kuwait acquired a 10% equity shareholding in VMK. The Group's ability to exercise significant influence is evidenced by VMK's reliance on the stc Kuwait's technical network.

7.1.2 Financial information of material associates

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

Arab Satellite Communications Organisation

	31 December 2021	*31 December 2020*
Statement of financial position		
Current assets	**1,626,708**	1,504,156
Non-current assets	**6,168,059**	6,035,861
Current liabilities	**(565,402)**	(466,154)
Non-current liabilities	**(2,346,330)**	(2,118,849)

	For the year ended 31 December	
	2021	*2020*
Statement of income and other comprehensive income		
Revenue	**813,104**	846,166
Net loss for the year	**(11,320)**	(70,954)
Other comprehensive (loss) income for the year	**(39,135)**	71,153
Total comprehensive (loss) income for the year	**(50,455)**	199
The Group's share in net loss for the year (*)	**(554,050)**	(26,016)

(*) As at 31 December 2021, Group recorded its share in Arabsat results for the year ended 31 December 2021 based on the latest available financial information and recorded a provision of SR 550 million (2020: SR nil) against its share of the possible impairment of Arabsat assets. Further, Arabsat did not issue its consolidated financial statements, and impairment assessment of its assets is still on-going. The Group's management will continue to assess the impact, if any, in future periods which are not expected to be material.

(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(continued)

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

	31 December 2021	*31 December 2020*
Net assets of the associate	**3,383,034**	4,955,014
Proportion of the Group's ownership interest in Arabsat	**36.66%**	36.66%
Carrying amount of the Group's interest in Arabsat	**1,240,220**	1,816,508

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:

	2021	2020
The Group's share in net (loss) profit	**(151,296)**	2,943
Aggregate carrying amount of the Group's interests in these associates	**5,363**	4,104

7.1.4 Carrying amount of the Group's investment in associates:

The following is the carrying amount of the Group's investment in associates as at 31 December:

	2021	*2020*
Material associate (7.1.2)	**1,240,220**	1,816,508
Not individually material associates (7.1.3)	**5,363**	4,104
Total carrying amount of the Group's interest in associates	**1,245,583**	1,820,612

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 2021	*31 December 2020*
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 Sdn Bhd ("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.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

7.2 Investments in joint ventures (continued)

7.2.1 Details of joint ventures (continued)

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) BGSM 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.

During the year 2007, the Company acquired (through its subsidiaries stc Asia holding and stc Malaysia holding) 25% of BGSM's 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 BGSM (joint venture), including the manner in which this investment was being managed and how joint control had been effectively exercised. As a result, the Company signed an amendment to the shareholders' agreement with other shareholders of BGSM 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 of 2013.

7.2.2 Financial information of material joint ventures

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

Binariang GSM Sdn Bhd	***31 December 2021***	*31 December 2020*
Statement of financial position		
Current assets	**2,786,944**	3,085,413
Non-current assets	**27,416,907**	27,709,097
Current liabilities	**(5,303,591)**	(5,055,081)
Non-current liabilities	**(13,548,950)**	(13,690,970)

The above amounts of assets and liabilities include the following:

	31 December 2021	*31 December 2020*
Cash and cash equivalents	**1,312,023**	939,249
Current financial liabilities (excluding trade and other payables and provisions)	**(1,920,470)**	(1,159,860)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(12,186,947)**	(12,919,626)

	For the year ended 31 December	
	2021	*2020*
Statement of income and other comprehensive income		
Revenues	**8,154,210**	8,502,456
Net profit for the year	**640,914**	725,187
Other comprehensive income/ (loss) for the year	**11,078**	(8,985)
Total comprehensive income for the year	**651,992**	716,202
Depreciation and amortisation	**(1,648,136)**	(1,294,595)
Finance income	**55,165**	88,900
Finance cost	**(873,790)**	(911,640)
Income tax expense	**(383,240)**	(436,868)
Net profit for the year after non-controlling interest	**234,376**	255,272
The Group's share in net (loss) profit for the year (*)	**(117,974)**	63,818

(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)

(*) During the year 2021, the Group recorded an impairment provision amounting to SR 177 million (2020: nil) related to its investment in BGSM 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 fair value less cost of disposal method. The fair value measurement is considered at level 2 in the fair value hierarchy due to significant observable valuation inputs.

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

	31 December 2021	*31 December 2020*
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	**481,454**	376,046
Proportion of the Group's ownership interest in the joint venture	**120,364**	94,012
Goodwill and fair value adjustments, net	**1,007,502**	1,184,070
Adjustments: the carve-out of Aircel Group and others	**3,442,065**	3,535,414
Carrying amount of the Group's interest in the joint venture	**4,569,931**	4,813,496

7.2.3 Financial information of 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:

	2021	*2020*
The Group's share of net profit	**45,292**	12,208
The Group's share of other comprehensive loss	**(5,687)**	(6,428)
The Group's share of total comprehensive income	**39,605**	5,780
Aggregate carrying amount of the Group's interests in these joint ventures	**109,344**	70,839

7.2.4 Carrying amount of the Group's investment in the joint ventures

The following is the carrying amount of the Group's investment in joint ventures as at 31 December:

	2021	*2020*
Material joint venture (7.2.2)	**4,569,931**	4,813,496
Not individually material joint ventures (7.2.3)	**109,344**	70,839
Total carrying amount of the Group's share in the joint ventures	**4,679,275**	4,884,335

(All Amounts in Saudi Riyals thousands unless otherwise stated)

8. 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 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:

	2021	*2020*
Revenues [1]		
Saudi Telecom Company	**45,445,839**	42,898,826
Channels by stc	**20,629,472**	17,527,801
Other operating segments [2]	**17,762,813**	15,733,883
Eliminations / adjustments	**(20,421,147)**	(17,207,192)
Total revenues	**63,416,977**	58,953,318
Cost of operations (excluding depreciation, amortisation and impairment)	**(40,576,377)**	(36,863,318)
Depreciation, amortisation and impairment	**(9,712,845)**	(9,358,875)
Cost of early retirement program	**(313,258)**	(600,000)
Finance income	**377,911**	413,873
Finance cost	**(618,956)**	(623,925)
Net other income (expenses)	**49,996**	(42,995)
Net share in results and impairment of investments in associates and joint ventures	**(778,028)**	52,953
Net other gains	**789,643**	424,612
Zakat and income tax	**(1,040,366)**	(1,170,446)
Net profit	**11,594,697**	11,185,197
Net profit attributable to:		
Equity holders	**11,311,342**	10,994,875
Non-controlling interests	**283,355**	190,322
	11,594,697	11,185,197

(All Amounts in Saudi Riyals thousands unless otherwise stated)

8. SEGMENT INFORMATION (CONTINUED)

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

	2021	*2020*
Saudi Telecom Company	**26,664,945**	26,736,799
Channels by stc	**1,587,953**	1,384,058
Other operating segments (2)	**7,271,449**	6,401,124
Eliminations / adjustments	**(1,730,318)**	(567,586)
Gross profit	**33,794,029**	33,954,395

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

	31 December 2021	*31 December 2020*
Assets		
Saudi Telecom Company	**133,034,376**	129,915,566
Channels by stc	**8,146,496**	5,527,646
Other operating segments (2)	**41,835,141**	37,788,535
Eliminations / Adjustments	**(55,236,596)**	(51,259,647)
Total Assets	**127,779,417**	121,972,100
Liabilities		
Saudi Telecom Company	**51,024,262**	52,654,060
Channels by stc	**6,603,833**	3,943,509
Other operating segments (2)	**25,311,757**	24,302,252
Eliminations / Adjustments	**(26,546,414)**	(24,194,736)
Total Liabilities	**56,393,438**	56,705,085

Additions to property and equipment, intangible assets and goodwill

Following are the additions to property and equipment, intangible assets and goodwill (Notes 9 and 11) based on the segments for the year ended 31 December:

	2021	*2020*
Saudi Telecom Company	**6,524,157**	10,104,014
Channels by stc	**128,715**	185,082
Other operating segments (2)	**2,182,984**	1,646,304
	8,835,856	11,935,400

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 20,421 million for the year ended 31 December 2021 (2020: SR 17,207 million,) inter-segment sales and adjustments (between the Group's Companies) which were eliminated at consolidation.

(2) Other operating segments include: Arabian Internet and Communications Services Company "Solutions", Telecommunications Towers Company "TAWAL", stc Bank (previously "Saudi Digital Payments Company or stc pay"), Kuwait Telecom Company "stc Kuwait", stc Bahrain, Public Telecommunications Company "specialized by stc", Advanced Technology and Cybersecurity Company "sirar by stc", Aqalat, Gulf Digital Media Model Company, stc Gulf Investment Holding, stc GCC Cable Systems W.L.L. and Innovation Fund Investment Company (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.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

8. SEGMENT INFORMATION (CONTINUED)

Information about major customers

Included in revenues arising from sales to major customers are revenues of approximately SR 11,465 million for the year ended 31 December 2021 (2020: SR 9,252 million) resulting from sales to Government entities (Note 20.2). No other single customers contributed 10% or more to the Group's revenues.

Information about geographical segmentation

Geographical segmentation of revenues (Note 34) and non-current assets are as follows:

	Revenues for the year ended		Non-current assets as at	
	31 December 2021	*31 December 2020*	**31 December 2021**	*31 December 2020*
Kingdom of Saudi Arabia	**58,392,134**	54,166,010	**65,634,670**	64,689,191
Outside the Kingdom of Saudi Arabia	**5,024,843**	4,787,308	**10,676,673**	11,423,993
	63,416,977	58,953,318	**76,311,343**	76,113,184

(All Amounts in Saudi Riyals thousands unless otherwise stated)

9. PROPERTY AND EQUIPMENT

	Land and buildings	*Telecommunication network and equipment*	*Other assets [3]*	*Capital work in progress*	*Total*
Cost					
As at 1 January 2021	**15,606,229**	**98,022,839**	**9,005,334**	**4,418,968**	**127,053,370**
Additions during the year	**1,074**	**81,840**	**95,598**	**6,279,331**	**6,457,843**
Disposals / transfers during the year	**809,912**	**4,661,375**	**619,633**	**(8,025,295)**	**(1,934,375)**
Effect of foreign currency exchange differences	**163**	**40,154**	**283**	**1,495**	**42,095**
As at 31 December 2021	**16,417,378**	**102,806,208**	**9,720,848**	**2,674,499**	**131,618,933**
Accumulated depreciation and impairment					
As at 1 January 2021	**8,956,776**	**64,465,473**	**5,783,498**	**-**	**79,205,747**
Depreciation during the year	**422,526**	**5,788,448**	**482,124**	**-**	**6,693,098**
Impairment during the year	**-**	**-**	**622**	**-**	**622**
Disposals / transfers during the year	**(111,737)**	**(1,243,197)**	**(155,539)**	**-**	**(1,510,473)**
Effect of foreign currency exchange differences	**38**	**24,617**	**246**	**-**	**24,901**
As at 31 December 2021	**9,267,603**	**69,035,341**	**6,110,951**	**-**	**84,413,895**
Net book value as at 31 December 2021	**7,149,775**	**33,770,867**	**3,609,897**	**2,674,499**	**47,205,038**

(All Amounts in Saudi Riyals thousands unless otherwise stated)

9. PROPERTY AND EQUIPMENT (CONTINUED)

	Land 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 during the year	184,558	224,868	113,668	8,717,317	9,240,411
Disposals / transfers during the year	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 during the year	412,413	5,648,627	228,309	-	6,289,349
Disposals / transfers during the year	(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

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)

- Land and buildings include land with a total value of SR 2,204 million as at 31 December 2021 (2020: SR 2,204 million). This includes land with ongoing ownership transfer to the Company with a value of SR 179 million as at 31 December 2021 (2020: SR 187 million).
- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to 21 April 1998), referred to in Note 1, ownership of the assets was transferred to the Company on 2 May 1998, but the transfer of legal title for some land are still ongoing. The value of land with legal titles transferred to the Company up to 31 December 2021 amounted to SR 1,921 million (2020: SR 1,895 million). Ownership transfer of the remaining land with total value of SR 123 million (2020: SR 128 million) is ongoing, which constitutes part of the amount referred to in paragraph (1) above.
- Other assets include furniture, fixtures, motor vehicles, computers and tools.
- During the year, the Group disposed of assets with a net book value of SR 55 million (2020: SR 167 million) resulting in a loss amounting to SR 34 million (2020: SR 150 million) (Note 40).
- Additions include Non-cash additions amounted to SR 427 million (2020: SR 90 million).
- The following table shows the breakdown of depreciation and impairment expense if allocated to operating cost items for the year ended 31 December:

	2021	*2020*
Cost of revenues	**5,505,382**	5,127,663
Selling and marketing expenses	**9,244**	6,500
General and administrative expenses	**1,179,094**	1,155,186
	6,693,720	6,289,349

10. INVESTMENT PROPERTIES

	31 December 2021	*31 December 2020*
Land (*)	**36,980**	36,980
Work in-progress	**33,543**	-
	70,523	36,980

(*) During the year 2020, the Group transferred 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.

The fair value of the land amounted to SR 254 million (2020: SR 148 million), which was valued as at 31 December 2021 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).

(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 2021	13,146,495	8,863,972	142,723	2,908,390	25,061,580
Additions during the year	204,714	41,263	-	2,132,036	2,378,013
Disposals/Transfers during the year	1,434,214	(3,593)	-	(1,686,381)	(255,760)
Effect of foreign currency exchange differences	674	2,852	499	1,936	5,961
As at 31 December 2021	14,786,097	8,904,494	143,222	3,355,981	27,189,794
Accumulated amortisation and impairment					
As at 1 January 2021	10,207,738	3,117,533	-	1,269,901	14,595,172
Amortisation during the year	1,290,038	484,569	-	313,852	2,088,459
Impairment during the year	-	-	25,402	-	25,402
Disposals/Transfers during the year	(5,554)	(230)	-	(249,880)	(255,664)
Effect of foreign currency exchange differences	684	550	(7)	400	1,627
As at 31 December 2021	11,492,906	3,602,422	25,395	1,334,273	16,454,996
Net book value as at 31 December 2021	3,293,191	5,302,072	117,827	2,021,708	10,734,798

(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 2020	11,648,737	7,975,574	143,038	2,773,783	22,541,132
Additions during the year	155,836	18,677	-	2,520,476	2,694,989
Disposals/Transfers during the year	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 during the year	1,390,056	448,658	-	296,282	2,134,996
Disposals/Transfers during the year	(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)

1) Consists of goodwill related to the Company's acquisition of Solutions amounting to SR 75.6 million (2020: SR 75.6 million) and stc Kuwait's acquisition of Qualitynet amounting to SR 42.2 million (2020: SR 67.1 million). During the year 2021, stc Kuwait recognized a goodwill impairment of SR 25.4 million (2020: nil).
2) 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 199 million (2020: SR 1,005 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 main mobile operating licenses and frequency spectrum as at:

Country	***End of amortisation period***	***31 December 2021***	*31 December 2020*
Kingdom of Saudi Arabia	2029 / 2030 / 2032 / 2033 / 2034	**2,891,739**	3,149,093
State of Kuwait	2033 / 2039	**1,749,402**	1,890,077
Kingdom of Bahrain	2030/2031/2038	**660,931**	707,269
		5,302,072	5,746,439

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

	2021	*2020*
Cost of revenues	**597,337**	634,581
Selling and marketing expenses	**3,732**	2,429
General and administrative expenses	**1,512,792**	1,497,986
	2,113,861	2,134,996

12. RIGHT OF USE ASSETS

	Lands and Buildings	***Motor Vehicles***	***Leased Towers***	***Total***
At 1 January 2021	**2,644,603**	**151,047**	**97,164**	**2,892,814**
Additions during the year (*)	**1,365,689**	**-**	**-**	**1,365,689**
Depreciation during the year	**(819,943)**	**(54,998)**	**(30,323)**	**(905,264)**
Terminations and modifications during the year	**(401,587)**	**-**	**-**	**(401,587)**
At 31 December 2021	**2,788,762**	**96,049**	**66,841**	**2,951,652**
At 1 January 2020	2,551,155	202,947	133,831	2,887,933
Additions during the year (*)	1,139,274	7,463	-	1,146,737
Depreciation during the year	(842,254)	(55,609)	(36,667)	(934,530)
Terminations and modifications during the year	(203,572)	(3,754)	-	(207,326)
At 31 December 2020	2,644,603	151,047	97,164	2,892,814

(*) Non-cash additions amounted to SR 1,366 million (2020:SR 1,147 million).

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
Leased towers	2-10 years

(All Amounts in Saudi Riyals thousands unless otherwise stated)

12. RIGHT OF USE ASSETS (CONTINUED)

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 and amounted to SR 154 million (2020: SR 148 million).

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

	2021	*2020*
Cost of revenues	**706,262**	733,622
Selling and marketing expenses	**14,630**	10,798
General and administrative expenses	**184,372**	190,110
	905,264	934,530

13. CONTRACT COSTS

Contract costs consist of the following:

	31 December 2021	*31 December 2020*
Costs to obtain the contracts [(1)]	**114,566**	145,878
Costs to fulfil the contracts [(2)]	**406,808**	491,592
	521,374	637,470

(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 amortized on a straight line basis over the period of the contract/anticipated contract.

(2) Costs to fulfil contracts are installation costs and are amortized on a straight line basis over the period of the 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:

	2021	*2020*
Cost of revenues (Note 35)	**234,002**	268,352
Selling and marketing expenses (Note 36)	**140,319**	237,614
	374,321	505,966

14. CONTRACT ASSETS

	31 December 2021	*31 December 2020*
Unbilled revenue	**6,483,901**	6,701,324
Less: allowance for impairment loss	**(215,227)**	(184,227)
	6,268,674	6,517,097
Current [(1)]	**5,732,865**	6,059,440
Non-current [(2)]	**535,809**	457,657
	6,268,674	6,517,097

(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. The majority of balances are billed within one calendar month except for balances subject to settlement agreements with telecom operators which could be extended to one year or more.

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

(3) The average expected credit loss rate on contract assets for the year ended 31 December 2021 is 3.3% (2020: 2.7%).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

14. CONTRACT ASSETS (CONTINUED)

Movement of allowance for impairment loss of contract assets during the year ended 31 December as follows:

	2021	*2020*
Balance at 1 January	**184,227**	154,905
Charge during the year (Note 36)	**118,437**	117,686
Written off during the year	**(87,437)**	(88,364)
Balance at 31 December	**215,227**	184,227

15. FINANCIAL ASSETS AND OTHERS

15-1 Financial assets

	31 December 2021	*31 December 2020*
Financial assets measured at FVTPL (1)	**2,135,246**	1,119,413
Financial assets at amortized cost		
Sukuk (2) (3)	**5,315,129**	5,371,446
Customers' trust accounts of stc Bank (4)	**1,151,208**	359,691
Loans to employees (5)	**353,076**	411,665
Others	**567,710**	167,498
	7,387,123	6,310,300
	9,522,369	7,429,713
Current	**1,298,301**	540,088
Non-current	**8,224,068**	6,889,625
	9,522,369	7,429,713

1) Financial assets at fair value through profit or loss consist of the following:
   - stc Ventures Fund which is a fund investing in emerging, small and medium-sized companies operating in the field of Communications and Information Technology in the Kingdom and other global markets. Investment units were valued at SR 77 million as at 31 December 2021 (2020: SR 186 million).
   - STV LP Fund which is a fund investing 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. Up until 31 December 2021, the Company has contributed SR 1,500 million (equivalent to USD 400 million) in relation to the first four instalments. Investment units were valued at SR 2,058 million as at 31 December 2021 (2020: SR 934 million).

2) The Group invested in Sukuk 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) During the year 2007, stc Asia Holding Company Limited (a subsidiary) invested in Sukuk issued by Binariang GSM Sdn Bhd ("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 1,360 million as of 31 December 2021 (2020: SR 1,408 million).
4) Customers' trust accounts of stc Bank represent restricted cash received and recorded against customers' deposits (Note 31-1).
5) The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 15 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 the finance cost of the loans.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

15. FINANCIAL ASSETS AND OTHERS (CONTINUED)

15-2 Other assets

	31 December 2021	*31 December 2020*
Advances	**1,446,265**	2,366,620
Prepaid expenses	**237,979**	498,020
Deferred expenses	**147,935**	128,578
Others	**140,637**	274,325
	1,972,816	3,267,543
Current	**1,829,593**	3,087,883
Non-current	**143,223**	179,660
	1,972,816	3,267,543

16. INVENTORIES

	31 December 2021	*31 December 2020*
Goods held for resale*	**1,201,005**	1,370,361
Less: allowance for slow moving inventories	**(283,495)**	(361,716)
	917,510	1,008,645

*The Group's inventories mainly consist of telecom devices.

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

	2021	*2020*
Balance at 1 January	**361,716**	391,875
Charge during the year	**39,755**	3,433
Reversal/adjustment during the year	**(117,976)**	(33,592)
Balance at 31 December	**283,495**	361,716

(All Amounts in Saudi Riyals thousands unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES

	31 December 2021	*31 December 2020*
Trade receivables	**27,194,290**	17,300,597
Less: allowance for impairment loss	**(2,758,363)**	(2,859,566)
	24,435,927	14,441,031
Non trade receivables	**1,028,228**	1,283,694
	25,464,155	15,724,725

Ageing analysis of trade receivables as follows (*):

	31 December 2021			*31 December 2020*		
	Gross Amounts	***Allowance for impairment loss***	***ECL Rate***	*Gross Amounts*	*Allowance for impairment loss*	*ECL Rate*
Not past due	**2,861,958**	**(245,041)**	**8.6%**	1,857,114	(93,817)	5.1%
Past due:						
1 – 30 days	**1,651,819**	**(158,928)**	**9.6%**	1,381,908	(86,989)	6.3%
31 – 90 days	**2,536,254**	**(230,422)**	**9.1%**	1,915,619	(176,347)	9.2%
91 – 150 days	**1,385,023**	**(182,246)**	**13.2%**	1,347,984	(260,365)	19.3%
151 – 365 days	**8,421,967**	**(874,223)**	**10.4%**	5,961,701	(451,239)	7.6%
>365 days	**10,337,269**	**(1,067,503)**	**10.3%**	4,836,271	(1,790,809)	37.0%
	27,194,290	**(2,758,363)**	**10.1%**	17,300,597	(2,859,566)	16.5%

(*) The amounts above include balances with government and government related entities.

Movement of trade receivables' allowance for impairment loss during the year was as follows:

	2021	*2020*
Balance at 1 January	**2,859,566**	2,818,056
Charge during the year (Note 36)	**844,027**	1,072,959
Written off and recovered during the year	**(945,230)**	(1,031,449)
Balance at 31 December	**2,758,363**	2,859,566

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.

Trade receivables balance from Government entities amounted to SR 21,616 million as at 31 December 2021 (2020: SR 13,889 million) (Note 20.2). No other clients represent more than 10% of the total balance of trade receivables.

Receivable aging from government entities is as follows:

	31 December 2021	*31 December 2020*
Less than a year	**12,675,429**	10,275,707
More than one year but less than two years	**7,626,172**	3,153,841
More than two years	**1,314,687**	459,707
	21,616,288	13,889,255

(All Amounts in Saudi Riyals thousands unless otherwise stated)

18. SHORT TERM MURABAHAS

The Group invests part of its excess cash in murabahas that have maturity of more than three months but less than a year with several banks, with an annual profit rate ranging from 0.25% to 3.35% (2020: 0.53% to 2.63 %).

19. CASH AND CASH EQUIVALENTS

	31* December *2021	*31* December *2020*
Short term murabaha (with three months maturity or less)*	**4,499,705**	7,350,738
Cash at banks and in hand	**3,781,596**	1,653,548
	8,281,301	9,004,286

*The Group invests a part of its surplus cash in murabahas with maturities of three months or less with several banks with a profit rate ranging between 0.20% -1.20% (2020: 0.05% -2.52%).

20. RELATED PARTY TRANSACTIONS

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

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

	2021	*2020*
Services provided	**329,614**	322,058
Services received	**391,028**	347,615

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 2021	*31 December 2020*	***31 December 2021***	*31 December 2020*
Associates	**292,223**	354,554	**72,006**	63,820
Joint ventures	**27,717**	47,249	**158,634**	157,830
	319,940	401,803	**230,640**	221,650

20.2 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 2021 amounted to SR 12,194 million (2020: SR 9,646 million) and expenses related to transactions with government and government entities for the year ended 31 December 2021 (including government charges) amounted to SR 6,405 million (2020: SR 3,753 million).

As at 31 December 2021, accounts receivable from government entities totalled SR 21,616 million (2020: SR 13,889 million) (Note 17.2) and as at 31 December 2021, accounts payable to government entities amounted to SR 1,062 million (2020: SR 1,058 million). Among the balances with government entities, the Group invested SR 3,902 million in the Sukuk issued by the Ministry of Finance during the first quarter of 2019. (Note 15.1).

The total balance of receivables with government related entities as of 31 December 2021 was SR 931 million (2020: SR 657 million). The total balance of accounts payable with government related entities as of 31 December 2021 was SR 120 million (2020: SR 305 million).

20. RELATED PARTY TRANSACTIONS (CONTINUED)

20.3 Loans to related parties

	31 December 2021	*31 December 2020*
Loans to senior executives	**4,762**	4,598

20.4 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:

	2021	*2020*
Short-term benefits and remuneration	**367,534**	311,146
Provision for leave and end of service benefits	**120,020**	88,794
Share-based payments	**33,811**	6,116
Others	**25,209**	1,535

21. SHARE CAPITAL

	31 December *2021*	31 December *2020*
Authorized, issued and fully paid capital comprises		
2 billion fully paid ordinary shares at SR 10 each	**20,000,000**	20,000,000

The following is the number of outstanding shares (in thousands) during the year:

	2021	*2020*
Outstanding shares as at 1 January	**1,997,017**	2,000,000
Treasury shares purchased during the year	**-**	(2,983)
Outstanding shares re-issued	**132**	-
The number of outstanding shares as at 31 December	**1,997,149**	1,997,017

22. 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 includes the cessation 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.

23. TREASURY SHARES

During the year 2020, 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 (Note 45).

The following is the number of treasury shares (in thousands) during the year:

	2021	*2020*
Treasury shares as at 1 January	**2,983**	-
Treasury shares purchased during the year	**-**	2,983
Treasury shares re-issued	**(132)**	-
Treasury shares as at 31 December	**2,851**	2,983

(All Amounts in Saudi Riyals thousands unless otherwise stated)

24. OTHER RESERVES

	Foreign currency translation reserve	**Cash flow hedge reserve**	**Investments at FVOCI reserve**	**Other reserves**	**Total**
As at 1 January 2021	**6,591**	**(141,390)**	**(46,084)**	**(3,081,362)**	**(3,262,245)**
Transactions with non-controlling interest (Note 6)	**-**	**-**	**-**	**3,631,042**	**3,631,042**
Remeasurement of the end of service benefit provision (Note 27)	**-**	**-**	**-**	**308,678**	**308,678**
Exchange difference on translation of foreign operations	**12,690**	**-**	**-**	**-**	**12,690**
Share from associates and joint ventures	**(35,512)**	**141,390**	**46,084**	**(67,183)**	**84,779**
Share-based payment transactions	**-**	**-**	**-**	**28,187**	**28,187**
Share of changes in other reserves of a joint venture's equity	**-**	**-**	**-**	**769,326**	**769,326**
As at 31 December 2021	**(16,231)**	**-**	**-**	**1,588,688**	**1,572,457**

	Foreign currency translation reserve	Cash flow hedge reserve	Investments at FVOCI reserve	Other reserves	Total
As at 1 January 2020	12,924	(143,210)	(46,084)	(2,569,238)	(2,745,608)
Remeasurement of the end of service benefit provision (Note 27)	-	-	-	(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)	(46,084)	(3,081,362)	(3,262,245)

(All Amounts in Saudi Riyals thousands unless otherwise stated)

25. 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 has material non-controlling interests as at:

Name of Subsidiary	*Proportion of ownership and voting rights acquired by non-controlling interests*		*Non-controlling share of profit (loss) for the year ended 31 December*		*Non-controlling interests as of 31 December*	
	2021	*2020*	***2021***	*2020*	***2021***	*2020*
stc Kuwait	**48.2%**	48.2%	**268,375**	190,067	**1,417,989**	1,319,615
Solutions	**20.0%**	-	**22,885**	-	**453,941**	-
stc Bank	**15.0%**	-	**(7,905)**		**243,544**	-
Individually immaterial subsidiary			**-**	255	**-**	1,618
			283,355	190,322	**2,115,474**	1,321,233

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

	As at 31 December 2021		
	stc Kuwait	**Solutions**	**stc Bank**
Statement of financial position			
Current assets	**2,833,163**	**6,440,942**	**3,047,521**
Non-current assets	**2,055,692**	**726,453**	**162,916**
Current liabilities	**(1,715,100)**	**(4,628,906)**	**(1,537,725)**
Non-current liabilities	**(229,110)**	**(267,921)**	**(48,677)**
Net assets	**2,944,645**	**2,270,568**	**1,624,035**
Group's share of net assets	**1,526,656**	**1,816,627**	**1,380,491**
Non-controlling interests' share of net assets	**1,417,989**	**453,941**	**243,544**

	For the year ended 31 December 2021		
	stc Kuwait	**Solutions**	**stc Bank**
Statement of income and other comprehensive income			
Revenues	**3,679,667**	**7,815,797**	**833,965**
Profit (Loss) for the year	**557,239**	**832,919**	**(440,426)**
Other comprehensive income for the year	**1,068**	**85,645**	**2,542**
Total comprehensive income (loss) for the year	**558,307**	**918,564**	**(437,884)**
Group's share of comprehensive income (loss)	**289,203**	**734,851**	**(372,201)**
Non-controlling interests' share of comprehensive income (loss)	**269,104**	**183,713**	**(65,683)**

(All Amounts in Saudi Riyals thousands unless otherwise stated)

25. NON-CONTROLLING INTERESTS (CONTINUED)

	For the year ended 31 December 2021		
	stc Kuwait	**Solutions**	**stc Bank**
Statement of cash flows			
Operating activities	**851,325**	**1,373,444**	**(355,524)**
Investing activities	**(555,302)**	**(154,758)**	**(77,907)**
Financing activities	**(513,142)**	**(609,956)**	**1,544,137**
Net (decrease) increase in cash and cash equivalents	**(217,119)**	**608,730**	**1,110,706**

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

	As at 31 December 2020
Statement of financial position	
Current assets	2,131,676
Non-current assets	2,688,227
Current liabilities	(1,797,803)
Non-current liabilities	(284,310)
Net assets	2,737,790
Group's share of net assets	1,418,175
Non-controlling interests' share of net assets	1,319,615

	For the year ended 31 December 2020
Statement of income and other comprehensive income	
Revenues	3,481,056
Profit for the year	394,641
Other comprehensive loss for the year	(3,986)
Total comprehensive income for the year	390,655
Group's share of comprehensive income	202,359
Non-controlling interests' share of comprehensive income (loss)	188,296

	For the year ended 31 December 2020
Statement of cash flows	
Operating activities	801,906
Investing activities	(94,577)
Financing activities	(500,318)
Net increase in cash and cash equivalents	207,011

(All Amounts in Saudi Riyals thousands unless otherwise stated)

26. BORROWINGS

Total loans repaid during the year ended 31 December 2021 amounted to SR 731 million (2020: SR 402 million). Total loans received during the year ended 31 December 2021 amounted to SR 1,124 million (2020: SR 21 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 2021	*Balance as at 31 December 2020*	***Balance as at 31 December 2021***	*Balance as at 31 December 2020*
Sukuk (1)	May 2019	May 2029	US Dollar	3.89%	**-**	-	**4,673,254**	4,671,615
Sukuk (2)	June 2014	June 2024	Saudi Riyal	3 month SAIBOR + 0.70%	**-**	-	**2,000,000**	2,000,000
Murabaha (3)	December 2017	December 2022	Malaysian Ringgit	6 months KLIBOR + 0.65%	**1,359,561**	-	**-**	1,407,530
Murabaha (4)	September 2021	August 2026	US Dollar	6 months LIBOR + 0.15%	**-**	-	**696,948**	-
Murabaha (8)	March 2021	November 2029	US Dollar	1.27%	**60,635**	-	**331,658**	-
Murabaha(5)	February 2019	December 2026	Saudi Riyal	SAIBOR + 0.55%	**-**	-	**102,000**	202,000
Murabaha (8)	May 2019	April 2023	Kuwaiti Dinar	2.25%	**33,424**	37,918	**28,649**	85,312
Murabaha (7)	December 2018	May 2026	Bahraini Dinar	2.10%	**3,064**	3,291	**14,097**	16,167
Murabaha (6)	July 2017	May 2022	Bahraini Dinar	3 month BIBOR + 1.60%	**-**	250,447	**-**	254,981
Murabaha	May 2009	December 2021	Bahraini Dinar	1 month BIBOR + 0.25%	**-**	26,829	**-**	-
Total					**1,456,684**	318,485	**7,846,606**	8,637,605

(All Amounts in Saudi Riyals thousands unless otherwise stated)

26. BORROWINGS (CONTINUED)

(1) 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 either directly or by establishing special purpose vehicles that are 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 the 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 SR 4,688 million (equivalent to USD 1,250 million) for 10 years. This program is an international sukuk in US dollar, with a total number of 6,250 sukuk and a nominal value of USD 200 thousand per sukuk having an annual return of 3.89% and a maturity of ten years.

(2) 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.

(3) 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.

(4) stc Bahrain has entered into a financing arrangement for an unsecured murabaha facility of USD 186 million (approximately SR 698 million) with its bankers during the year. The facility is repayable in one instalment due in August 2026. The Group has provided a corporate guarantee to lenders in respect of this facility.

(5) During the year, stc Specialized has restructured their murabaha facility to extend the maturity of their loan from February 2022 to December 2026 and to modify the interest from SAIBOR + 0.65% to SAIBOR + 0.55%. These facilities are secured by a letter of guarantee provided by the Group.

(6) stc Bahrain has made early settlement of its murabaha facilities during the year 2021.

(7) During the year 2021, stc Bahrain has extended the final settlement date from November 2025 to May 2026.

(8) Unsecured facilities.

27. 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 number of 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 2021. 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 2021, used in determining the end of service benefit obligation, represent the discount rate of (2.1 %-3.7 %) and the expected increase in salary (2.2 %-4.5 %) (2020: discount rate of (2.1 %-3.5 %) and the expected increase in salary (2.0 %-5.0 %)). The change in these assumptions during the year resulted into a recognition of actuarial gains amounting to SR 313 million (2020: actuarial loss amounting to SR 569 million).

(All Amounts in Saudi Riyals thousands unless otherwise stated)

27. 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:

	2021	*2020*
Services cost	**489,718**	452,615
Interest cost	**106,770**	100,457
	596,488	553,072

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

	2021	*2020*
Balance at 1 January	**5,239,313**	4,812,805
Expenses recognized in the consolidated statement of profit or loss	**596,488**	553,072
Actuarial (gains) losses recognized in the consolidated statement of comprehensive income during the year resulting from:		
- Changes in financial assumptions	**(357,971)**	664,331
- Experience adjustments	**45,448**	(95,438)
Paid during the year	**(355,621)**	(677,741)
Exchange differences and others	**299,259**	(17,716)
Balance at 31 December	**5,466,916**	5,239,313

The following table shows the maturity profile of the Group's defined benefit obligations as at 31 December:

	2021	2020
One year or less	**75,095**	31,736
Above one year but less than five years	**380,014**	219,864
Above five years	**6,767,690**	6,308,530
	7,222,799	6,560,130

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

		2021	**Defined benefit obligation**	
	Change in Assumption	**Base Value**	**After increase in assumption**	**After decrease in assumption**
Discount rate	100 basis points	**5,466,916**	**4,954,001**	**6,009,299**
Salary change rate	100 basis points	**5,466,916**	**5,998,503**	**4,951,714**

		2020	Defined benefit obligation	
	Change in Assumption	Base Value	After increase in assumption	After decrease in assumption
Discount rate	100 basis points	5,239,313	4,394,438	5,460,085
Salary change rate	100 basis points	5,239,313	5,447,826	4,394,704

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.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

27. RETIREMENT BENEFITES PLANS (CONTINUED)

Defined contribution plans

The Group participates in pension schemes for its employees which are managed by government institutions in the countries concerned. The amount recognized as an expense for defined contribution plans for the year ended 31 December 2021 is SR 471 million (2020: SR 457 million).

28. LEASE LIABILITIES

Following is the movement on lease liabilities:

	2021	*2020*
Balance as at 1 January	**2,980,038**	2,881,177
Additions during the year	**1,318,068**	1,329,097
Payments during the year	**(976,719)**	(831,642)
Financing costs (Note 39)	**92,736**	99,162
Other adjustments	**(190,956)**	(497,756)
Balance as at 31 December	**3,223,167**	2,980,038
Current	**869,574**	742,185
Non-current	**2,353,593**	2,237,853
	3,223,167	2,980,038

29. PROVISIONS

	31 December 2021	*31 December 2020*
Legal and regulatory provisions (1)	**4,095,264**	4,672,859
Decommissioning provision (2)	**103,204**	211,689
	4,198,468	4,884,548
Current	**3,647,727**	4,158,923
Non-current	**550,741**	725,625
	4,198,468	4,884,548

	2021	*2020*
Legal and regulatory provision (1)		
Balance as at 1 January	**4,672,859**	6,064,510
Charge during the year	**268,617**	121,340
Payment / settlements during the year	**(846,212)**	(1,512,991)
Balance as at 31 December	**4,095,264**	4,672,859
Decommissioning provision (2)		
Balance as at 1 January	**211,689**	238,104
Charge during the year	**6,817**	64,737
Adjustment	**(115,302)**	(91,152)
Balance as at 31 December	**103,204**	211,689

1) The Company is considered a party to a 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.

2) In the course of the Company's normal activities, a number of sites and other assets are utilized which are expected to have costs associated with restoration of 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)

30. CONTRACT LIABILITIES

	31 December 2021	*31 December 2020*
Deferred revenue from services	**3,797,416**	2,101,996
Customer loyalty programme	**566,449**	571,156
	4,363,865	2,673,152
Current (1)	**3,591,950**	1,901,237
Non-current (2)	**771,915**	771,915
	4,363,865	2,673,152

(1) The current portion of contract liabilities relates to unearned revenue pertaining to unutilized prepaid card 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 1,901 million (2020: SR 2,917 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 (Note 44-3).

31. FINANCIAL LIABILITIES AND OTHERS

31-1 Financial liabilities

	31 December 2021	*31 December 2020*
Dividends payable	**2,193,995**	2,151,116
Financial liabilities related to frequency spectrum licenses	**2,017,113**	2,276,505
Customers' deposits – stc Bank (Note 15-1)	**1,197,294**	585,584
Government charges	**1,170,805**	1,085,873
Other financial liabilities	**85,503**	61,957
	6,664,710	6,161,035
Current	**4,619,656**	3,880,144
Non-current	**2,045,054**	2,280,891
	6,664,710	6,161,035

31-2 Other liabilities

	31 December 2021	*31 December 2020*
Deferred income (*)	**3,793,616**	3,814,889
Others	**431,268**	381,022
	4,224,884	4,195,911
Current	**426,823**	275,211
Non-current	**3,798,061**	3,920,700
	4,224,884	4,195,911

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

	31 December 2021	*31 December 2020*
Government grants (**)	**3,733,250**	3,772,251
Others	**60,366**	42,638
	3,793,616	3,814,889

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

(All Amounts in Saudi Riyals thousands unless otherwise stated)

32. TRADE AND OTHER PAYABLES

	31 December 2021	*31 December 2020*
Accrued expenses	**8,092,963**	9,809,510
Trade payables	**4,028,562**	4,429,432
Notes payable	**1,913,691**	2,626,750
Employee accruals	**1,484,657**	1,468,512
Others	**1,594,425**	1,377,003
	17,114,298	19,711,207

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

33. ZAKAT AND INCOME TAX

	As at 31 December 2021	*As at 31 December 2020*
Zakat (a)	**1,805,742**	1,878,148
Income taxes (b)	**28,098**	25,643
	1,833,840	1,903,791

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:

	2021	*2020*
Share capital – beginning of the year	**20,000,000**	20,000,000
Additions:		
Retained earnings, reserves , provisions and others – beginning of the year	**83,470,161**	78,939,795
Adjusted net profit	**11,098,358**	10,356,060
Adjusted total shareholders' equity	**114,568,519**	109,295,855
Deductions:		
Net property (adjusted) and investments	**64,532,306**	62,600,896
Dividends paid	**9,954,612**	7,973,418
Deferred expenses and other balances	**3,933,133**	2,932,137
Total adjusted deductions	**78,420,051**	73,506,451
Zakat base	**36,148,468**	35,789,404
Zakat on wholly owned companies for the year	**923,172**	922,538
Zakat adjustments during the year	**20,275**	228,372
Add: zakat on partially owned companies for the year	**77,684**	3,210
Total zakat provision charged during the year	**1,021,131**	1,154,120

(All Amounts in Saudi Riyals thousands unless otherwise stated)

33. ZAKAT AND INCOME TAX (CONTINUED)

a. Zakat (continued)

	2021	2020
Balance at 1 January	**1,878,148**	1,452,645
Charge during the year	**1,021,131**	1,154,120
Settlements during the year	**(3,914)**	(6,457)
Amounts paid during the year	**(1,089,623)**	(722,160)
Balance at 31 December	**1,805,742**	1,878,148

The Group submitted all zakat returns until the end of 2020, 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 final zakat assessments up to 2011 and the years ended as at 31 December 2014 and 2018.

The decision of the First Appeal Committee for Income Tax Violations and Disputes has found in support of the Group's position not to consider the adjusted net profit as a basis for zakat for the years 2008 and 2009 and the dues were settled according to the appeal decision during 2021.

The Group submitted objections to the zakat assessments for the years from 2015 to 2017 amounting to SR 134 million, and these objections are still being considered by the General Secretariat of Tax Committees at the date of preparing these consolidated financial statements. The Group believes that its zakat position will be in its favor and that it will not result in any material additional provisions.

b. Income tax

The income tax expense payable by subsidiaries, in accordance with the prevailing tax regulations in their countries, for the year ended 31 December 2021 amounted to SR 19 million (2020: SR 16 million). Income tax paid during the year ended 31 December 2021 amounted to SR 16 million (2020: SR 28.5 million).

34. REVENUES

	For the year ended 31 December	
	2021	2020
Rendering of services	**53,534,254**	49,898,621
Sale of devices	**9,764,612**	8,820,161
Others	**118,111**	234,536
	63,416,977	58,953,318
Timing of revenue recognition		
Recognized over time	**53,652,365**	50,133,157
At a point in time	**9,764,612**	8,820,161
	63,416,977	58,953,318

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

Disaggregation of revenues from government and government related entities are disclosed in related party transactions (Note 20-2).

The aggregate amount of unsatisfied or partially unsatisfied performance obligations related to contracts with customers amounted to SR 4,364 million as at 31 December 2021 (2020: SR 2,673 million). The Group expects to recognize approximately 82% (2020: 71%) of these obligations as revenues during the following reporting period.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

35. COST OF REVENUES

	For the year ended 31 December	
	2021	*2020*
Cost of devices, equipment and software	**10,049,397**	8,712,228
Government charges *(*)*	**5,847,718**	3,806,823
Network access charges	**4,967,631**	4,740,007
Employees costs	**3,570,015**	3,338,050
Repairs and maintenance	**2,342,891**	2,568,972
Amortisation and impairment of contract costs (Note 13)	**234,002**	268,352
Others	**2,611,294**	1,564,491
	29,622,948	24,998,923

"Others" comprises mainly: direct cost related to stc Bank operation, rent of property and equipment.

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

	For the year ended 31 December	
	2021	*2020*
Commercial service provisioning fees	**4,522,983**	2,740,751
License fees	**417,331**	397,859
Frequency spectrum fees	**351,025**	407,022
Others	**556,379**	261,191
	5,847,718	3,806,823

36. SELLING AND MARKETING EXPENSES

	For the year ended 31 December	
	2021	*2020*
Employee costs	**2,656,374**	2,407,936
Advertising, publicity and sales commissions	**1,039,972**	1,328,390
Impairment loss on trade receivables (Note 17.1)	**844,027**	1,072,959
Call centre expenses	**275,046**	194,110
Amortisation and impairment of contract costs (Note 13)	**140,319**	237,614
Impairment loss on contract assets	**118,437**	117,686
Others	**389,161**	694,937
	5,463,336	6,053,632

"Others" comprises mainly: sports sponsorship cost, repairs and maintenance, security and safety.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

37. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	2021	*2020*
Employees costs	**3,672,348**	3,472,104
Repairs and maintenance	**592,607**	925,692
Consultancy and other contracted services	**409,356**	417,053
Security and safety	**126,315**	101,140
Sadad service fees	**122,528**	126,839
Utilities and cleaning	**103,214**	181,711
Rent	**51,173**	66,326
Others	**412,552**	519,898
	5,490,093	5,810,763

"Others" comprises mainly: insurance premiums, office supplies, freight, postage and courier expenses.

38. FINANCE INCOME

	For the year ended 31 December	
	2021	*2020*
Income from sukuk	**283,071**	295,767
Income from murabaha	**94,840**	118,106
	377,911	413,873

39. FINANCE COST

	For the year ended 31 December	
	2021	*2020*
Financing costs relating to sukuk	**224,127**	232,838
Financing costs relating to murabaha	**53,179**	83,596
Financing cost relating to lease liabilities (Note 28)	**92,736**	99,162
Unwinding of discounts on provisions and financial liabilities	**248,914**	208,329
	618,956	623,925

40. NET OTHER GAINS

	For the year ended 31 December	
	2021	*2020*
Net gains (loss) arising on financial assets measured at FVTPL	**813,208**	(83,389)
Gain on sale of equity investments	**38,767**	647,804
Loss on sale/disposal of property and equipment	**(34,032)**	(150,388)
Net foreign exchange (losses) gains and others	**(28,300)**	10,585
	789,643	424,612

41. EARNINGS PER SHARE

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

	2021	*2020*
Net profit attributable to equity holders of the Parent Company	**11,311,342**	10,994,875
Number of shares "in thousands":		
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**1,997,084**	1,999,207
Weighted average number of repurchased ordinary shares	**2,916**	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	**5.66**	5.50
- Diluted	**5.66**	5.50

42. FINANCIAL INSTRUMENTS

42.1 Capital management

The Group manages its capital which includes share capital, statutory reserves, other reserves and retained earnings attributable to the equity holders of the Parent Company 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 maximizes 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 2021.

The Group reviews the capital structure on an 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 ratios as at the year ended 31 December were as follows:

	2021	*2020*
Debt (a)	**9,303,290**	8,956,090
EBITDA (b)	**22,840,600**	22,090,000
Debt to EBITDA	**41%**	41%
Debt	**9,303,290**	8,956,090
Debt + Equity (c)	**80,689,269**	74,223,105
Debt to (Debt + Equity)	**12%**	12%

a. Debt is defined as current and non-current borrowings (Note 26).
b. EBITDA is defined as operating profit for the year adjusted for depreciation, amortization and impairment.
c. Equity is defined as total equity including share capital, reserves, retained earnings and non-controlling interest.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.2 *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 categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety (Note 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.

Financial assets and liabilities measured at fair value:

31 December 2021	***Carrying amount***		***Fair value***	
		Level 1	***Level 2***	***Level 3***
Financial assets				
At fair value through profit or loss:				
stc Ventures Fund and STV LP Fund (Note 15-1)	**2,135,246**	**-**	**-**	**2,135,246**
Financial liabilities				
At fair value through profit or loss:				
Other financial liabilities (Note 31-1)	**675**	**-**	**675**	**-**

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

There were no transfers between levels of the fair value hierarchy during year ended 31 December 2021.

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 categorized within Level "3" of the fair value hierarchy:

	2021	2020
Net asset value as at 1 January	**1,119,413**	1,550,869
Contributions paid to the funds during the year	**375,020**	375,700
Distributions received from the funds during the year	**(172,395)**	(723,767)
Net unrealized gain (losses) recognized in the consolidated statement of profit or loss (Note 40)	**813,208**	(83,389)
Net asset value as at 31 December	**2,135,246**	1,119,413

(All Amounts in Saudi Riyals thousands unless otherwise stated)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.2 Fair value 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 consolidated financial statements approximate their fair value except for the following:

31 December 2021	***Carrying amount***	***Fair value***		
		Level 1	***Level 2***	***Level 3***
Financial assets				
Financial assets at amortized cost - Sukuk	**3,955,568**	**-**	**4,268,749**	**-**
Financial liabilities				
Borrowings - Sukuk	**4,673,254**	**-**	**5,381,490**	**-**

31 December 2020	*Carrying amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
Financial assets				
Financial assets at amortized cost - Sukuk	3,963,916	-	4,129,629	-
Financial liabilities				
Borrowings - Sukuk	4,671,615	-	5,177,147	-

There are no transfers between levels of the fair value hierarchy during year ended 31 December 2021.

42.3 Profit rate risk

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. Some of the Group`s companies, through the use of profit swap contracts, manage 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 assets 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 the profit of the Group would have been lower (higher) by SR 8 million (2020: SR 13 million). This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

42.4 Foreign currency risk management

Saudi Riyal 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)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.5 Credit risk management

The Group has approved guidelines and policies that allows it to only deal with creditworthy counterparties and limits counterparty exposure. The guidelines and policies allow the Group to invest only with those counterparties that have high investment grade credit ratings issued by international credit rating agencies and limits the exposure to a single counterparty 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.

Ongoing evaluation is performed on the financial condition of trade receivables and management believes there is no further credit risk provision required in excess of the normal provision for impairment loss (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 that the Group will incur any loss with respect to its financial guarantees as the date of the preparation of these consolidated financial statements (Note 44).

42.6 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 details the Group's remaining contractual maturity for financial liabilities with agreed repayment periods. The table has 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	***One year or less***	***Above one year but less than five years***	***Above five years***
31 December 2021				
Trade and other payables (Note 32)	**17,114,298**	**17,114,298**	**-**	**-**
Borrowings (Note 26)	**9,303,290**	**1,688,367**	**3,876,231**	**5,288,416**
Lease liabilities (Note 28)	**3,223,167**	**984,130**	**1,847,417**	**769,576**
Dividends payable (Note 31-1)	**2,193,995**	**2,193,995**	**-**	**-**
Other financial liabilities (Note 31-1)	**4,470,715**	**2,692,254**	**1,207,232**	**1,269,814**
31 December 2020				
Trade and other payables (Note 32)	19,711,207	19,711,207	-	-
Borrowings (Note 26)	8,956,090	318,485	3,985,545	5,508,341
Lease liabilities (Note 28)	2,980,038	742,185	2,313,448	940,218
Dividends payable (Note 31-1)	2,151,116	2,151,116	-	-
Other financial liabilities (Note 31-1)	4,009,919	1,729,028	1,839,001	1,269,814

The Group has unused financing facilities amounting to SR 5,629 million as at 31 December 2021 (2020: SR 6,263 million). The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

42. FINANCIAL INSTRUMENTS (CONTINUED)

42.6 Liquidity risk management (continued)

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.

The following table presents the recognized 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 2021			
Financial assets			
Trade and other receivables	**25,586,728**	**(122,573)**	**25,464,155**
Contract assets	**13,465,419**	**(7,196,745)**	**6,268,674**
Financial liabilities			
Trade and other payables	**17,124,765**	**(10,467)**	**17,114,298**
Contract liabilities	**11,693,650**	**(7,329,785)**	**4,363,865**
31 December 2020			
Financial assets			
Trade and other receivables	15,862,047	(137,322)	15,724,725
Contract assets	12,331,107	(5,814,010)	6,517,097
Financial liabilities			
Trade and other payables	19,725,167	(13,960)	19,711,207
Contract liabilities	8,610,524	(5,937,372)	2,673,152

42.7 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	1 January 2021	*Cash flows*	*Non-monetary changes*	*31 December 2021*
Short-term borrowings	**318,485**	**(631,230)**	**1,769,429**	**1,456,684**
Lease liabilities current	**742,185**	**(976,719)**	**1,104,108 (*)**	**869,574**
Long-term borrowings	**8,637,605**	**1,023,963**	**(1,814,962)**	**7,846,606**
Lease liabilities non-current	**2,237,853**	**-**	**115,740**	**2,353,593**
	11,936,128	**(583,986)**	**1,174,315**	**12,526,457**

	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

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

43. CAPITAL COMMITMENTS

One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for SR 1,125 million (equivalent to USD 300 million) as at 31 December 2021 (31 December 2020: SR 1,125 million (equivalent to USD 300 million) (Note 6-17).

44. CONTINGENT ASSETS AND LIABILITIES

1. The Group has outstanding letters of guarantee on behalf of the parent and its subsidiaries amounting to SR 4,695 million as at 31 December 2021 (2020: SR 4,222 million).
2. The Group has outstanding letters of credit as at 31 December 2021 amounting to SR 1,394 million (2020: SR 977 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 fibre 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 Company's financial position or on the results of its operations as reflected in these consolidated financial statements.
5. The Group received the Appeal Committee for Tax 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 the rental of international operators' networks 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. Based on the opinions of the specialized consultants in this matter and the nature of these sales, the Group sees the merits of its legal position.
7. 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 (the "Plaintiff"). 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).

   On 4 November 2021, the Cassation Court rejected the plaintiff appeal and issued a final verdict in favor of stc Kuwait based on which, the stc Kuwait recognized KD 17.9 million (equivalent to SR 222 million), which is included as part of net other income/(expenses) in the consolidated statement of profit or loss.

(All Amounts in Saudi Riyals thousands unless otherwise stated)

45. EMPLOYEES LONG-TERM INCENTIVES PROGRAM

45.1 Group's long-term incentives program

The Company's Board of Directors has approved the purchase of 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) (Note 41). 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 from the 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 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.

The program is generally equity-settled. However, in certain circumstances, the awards are settled in cash. Shares are granted to employees over three cycles with three tranches each. As at 31 December 2021, the shares granted by the Group are as follows:

First cycle:	***Tranche 1***	***Tranche 2***
Grant date	1 July 2020	1 July 2021
Total number of shares granted (*)	135 thousand shares	222 thousand shares
Average Fair value per share at grant date (**)	SR 94.4	SR 128.6
Vesting date	1 July 2021	14 May 2022
Total number of shares actually vested	135 thousand shares	To be determined at vesting date

Second cycle:	***Tranche 1***
Grant date	1 July 2021
Total number of shares granted (*)	122 thousand shares
Average Fair value per share at grant date (**)	SR 128.6
Vesting date	14 May 2022
Total number of shares actually vested	To be determined at vesting date

(*) The number of shares granted has been updated to reflect the number of shares actually granted to eligible executives participating in the program who met all the conditions of granting.

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

(All Amounts in Saudi Riyals thousands unless otherwise stated)

45. EMPLOYEES LONG-TERM INCENTIVE PROGRAM (CONTINUED)

45.1 Group's long-term incentives program (continued)

The following table shows the shares granted and outstanding at the beginning and ending of the reporting period:

	2021	2020
At the beginning of the year	**130**	-
Shares granted during the year	**349**	130
Shares vested during the year (*)	**(135)**	-
At the end of the year	**344**	130

(*) The number of equity-settled shares vested during the year amounted to 132 thousand.

Total expenses related to the Program for the year ended 31 December 2021 amounted to SR 33.7 million (31 December 2020: SR 6.1 million), which were included as part of employees benefits expense in the consolidated statement profit or loss, with the corresponding amount recorded under other reserves within equity in accordance with the requirements of International Financial Reporting Standard (2): Share-based Payment (Note 23).

45.2 Subsidiary's long-term incentives program

During the year 2021, one of the subsidiaries started its own long-term incentive program whereby employees render services as consideration for a fixed number of its own shares. The total expense in relation to this program amounted to SR 9 million.

46. IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK

The Group's operations and financial results have not incurred a significant impact from the virus outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in the telecom sector.

47. 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 a 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 a 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 legislation governing the sector in 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.

On April 26, 2021, the General Assembly approved, during its meeting, the recommendation of the Board of Directors to distribute additional cash dividends for the year 2020 at the rate of SR 1 per share.

In accordance with dividends policy, the Company distributed cash dividends to the shareholders of the Company for the first, second and third quarters of the year 2021 at a rate of SR 1 per share, respectively.

47. DIVIDENDS (CONTINUED)

The Board of Directors, in their meeting held on 20 Safar 1443H (corresponding to 27 September 2021) have approved the Company's dividends policy for the next three years starting from the fourth quarter of 2021 at a rate of SR 1 per share, which was approved by the General Assembly on 25 Rabi Thani 1443H (corresponding to 30 November 2021). 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 2021 at a rate of SR 1 per share.

Treasury shares allocated to the employee long-term incentives program are not entitled for any dividends during the period while the shares still under the Company's possession (Note 23).

48. OTHER INFORMATION

During the year 2021, stc Kuwait has signed a binding agreement to acquire a 100% equity shareholding of E-Portal Holding Company for a consideration of KD 23 million (equivalent to SR 286 million). As at the reporting date, the acquisition procedure has not yet been completed until necessary regulatory approvals are obtained.

49. SUBSEQUENT EVENTS

1. During the year 2022, the Group established a new 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.
2. During 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 Pakistan Telecommunication Authority, to build and operate telecommunication infrastructure primarily in the northwest region of Pakistan.

50. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2021.

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors approved the consolidated financial statements for the year ended 31 December 2021 on 19 Rajab 1443H (corresponding to 20 February 2022).