

## IMPORTANT NOTICE

THE ATTACHED BASE PROSPECTUS IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER: (I) QUALIFIED INSTITUTIONAL BUYERS ("**QIBs**") AS DEFINED IN AND IN RELIANCE UPON RULE 144A ("**RULE 144A**") UNDER THE U.S. SECURITIES ACT, AS AMENDED (THE "**SECURITIES ACT**"); OR (II) NON-U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT ("**REGULATION S**")) LOCATED OUTSIDE THE UNITED STATES. THE ATTACHED BASE PROSPECTUS MAY NOT BE DISTRIBUTED DIRECTLY OR INDIRECTLY IN OR INTO THE UNITED STATES TO ANYONE THAT IS NOT A QIB.

**IMPORTANT: You must read the following before continuing.** The following applies to the attached base prospectus (the "**Base Prospectus**") and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from the Trustee, STC, the Arrangers and/or Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES DESCRIBED IN THE BASE PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTIONS. THE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT: (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO PERSONS REASONABLY BELIEVED TO BE QIBs WITHIN THE MEANING OF RULE 144A; OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT AND IN EACH CASE IN ACCORDANCE WITH THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTIONS.

ANY SECURITIES DESCRIBED IN THE BASE PROSPECTUS WHICH DO NOT CONSTITUTE "ALTERNATIVE FINANCE INVESTMENT BONDS" ("**AFIBs**") WITHIN THE MEANING OF ARTICLE 77A OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (REGULATED ACTIVITIES) (AMENDMENT) ORDER 2010 WILL REPRESENT INTERESTS IN A COLLECTIVE INVESTMENT SCHEME (AS DEFINED IN THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED (THE "**FSMA**")) WHICH HAS NOT BEEN AUTHORISED, RECOGNISED OR OTHERWISE APPROVED BY THE UNITED KINGDOM FINANCIAL CONDUCT AUTHORITY. ACCORDINGLY, THE BASE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM.

THE DISTRIBUTION IN THE UNITED KINGDOM OF THE BASE PROSPECTUS, ANY FINAL TERMS, ANY PRICING SUPPLEMENT AND ANY OTHER MARKETING MATERIALS RELATING TO THE SECURITIES IS BEING ADDRESSED TO, OR DIRECTED AT: (A) IF THE DISTRIBUTION (WHETHER OR NOT THE SECURITIES ARE AFIBs) IS BEING EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FSMA, ONLY THE FOLLOWING PERSONS: (I) PERSONS WHO ARE INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "**FINANCIAL PROMOTION ORDER**"); (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 49 OF THE FINANCIAL PROMOTION ORDER; AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE FINANCIAL PROMOTION ORDER; AND (B) IF THE SECURITIES ARE NOT AFIBs AND THE DISTRIBUTION IS EFFECTED BY A PERSON WHO IS AN AUTHORISED PERSON UNDER THE FSMA, ONLY THE FOLLOWING PERSONS: (I) PERSONS FALLING WITHIN ONE OF THE CATEGORIES OF INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 14(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (PROMOTION OF COLLECTIVE INVESTMENT SCHEMES) (EXEMPTIONS) ORDER 2001 (THE "**PROMOTION OF CISs ORDER**"); (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSONS DESCRIBED IN ARTICLE 22 OF THE PROMOTION OF CISs ORDER; AND (III) ANY OTHER PERSON TO

WHOM IT MAY OTHERWISE LAWFULLY BE MADE IN ACCORDANCE WITH THE PROMOTION OF CISs ORDER.

THE BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE BASE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**CONFIRMATION OF YOUR REPRESENTATION:** By accessing the Base Prospectus you confirm to the Trustee, STC, the Arrangers and the Dealers that: (i) you understand and agree to the terms set out herein; (ii) you consent to delivery of the Base Prospectus and any amendments or supplements thereto by electronic transmission; (iii) you will not transmit the Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; and (iv) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates (as defined in the Base Prospectus). In order to be eligible to view the Base Prospectus or make an investment decision with respect to the Certificates, investors must be either: (a) QIBs (within the meaning of Rule 144A under the Securities Act) that are acquiring the Certificates for their own accounts or the account of another QIB; or (b) non-U.S. persons (as defined in Regulation S) located outside the United States. The Base Prospectus is being sent at your request and by accepting the e-mail and accessing the Base Prospectus, you shall be deemed to have represented to the Trustee and STC and the Arrangers and Dealers that: (1) you and any customers you represent are either (X) QIBs or (Y) non-U.S. persons located outside the United States; (2) you are a person who is permitted under applicable law and regulation to receive the Base Prospectus; and (3) you consent to delivery of the Base Prospectus by electronic transmission.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

The Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer, such offering shall be deemed to be made by each Arranger or Dealer (that is not a licensed broker or dealer in that jurisdiction) on behalf of the Trustee through its registered affiliate that is a licensed broker or dealer in that jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities described herein in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Base Prospectus who intend to subscribe for or purchase any Certificates are reminded that any subscription or purchase may only be made on the basis of the information contained in the Base Prospectus as supplemented by the applicable Final Terms (as defined below) (or Pricing Supplement (as defined below), as applicable) and/or supplement(s) to the Base Prospectus (if any). The Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000, as amended, does not apply.

The distribution of the Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the Base Prospectus comes are required by the Trustee, STC, the Arrangers and the Dealers to inform themselves about, and to observe, any such restrictions.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Trustee, STC, the Arrangers or the Dealers nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability

or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Trustee, STC, the Arrangers and the Dealers. Please ensure that your copy is complete. If you received the Base Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



**STC SUKUK COMPANY LIMITED**  
(incorporated in the Cayman Islands as an exempted company with limited liability)

**U.S.\$5,000,000,000**  
**Trust Certificate Issuance Programme**

Under this U.S.\$5,000,000,000 trust certificate issuance programme (the "**Programme**"), STC Sukuk Company Limited (in its capacity as issuer and as trustee, the "**Trustee**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the "**Certificates**") denominated in any currency agreed between the Trustee, Saudi Telecom Company ("**STC**" or the "**Obligor**") and the relevant Dealer (as defined herein). The aggregate face amount of all Certificates from time to time outstanding under the Programme will not at any time exceed U.S.\$5,000,000,000 (or its equivalent in other currencies), subject to any increase as described in the Dealer Agreement (as defined herein).

**The Certificates will be limited recourse obligations of the Trustee. An investment in Certificates issued under the Programme involves certain risks. For a discussion of these risks, please see "Risk Factors" on page 1.**

Each Tranche (as defined herein) of Certificates issued under the Programme will be constituted by: (i) a master declaration of trust dated 26 April 2019 (the "**Master Declaration of Trust**") entered into between the Trustee, STC and HSBC Corporate Trustee Company (UK) Limited as delegate of the Trustee (in such capacity, the "**Delegate**"); and (ii) a supplemental declaration of trust in relation to the relevant Series (each a "**Supplemental Declaration of Trust**" and together with the Master Declaration of Trust, each a "**Declaration of Trust**"). Certificates of each Series confer on the holders of the Certificates from time to time (the "**Certificateholders**") the right to receive certain payments (as more particularly described herein) arising from a *pro rata* ownership interest in the assets of a trust declared by the Trustee in relation to the relevant Series (the "**Trust**") over the Trust Assets (as defined herein). Certificates may only be issued in registered form. The Certificates may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time (each a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Certificates.

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**"). Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (the "**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on the regulated market of Euronext Dublin (the "**Regulated Market**"). The Regulated Market of Euronext Dublin is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU) (as amended, "**MiFID II**"). Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of MiFID II and/or which are to be offered to the public in any EU Member State. References in this Base Prospectus to Certificates (other than Exempt Certificates) being "**listed**" (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and admitted to trading on the Regulated Market. Notice of the aggregate face amount of Certificates, profit (if any) payable in respect of Certificates, the issue price of Certificates and any other terms and conditions not contained herein which are applicable to each Series of Certificates (other than Exempt Certificates) will be set out in a final terms document (the "**Final Terms**") which, with respect to Certificates to be listed on the Official List, will be delivered to the Central Bank of Ireland and Euronext Dublin.

The Programme also permits Certificates to be issued on the basis that they will: either: (i) not be admitted to listing, trading on a regulated market for the purposes of MiFID II in the EEA and/or quotation by any competent authority, stock exchange and/or quotation system; or (ii) be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems in respect of which MiFID II does not apply and as may be agreed between the Trustee and STC ("**Exempt Certificates**") and, accordingly, no base prospectus will be required to be produced in accordance with the Prospectus Directive. Any terms and conditions not contained herein which are applicable to each Series of Exempt Certificates will be set out in a pricing supplement (the "**Pricing Supplement**").

The Certificates have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, the Trustee is not and will not be registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). Accordingly, the Certificates are being offered and sold: (i) to non-U.S. persons in offshore transactions in reliance on Regulation S (the "**Unrestricted Certificates**"); and (ii) within the United States to "qualified institutional buyers" (each a "**QIB**") as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance on the exemption from registration provided by Rule 144A (the "**Restricted Certificates**") and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. See "*Form of the Certificates*" for a description of the manner in which Certificates will be issued. Prospective purchasers are hereby notified that sellers of the Restricted Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".

STC has been assigned long term credit ratings of A1 with a "stable outlook" by Moody's Investors Service Ltd. ("**Moody's**") and a corporate credit rating of A- with a "stable outlook" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). The Programme is expected to be assigned a rating of A1 by Moody's and A- by S&P. The rating of certain Series of Certificates to be issued under the Programme and the credit rating agency issuing such rating may be specified in the applicable Final Terms (or Pricing Supplement, as applicable). Each of Moody's and S&P is established in the EU and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of Moody's and S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Limited information with respect to ratings will be disclosed in the applicable Final Terms (or Pricing Supplement, as applicable). **A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, change or withdrawal at any time by the assigning rating agency and each rating should be evaluated independently of any other rating.**

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the HSBC Saudi Arabia Executive Shariah Committee, the Shariah advisers of J.P. Morgan Securities plc and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on the approval referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in the approval referred to above is in compliance with *Shari'a* principles.

**ARRANGERS AND DEALERS**

**HSBC**

**J.P. Morgan**

**Standard Chartered Bank**

The date of this Base Prospectus is 26 April 2019



## IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Trustee, STC, the Group (as defined herein) and the Certificates which, according to the particular nature of the Trustee, STC, the Group and the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and STC.

Each of the Trustee and STC accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Trustee and STC (each having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each Tranche of Certificates will be issued on the terms set out herein under "*Terms and Conditions of the Certificates*" as supplemented by the applicable Final Terms (or Pricing Supplement, as applicable). This Base Prospectus must be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates which is the subject of a Final Terms (or Pricing Supplement, as applicable), must be read and construed together with the applicable Final Terms (or Pricing Supplement, as applicable).

The only persons authorised to use this Base Prospectus in connection with an offer of Certificates are the relevant Dealers or the Managers (as identified in the relevant subscription agreement), as the case may be.

Copies of the applicable Final Terms (or Pricing Supplement, as applicable) will be available from the registered office of the Trustee and the specified office of the Principal Paying Agent (as defined in "*Terms and Conditions of the Certificates*"), save that a Pricing Supplement will only be available for inspection by a holder of an Exempt Certificate and such holder must produce evidence satisfactory to the Trustee or the Principal Paying Agent (as applicable) as to its holding of such Certificates and identity.

No person is or has been authorised by the Trustee or STC to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied by the Trustee or STC in connection with the Programme or the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, STC, any Arranger or any Dealer.

None of the Arrangers, the Dealers or the Agent makes any representation, warranty or undertaking, express or implied, or accepts any responsibility or liability, as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Trustee or STC in connection with the offering, and nothing contained in this Base Prospectus, is or should be relied upon as, a promise or representation, whether as to the past or the future. None of the Arrangers, the Dealers, the Delegate or the Agents accepts any responsibility for: (i) the accuracy or completeness of the contents of this Base Prospectus; (ii) any other statement made, or purported to be made, by an Arranger or a Dealer or on its behalf in connection with the Trustee, STC or the issue and offering of Certificates under the Programme; or (iii) any acts or omissions of the Trustee, STC or any other person in connection with this Base Prospectus or the issue and offering of Certificates under the Programme. Each of the Arrangers, the Dealers, the Delegate and the Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Certificates: (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Trustee, STC, the Arrangers, the Dealers, the Delegate or Agents that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and STC.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Certificates shall in any circumstances imply that the information contained herein concerning the Trustee and STC is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as at any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Trustee, STC or the Group since the date of this Base Prospectus. The Arrangers, the Dealers, the Delegate and the Agents expressly do not undertake to review the financial condition or affairs of the Trustee or STC during the life of the Programme or to advise any investor in the Certificates of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. If a jurisdiction requires that an offering of securities described in this Base Prospectus be made by a licensed broker or dealer, such offering shall be deemed to be made by each Arranger or Dealer (that is not a licensed broker or dealer in that jurisdiction) on behalf of the Trustee through its registered affiliate that is a licensed broker or dealer in that jurisdiction. The distribution of this Base Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, STC, the Arrangers or the Dealers represents that this Base Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, STC, the Arrangers or the Dealers which is intended to permit a public offering of any Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the Cayman Islands, Dubai International Financial Centre, the EEA, Hong Kong, Japan, the Kingdom of Bahrain ("Bahrain"), Saudi Arabia, Malaysia, Singapore, the State of Kuwait ("Kuwait"), the State of Qatar (including the Qatar Financial Centre) ("Qatar"), the United Arab Emirates (excluding the Dubai International Financial Centre) (the "UAE"), the United Kingdom and the United States. Please see "*Subscription and Sale and Transfer and Selling Restrictions*".

Neither this Base Prospectus nor any Final Terms (or Pricing Supplement, as applicable) constitutes an offer or an invitation to subscribe for or purchase any Certificates and should not be considered as a recommendation by the Trustee, STC, the Arrangers, the Dealers, the Delegate or the Agents that any recipient of this Base Prospectus or any Final Terms (or Pricing Supplement, as applicable) should subscribe for or purchase any Certificates. Each recipient of this Base Prospectus or any Final Terms (or Pricing Supplement, as applicable) shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Trustee and STC.

The requirement to publish a base prospectus under the Prospectus Directive only applies to Certificates which are to be admitted to trading on a regulated market for the purposes of MiFID II in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Base Prospectus to "Exempt Certificates" are to Certificates issued by the Trustee for which no base prospectus is required to be published under the Prospectus Directive. The Central Bank of Ireland has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Certificates.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Certificates or possess this Base Prospectus. Any consents or approvals that are needed in order to purchase any Certificates must be obtained prior to the deadline specified for any such consent or approval. The Trustee, STC, the Arrangers, the Dealers, the Delegate, the Agents and their affiliates are not responsible for compliance with these legal requirements.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in any Certificates and the information contained in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including Certificates with principal or profit payable in one or more currencies, or where the currency for principal or profit payments is different from the potential investor's currency;
- understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Some Certificates may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They generally purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in an issue of Certificates which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

None of the Trustee, STC, any Arranger or any Dealer has authorised, nor does it authorise, the making of any offer of Certificates in circumstances in which an obligation arises for the Trustee or STC to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own independent examination of the Trustee and STC and the terms of the Certificates being offered, including the merits and risks involved.

None of the Trustee, STC, any Arranger, any Dealer, the Delegate or the Agents makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Certificates constitute legal investments for it; (ii) the Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Certificates by the investor. Financial institutions should consult their legal advisers or the appropriate regulations to determine the appropriate treatment of any Certificates under any applicable risk-based capital or similar rules and regulations.

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the HSBC Saudi Arabia Executive Shariah Committee, the Shariah advisers of J.P. Morgan Securities plc and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards

**of compliance with *Shari'a* principles. None of the Trustee, STC, any Arranger, any Dealer, the Delegate or the Agents makes any representation as to the *Shari'a* compliance of the Certificates and/or any trading thereof.**

### **BENCHMARKS REGULATION**

Amounts payable on Certificates issued under the Programme to which Floating Periodic Distribution Provisions are applicable may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011, as amended (the "**Benchmarks Regulation**"). If any such reference rate does constitute such a benchmark, the Final Terms (or Pricing Supplement, as applicable) will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms (or Pricing Supplement, as applicable). The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, neither the Trustee nor STC intends to update the Final Terms (or Pricing Supplement, as applicable) to reflect any change in the registration status of the administrator.

### **NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS**

No offer or invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for any Certificates and this Base Prospectus shall not be construed as an invitation to the public of the Cayman Islands to subscribe for any Certificates issued under the Programme.

### **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

In relation to investors in Bahrain, Certificates issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the "**CBB**") in Bahrain where such investors make a minimum investment of at least U.S.\$100,000, or any equivalent amount in any other currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Certificates may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in Bahrain, other than to accredited investors (as such term is defined by the CBB) for an offer outside Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of Certificates will be made to the public in Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

### **NOTICE TO RESIDENTS OF SAUDI ARABIA**

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Saudi Arabian Capital Market Authority (the "**CMA**").

The CMA does not make any representation as to the accuracy or completeness of this document and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own

due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document, you should consult an authorised financial adviser.

#### **NOTICE TO RESIDENTS OF MALAYSIA**

Any Certificates to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Base Prospectus and any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories of person set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia, as may be amended and/or varied from time to time and subject to any amendments to the applicable laws from time to time.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or STC and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.

#### **NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SFA**

The applicable Final Terms (or Pricing Supplement, as applicable) in respect of any Series of Certificates may include a legend entitled "Singapore Securities and Futures Act Product Classification" which will state the product classification of the Certificates pursuant to Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA"). The Trustee will make a determination in relation to each issue about the classification of the Certificates being offered for the purposes of section 309B(1)(a). Any such legend included on the applicable Final Terms (or Pricing Supplement, as applicable) will constitute notice to "relevant persons" for the purposes of section 309B(1)(c) of the SFA.

#### **NOTICE TO RESIDENTS OF THE STATE OF QATAR**

Any Certificates to be issued under the Programme will not be offered, sold or delivered at any time, directly or indirectly, in Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Central Bank, the Qatar Financial Centre Regulatory Authority, the Qatar Financial Markets Authority or the Qatar Stock Exchange in accordance with their regulations or any other regulations in Qatar. The Certificates are not and will not be traded on the Qatar Stock Exchange. The Certificates and interests therein will not be offered to investors domiciled or resident in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (11) of 2015 or otherwise under the laws of Qatar.

#### **NOTICE TO RESIDENTS OF THE UNITED KINGDOM**

Any Certificates to be issued under the Programme which do not constitute "alternative finance investment bonds" ("AFIBs") within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the Financial Services and Market Act 2000 (the "FSMA")) which has not been authorised, recognised or otherwise approved by the Financial Conduct Authority (the "FCA"). Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Base Prospectus, any applicable Final Terms, any applicable Pricing Supplement and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the distribution (whether or not such Certificates are AFIBs) is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); (ii) persons falling within any of the categories of persons described in Article 49 of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the Certificates are not AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and

Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"); (ii) persons falling within any of the categories of person described in Article 22 of the Promotion of CISs Order; and (iii) any other person to whom it may otherwise lawfully be promoted. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any applicable Final Terms, any applicable Pricing Supplement or any other marketing materials in relation to the Certificates.

Prospective investors in the United Kingdom in any Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any prospective investor intending to invest in any investment described in this Base Prospectus should consult its professional adviser and ensure that it fully understands all the risks associated with making such an investment and that it has sufficient financial resources to sustain any loss that may arise from such investment.

### U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Certificates issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

**NEITHER THE PROGRAMME NOR THE CERTIFICATES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY SECURITIES COMMISSION OF ANY STATE IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Certificates may not be offered or sold within the United States, except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act and any applicable securities law of any state or other jurisdiction of the United States. The Trustee is not and will not be registered under the Investment Company Act. Each investor, by purchasing a Certificate, agrees that the Certificates may be reoffered, resold, repledged or otherwise transferred only upon registration under the Securities Act and the Investment Company Act or pursuant to the exemptions therefrom described under "*Subscription and Sale and Transfer and Selling Restrictions*". As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Each investor also will be deemed to have made certain representations and agreements as described in "*Subscription and Sale and Transfer and Selling Restrictions*". Any transfer in breach of the transfer restrictions set forth in "*Subscription and Sale and Transfer and Selling Restrictions*" will be null and void *ab initio*, and will not operate to transfer any rights to any transferee.

The Certificates are being offered or sold to non-U.S. persons in offshore transactions in reliance on Regulation S and within the United States only to persons who are QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that the offer and sale of Certificates to it may be made in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Certificates and distribution of this Base Prospectus, see "*Subscription and Sale and Transfer and Selling Restrictions*".

Each purchaser or holder of Certificates represented by a Restricted Global Certificate or any Certificates issued in exchange or substitution therefor (together, the "**Legended Certificates**") will be deemed, by its acceptance or purchase of any such Legended Certificates, to have made certain representations and agreements intended to restrict the resale or other transfer of such Certificates as set out in "*Subscription*

*and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in *"Form of the Certificates"*.

#### AVAILABLE INFORMATION

The Trustee has agreed that, for so long as any Certificates are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, the Trustee (failing which, STC) will during any period that it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting requirements pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Certificates in connection with any resale thereof or any prospective purchaser designated by any such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

#### SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Trustee is an exempted company incorporated in and under the laws of the Cayman Islands and STC is a joint stock company incorporated in and under the laws of Saudi Arabia and a substantial portion of the assets of the Trustee and STC is located outside the United States. As a result, prospective investors may have difficulty effecting service of process in the United States upon the Trustee or STC in connection with any lawsuits related to the Certificates, including actions arising under the federal securities laws of the United States.

The Certificates are governed by English law and disputes in respect of them may be settled under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA Rules**"), in London, England. Investors may have difficulty enforcing foreign judgments and arbitration awards against STC in the courts of Saudi Arabia. Please see *"Risk Factors—Risks Relating to Enforcement"*.

#### MIFID PRODUCT GOVERNANCE RULES

The applicable Final Terms in respect of any Series of Certificates may include a legend entitled *"MiFID II Product Governance"* which will outline the target market assessment in respect of the Certificates and which channels for distribution of the Certificates are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of any Certificates (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made at the time of issue about whether, for the purpose of the MiFID Product Governance Rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Certificates is a manufacturer in respect of such Certificates, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

#### STABILISATION

**IN CONNECTION WITH THE ISSUE OF ANY TRANCHE, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) IN THE RELEVANT SUBSCRIPTION AGREEMENT (OR PRICING SUPPLEMENT, AS APPLICABLE) (THE "STABILISATION MANAGER(S)") (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES DURING THE STABILISATION PERIOD AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE. ANY STABILISATION ACTION MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### Presentation of Historic Financial Information

The financial information relating to the Group and set out in this Base Prospectus has been derived from (i) the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 (the "**2018 Audited Financial Statements**") (which include restated comparative information as at and for the year ended 31 December 2017 (see "*New Accounting Standards Adopted in 2018*" below for information on the restatement)) and the audited consolidated financial statements of the Group as at and for the year ended 31 December 2017 (the "**2017 Audited Financial Statements**" and, together with the 2018 Audited Financial Statements, the "**Audited Financial Statements**") (which include comparative information as at and for the year ended 31 December 2016) which have been audited by Ernst & Young & Co. (Certified Public Accountants) ("**EY**") as stated in their audit reports included elsewhere in this Base Prospectus; and (ii) the unaudited interim condensed consolidated financial statements of the Group as at and for the three month period ended 31 March 2019 (including the comparative information as at and for the three month period ended 31 March 2018) (the "**2019 Unaudited Interim Condensed Consolidated Financial Statements**" and, together with the Audited Financial Statements, the "**Financial Statements**") which have been reviewed by EY in accordance with International Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" endorsed in Saudi Arabia, as stated in their review report included elsewhere in this Base Prospectus.

With effect from 1 January 2017, the Group is required by Saudi Arabian regulation to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as endorsed in Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization of Certified Public Accountants ("**IFRS-KSA**"). Accordingly, the 2018 Audited Financial Statements and the 2017 Audited Financial Statements have been prepared in accordance with IFRS-KSA. In addition, the 2019 Unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* as endorsed in Saudi Arabia.

The Group's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year.

The Financial Statements are presented in Saudi Riyals.

### New Accounting Standards Adopted in 2018 and 2019

The Group adopted IFRS 9 "Financial Instruments" from 1 January 2018 which replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018. IFRS 9 covers the requirements of classification, measurement and derecognition of the financial assets and liabilities with providing new bases of hedge accounting and the requirements of the financial assets impairment.

The Group also adopted IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and related Interpretations of IFRS and applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires the Group to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. For more information see Note 3 (*Application of new and revised international financial reporting standards*) to the 2018 Audited Financial Statements.

In preparing the 2018 Audited Financial Statements, the Group adopted IFRS 9 and IFRS 15 retrospectively and applied the new standards to the prior reporting period presented. Accordingly, the comparative information as at and for the year ended 31 December 2017 set forth in the 2018 Audited Financial Statements differs from the corresponding data as at and for the year ended 31 December 2017 set forth in the 2017 Audited Financial Statements.



From 1 January 2019 the Group has adopted a new lease standard IFRS 16 Leases (which supersedes IAS 17 Leases, IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease") and IFRIC 23 "Uncertainty over Income Tax Treatments" which affects the application of IAS 12 – Income Taxes. IFRS 16 provides a single accounting model for the lessee, requiring tenants to recognize the assets and liabilities of all leases, which represents a significant change from IAS 17. For further information, see Note 4 to the 2019 Unaudited Interim Condensed Consolidated Financial Statements. In preparing the 2019 Unaudited Interim Condensed Consolidated Financial Statements, the Group has not adopted IFRS 16 retrospectively and accordingly the comparative figures for 2018 have not been adjusted and may not be directly comparable to the 2019 figures.

### **Certain Defined Terms and Conventions**

In this Base Prospectus:

- **"GCC"** refers to the Gulf Cooperation Council;
- **"Government"** refers to the Government of Saudi Arabia;
- **"Group"** or **"STC Group"** refers to STC and its subsidiaries, associates and joint ventures (taken together);
- **"halalah"** refers to the sub-unit of the Riyal;
- **"Kingdom"** or **"Saudi Arabia"** or **"KSA"** refers to the Kingdom of Saudi Arabia;
- **"SAR"**, **"SR"**, **"Saudi Riyals"** and **"Riyals"** refers to the Saudi Arabian riyal, the lawful currency of Saudi Arabia;
- **"STC"** refers to Saudi Telecom Company; and
- **"U.S. dollars"** or **"U.S.\$"** refers to the lawful currency of the United States of America.

Certain figures contained in this Base Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Base Prospectus may not conform exactly to the total figure given for that column or row. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

The Group's reporting currency is Saudi Arabian Riyal and its share capital is denominated in Saudi Arabian Riyal. Since 2003, the Saudi Arabian Riyal has officially been pegged to the U.S. dollar at SAR 1.00 to U.S.\$0.2667.

The language of this Base Prospectus is English. Certain legislative references and technical terms may be cited in their original language herein in order that the correct technical meaning may be ascribed to them under applicable law.

### **Alternative Performance Measures**

Certain financial information presented in this Base Prospectus are Alternative Performance Measures (as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures). These Alternative Performance Measures are presented in this Base Prospectus to show the Group's underlying business performance and to enhance comparability between reporting periods. Alternative Performance Measures should not be considered as a substitute for measures of performance in accordance with IFRS-KSA. The Alternative Performance Measures included in this Base Prospectus are unaudited and have not been prepared in accordance with IFRS-KSA or any other generally accepted accounting standards. The Alternative Performance Measures in respect to the Group are set out in the table below. Such Alternative Performance Measures should not be considered in isolation or considered as a substitute for operating profit, profit, cash flows from operating activities or other measures of performance as defined by IFRS-KSA. Such Alternative Performance Measures, as used herein, are not necessarily comparable to other similarly titled measures of other companies due to potential inconsistencies in the method of calculation. The Group's management has used, and expects to use, these Alternative Performance Measures to assess operating performance and to make decisions about

allocating resources among the Group's various business lines. The Group believes that Adjusted EBITDA and Free Cash Flow are useful indicators of its ability to incur and service its indebtedness and can assist securities analysts, investors and other parties to evaluate its business. The Group also believes that Adjusted EBITDA margin is a useful indicator to show how efficiently it converts revenues into Adjusted EBITDA.

The Alternative Performance Measures included in this Base Prospectus are set out below:

<b>Measure</b>	<b>Method of calculation (corresponding to the Audited Financial Statements)</b>
Adjusted Earnings Before Interest and Tax, Depreciation and Amortisation (Adjusted EBITDA).....	Net profit for the period before zakat and income tax, other losses (net), (loss)/gain from investments in associates and joint ventures (net)*, other income/expenses (net), finance cost, finance income, cost of early retirement, depreciation and amortisation, for the period.
Adjusted EBITDA margin.....	Adjusted EBITDA divided by revenues
Capex.....	The cost of the purchase of property, plant and equipment for the period less the proceeds from the sale of property, plant and equipment for the period.
Free Cash Flow.....	Net cash (used in) generated from operating activities** less Capex
Interest Coverage.....	Adjusted EBITDA divided by finance costs
Total Debt.....	The sum of long term borrowings and short term borrowings.
Total Debt to Adjusted EBITDA .....	Total Debt divided by Adjusted EBITDA
Total Debt to Equity .....	Total Debt divided by Total equity

(\*) Labelled as "Share of profit from investments in associates and joint ventures, net" in 2017 Audited Financial Statements.

(\*\*) Labelled as "Net cash from operating activities" in the Audited Financial Statements.

The Alternative Performance Measures for the three months period ended 31 March 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016, together with reconciliations of certain of the Alternative Performance Measures to the corresponding financial data from the Audited Financial Statements are set forth in "*Selected Financial Information of the Group—Alternative Performance Measures*".

#### **Presentation of Certain Other Information**

Certain statistical information, market and market share information and industry data contained in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Group*", "*Industry*" and "*Overview of the Kingdom of Saudi Arabia*" set out elsewhere in this Base Prospectus has been derived from a number of publicly available sources and industry reports (including CITC). The source of any third-party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus. In each of the Group's core markets, where an estimate of the Group's market share by revenue has been included, it has been calculated by the Group using its own data and that of its competitors based on available information released by the Group's competitors in the markets in which the Group operates. Undue reliance should not be placed on market share data because

of differences in the dates as of which such data is made available in each market by the Group's operating companies and because the Group cannot verify the information provided by its competitors.

While the Group believes the statements contained in this Base Prospectus relating to customer and market share information, to be reliable and to provide fair and adequate estimates of the size of its markets and fairly reflect the Group's competitive position within those markets, these statements have not been independently verified and the Group does not make any representation or warranty as to the accuracy or completeness of such information in this Base Prospectus. None of the Trustee, STC, the Group, the Arrangers or the Dealers accepts responsibility for the factual correctness of any such statistics or information but each of the Trustee and STC confirms that such statistics or information has been accurately reproduced and, so far as each of the Trustee and STC is aware and has been able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Subscriber Data**

The subscriber data included in this Base Prospectus are derived from the Group's management information systems. The Group's use or computation of certain terms may not be comparable to the use or computation of similarly titled measures reported by other companies in the telecommunications industry, including the Group's competitors. In addition, each of the Group's operating companies calculates subscribers differently and, as such, subscribers are not presented on a consolidated basis in the Base Prospectus.

### ***Subscriber numbers***

Mobile customers who pay in advance of services provided are counted as "prepaid" subscribers and mobile customers who pay periodically following the provision of services are counted as "postpaid" subscribers. For all of the Group's operating companies, a mobile customer is included in its subscriber count from the date of the activation of such mobile customer's subscriber identity module card ("**SIM card**").

The Group's three principal operating companies calculate their mobile customer numbers as follows:

- STC considers a mobile subscriber to have ceased its subscription if: (i) the customer terminates the subscription; (ii) in the case of postpaid subscriptions, if STC terminates the subscription; or (iii) after expiry of any prepaid or postpaid contract period, if the subscriber has not made any outgoing activity (voice, text or multimedia) or received any incoming calls within a 90-day period;
- VIVA Bahrain does not count postpaid customers as subscribers if they have any outstanding balance remaining more than 90 days after their last statement date and no longer considers prepaid customers to be customers if they have not made a revenue generating transaction ("**RGT**") within the previous 90 days. RGTs include making and receiving voice calls, using data and sending SMS messages; and
- VIVA Kuwait does not count postpaid customers as subscribers if they have any outstanding balance remaining more than 120 days after their last statement date and no longer considers prepaid customers to be customers once it is more than 60 days since their validity end date. Non-activity based churn is based on management discretion.

Fixed line subscribers, for which the Group only provides services in Saudi Arabia, are calculated by the number of active lines at the end of the period. In general, a customer is no longer counted as a customer if they have not made a payment on an outstanding balance within approximately 60 days.

FTTH/FTTB Broadband internet subscriptions refers to the number of internet subscriptions using fibre to the home ("**FTTH**") or fibre to the building, at downstream speeds greater than or equal to 256 kbit/s. Fibre to the cabinet and fibre to the node are excluded. See "*Description of the Group—Network Infrastructure—Fixed*" for more information on the transition between fixed line and FTTH.

### **Use of Dates**

Dates are referred to in the Hijri (H) calendar and the Gregorian (G) calendar.

## **Forward-Looking Statements**

Certain statements in this Base Prospectus constitute "forward looking statements". Such statements can generally be identified by their use of forward looking words such as "plans", "estimates", "believes", "expects", "may", "will", "should", "are expected", "would be", "anticipates" or the negative or other variations of such terms or comparable terminology. These forward-looking statements reflect the current views of STC with respect to future events and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of STC and/or the Group to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Base Prospectus (see "*Risk Factors*"). Should any one or more of the risks or uncertainties materialise or any underlying assumptions on which a forward-looking statement is based prove to be inaccurate or incorrect, actual results may vary materially from those described in this Base Prospectus, as anticipated, believed, estimated, planned or expected.

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## **RISK FACTORS**

*Each of the Trustee and STC believes that the following factors may affect its ability to fulfil its obligations under Certificates issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Trustee nor STC is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Certificates issued under the Programme are also described below.*

*If any of the risks described below actually materialise, the Trustee's, STC's and the Group's business, results of operations, financial condition or prospects could be materially and adversely affected. If that were to happen, the trading price of the Certificates could decline, and investors could lose all or part of their investment.*

*Each of the Trustee and STC believes that the factors described below represent all the material risks inherent in investing in Certificates issued under the Programme, but the inability of the Trustee to pay Periodic Distribution Amounts, Dissolution Amounts, Partial Dissolution Amounts or any other amounts on or in connection with any Certificates may occur for other reasons which may not be considered significant risks by the Trustee or STC based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **Risks Relating to the Trustee**

The Trustee was incorporated under the laws of the Cayman Islands on 21 March 2019 as an exempted company with limited liability and has no operating history. The Trustee will not engage in any business activity other than the issuance of Certificates under the Programme, the acquisition of the Trust Assets relating to each Series of Certificates, acting in the capacity as Trustee, and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets relating to each Series of Certificates, including its right to receive payments from STC under the relevant Transaction Documents. The ability of the Trustee to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Trustee from STC of all amounts due under the relevant Transaction Documents. Therefore, the Trustee is subject to all the risks to which STC is subject to the extent that such risks could limit STC's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. In the event of any shortfall in such amounts, the ability of the Trustee to meet payment obligations under the Certificates may be adversely affected. See "*Risks Relating to the Certificates—The Certificates are limited recourse obligations*".

### **Risks Relating to the Group's Business**

#### ***The Group's financial obligations are not guaranteed by the Government***

Although the Government is a majority shareholder of the Group, the Group is an independent commercial enterprise and, in the absence of an explicit guarantee from the Government in respect of any of its borrowings, none of its financial obligations (including STC's obligations under the Transaction Documents to which it is a party) or those of its subsidiaries, affiliates or joint ventures are guaranteed by the Government. Accordingly, the Group's financial obligations (including STC's obligations under the Transaction Documents to which it is a party) are not and should not be regarded as obligations of the Government. STC's ability to meet its financial obligations under the Transaction Documents to which it is a party is solely dependent on the Group's ability to fund such amounts from its profits and cash flows, or from other, non-Saudi Arabian governmental, sources of financing. Therefore, any decline in the Group's operations, its profits or cash flows, or any difficulty in securing external funding, may have an adverse effect on STC's ability to satisfy its payment obligations under the Transaction Documents irrespective of its level of ownership by the Government.

### ***The Group's operations are exposed to technological change***

The telecommunications market is characterised by rapid technological change and the Group is exposed to the risk that it may not exploit new technological developments as rapidly as its competitors or may be disadvantaged by other companies developing and exploiting new technological developments before the Group is able to respond appropriately.

As new technologies develop, the Group's operating entities' equipment may need to be replaced or upgraded, or its networks may need to be rebuilt in whole or in part in order to sustain a competitive position as a market leader. Continuing technological advances, ongoing improvements in the capacity and quality of digital technology and short development cycles also contribute to the need for continual upgrading and development of the operating entities' equipment, technology and operations. To respond successfully to technological advances, the Group may require substantial capital expenditures and access to related or enabling technologies in order to integrate the new technology with its existing technology. See "*—Telecommunications businesses require substantial capital investment, which involves the risk that the Group may base capital investment decisions on inaccurate forecasts of future demand*". If the Group is unable to anticipate customer preferences or industry changes, or if it is unable to modify its networks on a timely and cost-effective basis, it may lose customers.

Many of the services the Group offers are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as convergence of services accelerates, the Group has made and will have to continue to make additional investments in new technologies to remain competitive. The Group's operating results would suffer if its new products and services are not responsive to the needs of its customers, are not appropriately timed with market opportunities or are not effectively brought to market. The new technologies the Group chooses may not prove to be commercially successful or profitable. For example, the Group expects to roll out 5G in 2019 at a significant capital expenditure cost (see further "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures*"), but there can be no assurance that it will be as popular or cost-effective as the Group had initially hoped, or that it would generate the expected levels of customer demand or revenues. Additionally, there can be no assurance that 5G will not be superseded by more advanced technologies before the Group is able to recoup its capital expenditures incurred in relation to the roll out.

As telecommunications technology continues to develop, the Group's competitors may be able to offer telecommunications products and services that are, or that are perceived to be, substantially similar or better than those offered by the Group. This could have an adverse effect on the Group's business, financial condition and results of operations. If the Group is not successful in anticipating and responding to technological change and resulting consumer preferences in a timely and cost-effective manner, the Group's quality of services, business, financial condition and results of operations could be adversely affected.

### ***Telecommunications businesses require substantial capital investment, which involves the risk that the Group may base capital investment decisions on inaccurate forecasts of future demand***

The Group operates in a capital-intensive industry that requires substantial amounts of capital and other long-term expenditure, including those relating to the development and acquisition of new networks and the expansion or improvement of existing networks. The Group may also require capital to affect future acquisitions.

The Group's ability to arrange external financing, and the cost of such financing, depends on numerous factors, including the Group's future financial condition and results of operations, general economic and capital markets conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Group, applicable provisions of tax and securities laws and political and economic conditions in any relevant jurisdiction. There can be no assurance that the Group will be able to arrange external financing on commercially reasonable terms, if at all.

The Group commits substantial capital expenditure each year to the development of its networks and technologies in order to meet customer demand. In particular, the Group has significant capital expenditure plans in 2019, 2020 and 2021 relating to the build out of its fibre to the home network and the rollout of 5G services in Saudi Arabia, Kuwait and Bahrain. Reflecting these plans, the Group expects to increase capital expenditure for 2019, 2020 and 2021, ultimately reaching up to a 20 per cent. increase by

2021 compared to 2018. Subsequently, the Group expects capital expenditure to return to historic levels. The Group's current capital expenditure programme is based upon forecasts for growth in demand for telecommunications in Saudi Arabia and the other core markets in which it operates which are based on a number of material assumptions, including population growth trends and trends in future demand for telecommunications services, and there is the risk that such assumptions may be inaccurate.

The Group's customers expect that the Group will continue to regularly introduce more sophisticated telecommunications, cyber-security and other applications, media and internet services, such as Voice over Internet Protocol ("VoIP"), LTE, premium content and high-speed data services, including audio and video streaming, mobile gaming, video conferencing and web hosting. In particular, the introduction of new services into the Group's Saudi Arabia markets may draw additional entrants and require substantial investments and infrastructure capital expenditures for the Group to gain or maintain competitive advantage. The Group's ability to attract and retain customers is dependent on the Group's ability to meet customer demand for new technology at the same, or at a quicker rate, than the Group's competitors are able to do.

Accordingly, the Group's future growth and success will depend, in part, on sourcing new content, new technologies and innovative services and utilising these technologies, allowing the Group to generate revenue proportionate to traffic volumes across the Group's networks.

To the extent that the Group has overestimated future telecommunications demand and is, subsequently, unable to revise its capital expenditure programme, the Group may be unable to receive the expected returns on its capital expenditure. To the extent that the Group has underestimated future telecommunications demand, it may be unable to meet demand, which may adversely affect its reputation and lead to a decline in customer numbers and a decrease in the Group's market share in the markets in which it operates. Either result may have an adverse effect on its business, financial condition or results of operations.

***The Group may not be able to successfully implement the Group's strategic priorities.***

The Group's strategic priorities include, among others, the digitising of the Group's service offering and internal operations, accelerating the performance of its core assets, reinventing its customer experience and expanding in scale and scope. This includes acquisitions in new services in MENA as well as the acquisition of other telecom operators in MENA. Growth opportunities in adjacent services and applications include OTT media, digital financial services and IT services, such as STC Pay and the Group's cybersecurity offering. See further "*Description of the Group—Strategy*". However, there can be no assurance that the Group's strategy will be successfully implemented, will not require substantially more capital expenditures than anticipated or will not cause changes in the Group's operational efficiencies or structure. A failure to realise the anticipated benefits of the Group's strategy including increased revenue and cost optimisation, unanticipated expenses or delays in the implementation of the Group's strategic priorities, could significantly affect the Group's business, financial condition, results of operations, cash flows or prospects.

***The Group's revenue, profits and cash flows are concentrated in Saudi Arabia***

As at 31 December 2018, revenue generated in Saudi Arabia accounted for 91 per cent. of the Group's total revenue. As a result, the Group's operating results and growth are and will be affected by general economic and political developments in or affecting these countries and, in particular, by the level of economic activity in Saudi Arabia.

Saudi Arabia's economy, and the economies of Bahrain and Kuwait, are materially dependent upon the level of international hydrocarbon prices. See further "*Risks relating to Saudi Arabia and the Middle East—Saudi Arabia's economy has been, and may continue to be, adversely affected by a low oil-price environment*". High rates of inflation in any of the Group's core markets could also cause consumer purchasing power in that country to decrease, which may reduce consumer demand for the Group's services in that country. Additionally, any decrease in the population growth or gross domestic product ("GDP") in a core market may adversely affect the Group's business, financial condition or results of operations. There can be no assurance that economic conditions in Saudi Arabia will not worsen in the future or that demand for telecommunications services in those markets will not stagnate or decrease, any of which may result in an adverse effect on the Group's business, financial condition or results of



operations. See further "*Risks relating to Saudi Arabia and the Middle East—Saudi Arabia and the Middle East are subject to ongoing political and security concerns*".

In addition, the Saudi Arabian workforce has historically relied significantly on immigrants. However, recent Government policy initiatives to increase the percentage of Saudi nationals in the workforce and to increase levies imposed on expats has reduced, and may continue to reduce, the number of immigrants in the country, many of whom were customers of the Group. Any further initiatives which reduce the number of immigrants in Saudi Arabia could have an adverse effect on the Group's business, financial condition and results of operations.

***The Group may face increased competition***

The Group operates telecommunications networks in Saudi Arabia, Bahrain and Kuwait. The telecommunications market across the Group's jurisdictions of operation are highly competitive. The Group competes with a number of established operators in each of its markets. In addition, the telecommunications market may also be subject to competition from non-traditional competitors or industry disrupters who rely on technological innovation to compete in established markets. To compete effectively with its competitors, the Group must respond swiftly and successfully to the developments and potential competitive threats in each of its core markets.

Further, the proliferation of VoIP offerings for both voice and instant messaging, and the convergence of social media and search products or other services delivered over the internet (referred to as "Over-The-Top" or "OTT" services) such as Skype and WhatsApp, further increase competitive risks. The growth in internet connectivity has led to the proliferation of entrants offering VoIP services or audio or video content services delivered over the internet. Such operators could displace the services the Group provides by using the Group's customers' internet access (which may or may not be provided by the Group) to enable the provision of voice calls and instant messaging services directly to the Group's customers. Failure to continue to successfully transform business models toward such data-driven products, which may be at the expense of voice calls and instant messaging, to account for this industry shift could have a negative impact on the Group's existing services and adversely impact the Group's business, financial condition and results of operations.

Further, the Group's competitors may, from time to time, adopt more aggressive pricing policies, offer better products and services, develop and deploy more rapidly any new or improved technologies, expand and enhance their networks and coverage more rapidly, and undertake more extensive advertising and marketing than the Group. In addition, there is no assurance that new competitors with substantially greater financial, personnel, technical, marketing and other resources may enter the core market where the Group is active. These factors may result in increased pressure on the Group's margins or result in the Group losing market share in its core markets. Any failure by the Group to compete effectively could have an adverse effect on its business, financial condition or results of operations. See "*Risks relating to the Group's Business—The success of the Group's operations depends on its ability to attract and retain subscribers*".

***The success of the Group's operations depends on its ability to attract and retain subscribers***

The mobile voice telecommunications market in Saudi Arabia reached a penetration rate of approximately 130.5 per cent. as at 30 September 2018, according to the CITC. As a result, the competitive focus in Saudi Arabia continues to shift from acquiring new customers to retaining existing high-value customers and increasing usage by existing customers as a result of increased penetration of the mobile telecommunications market and increased competition. There can be no assurance that the Group will not experience increases in churn rates (rate at which mobile customers are disconnected from a network), reflecting increased numbers of customer deactivations, particularly as competition for existing customers intensifies. The cost of acquiring a new subscriber is much higher than the cost of maintaining an existing subscriber. Accordingly, increased churn rates could have a negative impact on the Group's operating income, even if the Group is able to replace lost subscribers. Consistent with the Saudi Arabian market generally, the majority of the Group's mobile subscribers are prepaid, which contributes to churn, as subscribers are not contractually bound in the long-term to use the Group's services and are free to move to other operators with more attractive pricing or other advantages. If the Group fails to reduce or maintain its rates of churn, or competing mobile operators improve their ability to retain subscribers and thereby lower their churn levels, the Group's cost of retaining and acquiring new subscribers could increase.

The degree to which the mature Saudi Arabian mobile telecommunications market may expand is uncertain and will depend on numerous factors, many of which are beyond the Group's control. Such factors include, among others, the business strategies and capabilities of the Group's competitors, prevailing market conditions, the development of new and/or alternate technologies for mobile telecommunications products and services, the development of new devices that require a mobile connection and the effect of applicable regulations. The Group's ability to attract new subscribers or to grow its average revenue per user ("ARPU") from existing subscribers despite the high market penetration and the increased competition that has resulted from this mature market will depend in large part upon its ability to offer innovative services on new devices, stimulate and increase subscriber usage, convince subscribers to switch from competing mobile operators to its services and its ability to minimise churn. If the Group is not successful in anticipating and responding to technological change and resulting consumer preferences in a timely and cost-effective manner, the Group's quality of services, business, financial condition and results of operations could be adversely affected.

***The Group's revenue from voice subscriber services is declining and unlikely to improve while the Group's future revenue will be increasingly dependent on data services***

As data usage increases, voice services revenue from fixed-line and mobile telephony is in decline across the industry globally. In particular, landline voice usage is in decline across the industry, with the rate of decline in lines used by businesses outpacing that in the residential landline voice market. Accordingly, there is a risk that business and residential customers will continue to migrate from using landline voice to using other forms of telephony or mobile only. Furthermore, new technologies such as OTT services create the risk that landline voice services will become obsolete more quickly. There can be no assurance that the Group's landline voice customers who chose to cease using the Group's fixed line services will migrate to the Group's other services. If this trend continues and the Group is unable to retain its fixed line customers the Group's business, financial condition, and results of operations could be adversely affected.

The Group expects demand for data services to continue to be driven by rising smartphone and tablet penetration and usage, usage of video and other multimedia services, as well as improvements in fixed-line and mobile network capability. Although the Group has identified data revenue as one of the most important drivers for future profit growth and is investing in development of infrastructure and new consumer propositions in response to this trend, there can be no assurance that the Group will successfully monetise the increase in data traffic and any increase in the revenue generated from data services may not be sufficient to offset the decline in other subscriber services revenue. This could have an adverse effect on the Group's business, financial condition and results of operations. See "*Description of the Group—Strategy*".

***A significant proportion of the Group's mobile revenue sources are short-term in nature***

Prepaid customers, who are customers who pay for service in advance through the purchase of wireless airtime or data access, represent the majority of the Group's mobile customers as at 31 December 2018. As prepaid customers do not sign service contracts, the Group's prepaid customer base is more likely than postpaid customers, who sign service contracts, to switch mobile operators and take advantage of promotional offers by other operators. Many of the Group's mobile customers also subscribe to short-term data packages with lengths of one-day to one-week. As a result, the Group cannot be certain that prepaid customers or short-term data package customers will continue to use the Group's services in the future, which makes the Group's future revenue expectations harder to predict. A significant decrease in the Group's prepaid customers could have an adverse effect on the Group's business, financial condition or results of operations.

***The Group has international operations outside of Saudi Arabia, which has exposed it to a range of risks***

The Group has telecommunications operations in Kuwait and Bahrain. Additionally, part of the Group's strategy is to expand in scale and scope which may include investments in international telecommunications operators in growing markets, primarily in the MENA region.

The Group's ability to manage its international operations and to achieve future profitability depends upon a number of factors, including its ability:

- to integrate acquired business operations into its current operations and/or implement an effective management structure given the terms of the investment (particularly in cases where the Group has only a minority interest);
- to realise the benefits of expected planned synergies (such as branding, marketing and equipment sourcing) and successfully execute operations in new jurisdictions (such as rolling out a new network, managing vendors, establishing billing systems and addressing security concerns);
- to increase the scope of its management, operational and financial systems and controls to handle the increased complexity, expanded breadth and geographic area of its operations;
- to recruit, train and retain qualified staff to manage and operate its business;
- to evaluate the contractual, financial, regulatory, environmental and other obligations and liabilities associated with its international operations, including the appropriate implementation of financial oversight and internal controls and the timely preparation of financial statements that are in conformity with the Group's accounting policies;
- to manage foreign currency risks;
- to judge market dynamics, demographics, growth potential and the competitive environment in its target markets; and
- to maintain and obtain necessary permits, licences, spectrum allocation and approvals from governmental and regulatory authorities and agencies.

Any difficulties in addressing these issues or integrating one or more of its existing or future international operations could have an adverse effect on the Group's business, financial condition or results of operations.

***The Group may pursue acquisitions, investments or merger opportunities, which may subject the Group to significant risks and there is no assurance that it will be successful or that the Group will derive the expected benefits from these transactions***

Part of the Group's strategy is expanding its scale and scope and the Group may pursue acquisitions of, investments in or mergers with businesses, technologies, services and/or products that complement or expand the Group's business, including as part of the Group's growth and rollout strategy to compete with larger competitors in certain regions. Some of these potential transactions could be significant relative to the size of the Group's business and operations and may require significant investment and/or additional leverage. Any such transaction would involve a number of risks and could present financial, managerial and operational challenges, including: diverting management attention from running the Group's existing business or from other viable acquisition or investment opportunities; incurring significant transaction expenses; increased costs to integrate financial and operational reporting systems, technology, personnel, customer base and business practices of the businesses involved in any such transaction with the Group's business; not being able to integrate the Group's businesses in a timely fashion or at all; potential exposure to material liabilities not discovered in the due diligence process or as a result of any litigation arising in connection with any such transaction and failure to retain key management and other critical employees.

Any future acquisitions of new businesses by the Group carry the risk that the business acquired may underperform relative to the price paid or the resources committed by the Group, the Group may not achieve anticipated cost savings or the Group may otherwise be adversely affected by acquisition-related charges. While the Group seeks to mitigate these risks through, among other things, due diligence processes and indemnification provisions, the Group cannot be certain that these mitigation measures will be sufficient in all cases. These risks can be particularly significant in emerging markets, where it is difficult to assess the regulatory environment given limited history and precedent and other economic and political factors.

In addition, the Group's investments may not perform as expected, which may result in the Group recording losses or significant impairment charges against the value of those investments, as has happened in the past. For example, during 2016, the share of losses in one of the Group's investments,

Oger Telecom Limited ("OTL"), exceeded the Group's remaining balance sheet value of OTL and accordingly the Group reduced the value of OTL to zero on its balance sheet and discontinued recognising its share of further losses. In 2018, OTL started to liquidate and restructure its main subsidiaries. See "*Description of the Group—Equity accounted investments—Oger Telecom Limited*".

Moreover, the Group may not be able to successfully complete acquisitions in light of challenges such as strong competition from its competitors and other prospective acquirers who may have substantially greater resources than the Group in terms of access to capital.

For any or all of these reasons, a pursuit of an acquisition, investment in or merger with businesses, technologies, services and/or products, or failure to properly execute the divestiture of an existing business, could have an adverse effect on the Group's business, financial condition and results of operations.

***The Group is exposed to certain risks in respect of the development, expansion and maintenance of its telecommunications networks***

The Group's ability to increase its subscriber base depends in part upon the success of the expansion and management of its telecommunications networks and upon its ability to fund any such expansion. The build-out of new, or the expansion of existing, networks is subject to risks and uncertainties which could delay the introduction of services in some areas and increase the cost of network construction. Network expansion and infrastructure projects, including those in the Group's development pipeline (such as the Group's current roll-out of fibre in underserved parts of Saudi Arabia in partnership with the MCIT (see further, "*Description of the Group—Network infrastructure—Fixed*") and the Group's plans to introduce 5G service in Saudi Arabia) typically require substantial capital expenditure throughout the planning and construction phases and significant delays may occur before the Group can obtain the necessary permits and approvals and the new projects become operational. During the planning and expansion process, the Group is subject to a number of construction, financing, operating, regulatory and other risks beyond its control, including, but not limited to:

- an inability to obtain and maintain project development permission or requisite governmental licences, permits or approvals;
- changes in laws, rules, regulations, governmental priorities and regulatory regimes which adversely impact the relevant project or any failure to meet licence obligations;
- failure to complete projects according to specifications, including through (i) inadequate engineering, project management, capacity or infrastructure, including as a result of failure by third parties to fulfil their obligations relating to the provision of utilities and transportation links that are necessary or desirable for the successful operation of a project, (ii) shortages or unavailability of materials, equipment and skilled and unskilled labour and/or (iii) labour disputes and disputes with contractors and sub-contractors;
- an inability to obtain necessary financing on terms favourable to the Group, if at all;
- increases in capital and/or operating costs, including as a result of foreign exchange rate movements;
- changes in demand for services or inaccurate estimates of service need;
- environmental regulations, including the need to perform feasibility studies and conduct remedial activities; and
- a range of other factors that are outside the control of the Group, including, but not limited to, electricity and power interruptions due to electricity load shedding and/or blackouts, and energy shortages, adverse weather conditions and natural disasters, accidents and fraud and other malicious acts.

Further, the Group's partnership with the MCIT on the fibre roll-out in Saudi Arabia has been established by regulation and the revenue from such roll-out may not offset the costs if certain subscriber estimates are not achieved. The occurrence of one or more of these events may have an adverse effect on the

Group's ability to complete its current or future network expansion projects on schedule or within budget, if at all, and may prevent the Group from achieving the projected revenue, internal rates of return or capacity associated with such projects. There can be no assurance that the Group will be able to generate revenue or profits from its expansion projects that meet its planned targets and objectives, or that such revenue will be sufficient to cover the associated construction and development costs, either of which could have an adverse effect on the Group's business, financial condition or results of operations.

***Continued cooperation between the Group and its equipment and service providers is important to maintain the Group's telecommunications operations***

Once a manufacturer of telecommunications equipment has designed and installed its equipment within a system, the operator of the system will often be reliant on such manufacturer for continued service and supply. The Group's ability to maintain and grow its subscriber base depends in part on its ability to source adequate supplies of network equipment and on its ability to source adequate supplies of mobile handsets, software and content on a timely basis. Currently, the Group relies on a number of suppliers for a majority of its telecommunications network infrastructure, handset and other equipment supplies. Continued cooperation with these equipment and service providers is essential for the Group to maintain its operations.

The Group does not have direct operational or financial control over its key suppliers and has limited influence with respect to the manner in which its key suppliers conduct their businesses. The Group's subsidiaries' and associates' reliance on these suppliers subjects them and the Group to risks resulting from any delays in the delivery of services. The inability or unwillingness of key suppliers to provide the Group with adequate equipment and supplies on a timely basis and at attractive prices could adversely impact the Group's ability to retain and attract subscribers or offer attractive product offerings, either of which could negatively impact the Group's business, financial condition or results of operations.

***A downgrade in STC's credit ratings could increase its financing costs***

The Programme is expected to be assigned a rating of A1 by Moody's and A- by S&P. One or more independent credit rating agencies are expected to assign credit ratings to the Certificates issued under the Programme. STC's credit ratings, which are intended to measure its ability to meet its financial obligations as they mature, are an important factor in determining the Group's cost of financing. The Group's ratings benefit from the rating agencies' perception that, due to the Government's level of share ownership in STC and that the Government would provide support to STC as and when needed. As a result, any changes in that level of ownership or perception, or any reduction in the Government's own credit standing, could also result in a downgrade of STC's ratings. STC's credit ratings may also be negatively impacted by factors including if the Group's debt levels were to increase, for example as a result of debt-funded acquisitions, or if its profit margins were to decrease, for example as a result of increased competition or regulatory developments in its core markets. A downgrade of STC's ratings (or announcement of a negative ratings watch) would increase its cost of financing and any actual or anticipated changes in STC's ratings or the ratings of any Certificates (if applicable) generally may affect the market value of the Certificates.

Any change in the credit ratings of the Certificates, STC or the Government could adversely affect the price that a subsequent purchaser will be willing to pay for the Certificates. The significance of each rating should be analysed independently from any other rating.

***The Group is majority-owned by the Government whose interests may, in certain circumstances, not be aligned with the interests of Certificateholders***

The Government is the Group's major shareholder, and directly owned at 31 March 2019, 70.0 per cent. of the Group's share capital, through the Public Investment Fund and indirectly owned 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. Six of the nine members of the Group's Board of Directors are nominated by, and represent, the three key Government shareholders. The majority shareholder of the Group has the ability to significantly influence the Group's business through its ability to control decisions and actions of the Group that require shareholder approval as well as its ability to control the composition of the Group's board of directors (the "**Board**") and thus influence Board decisions.

Given that the majority shareholder controls amendments to the Group's Articles of Association, it has the ability to determine the outcome of certain votes by shareholders of the Group, including but not limited to, the appointment of a majority of the Group's directors and, in turn, the selection of the Group's management, the Group's business policies and strategies, budget approval, the issuance of equity and debt securities, mergers, acquisitions and disposals of the Group's assets or businesses, the payment of dividends and other matters. The interests of the majority shareholder may be different from those of the Group's creditors and other stakeholders (including the Certificateholders). For example, the majority shareholder's key objective is to ensure the stable supply of telecommunications services to the Kingdom's residents and businesses at affordable costs rather than the optimisation of the Group's revenue and profits. In addition, the Government generates royalties from the Group based upon the Group's revenue, not profits, which may create differing interests between the Group and the Government as majority shareholder in terms of revenue versus profit maximisation. The interests of the majority shareholder and investors in the Certificates may conflict, and there can be no assurance that the resolution of any matter that may involve the interests of the majority shareholder will be resolved in what investors would consider to be their best interests.

***Any failure in the Group's information and technology systems could result in interruptions of the Group's business operations***

The Group's information and technology systems are designed to enable the Group to use its infrastructure resources as effectively as possible and to monitor and control all aspects of its operations. Any failure or breakdown in these systems could interrupt normal business operations and result in a significant slowdown in operational and management efficiency for the duration of such failure or breakdown. Any prolonged failure or breakdown could impact the Group's ability to offer services to its customers, which could have an adverse effect on the Group's business, financial condition or results of operations. For example, the Group depends on certain technologically sophisticated management information systems and other systems, such as its customer billing system, to enable it to conduct its operations. As part of the Group's digitisation strategy, it has implemented a number of new IT systems and applications. While these have historically been implemented with minimum impact on the business, there can be no assurance that any future new IT will not result in any business interruptions. Any significant delays or interruptions in providing services could negatively impact the Group's reputation as an efficient and reliable telecommunications provider.

In addition, the Group relies on third-party vendors to supply and maintain much of its information technology. In the event that one or more of the third-party vendors that the Group engages to provide support and upgrades with respect to components of the Group's information technology ceased operations or became otherwise unable or unwilling to meet its needs, the Group cannot assure investors that it would be able to replace any such vendor promptly or on commercially reasonable terms, if at all. Delay or failure in finding a suitable replacement could adversely affect the Group's business, financial condition or results of operations.

***Cyber attacks impacting the Group's networks or systems could have an adverse effect on the Group's business and result in data loss or other security breaches***

Cyber attacks, including through the use of malware, computer viruses, dedicated denial of services attacks, credential harvesting, social engineering and other means for obtaining unauthorised access to or disrupting the operation of the Group's networks and systems and those of the Group's suppliers, vendors and other service providers, could have an adverse effect on the Group's business.

Cyber attacks may cause equipment failures as well as disruptions to the Group's or the Group's customers' operations. Cyber attacks against companies, including the Group, have increased in frequency, scope and potential harm in recent years. Other businesses have been victims of ransomware attacks in which the business becomes unable to access its own information and is presented with a demand to pay a ransom in order to once again have access to its information. Further, perpetrators of cyber attacks are not restricted to particular groups or persons. These attacks may be committed by company employees or external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective, and may even be launched by or at the behest of nation states. Cyber attacks may occur alone or in conjunction with physical attacks, especially where disruption of service is an objective of the attacker.

The inability to operate or use the Group's networks and systems or those of the Group's suppliers, vendors and other service providers as a result of cyber attacks, even for a limited period of time, may result in significant expenses to the Group and/or a loss of market share to other communications providers. The costs associated with a major cyber attack on the Group could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cybersecurity measures and the use of alternate resources, lost revenues from business interruption and litigation. Further, as the Group sells cybersecurity services to its enterprise clients any cybersecurity incident affecting the Group could have an adverse effect on its reputation and ability to sell these services to customers.

Additionally, the Group's business, like that of most retailers and wireless companies, involves the receipt, storage, and transmission of confidential information, including sensitive personal information and payment card information, confidential information about the Group's employees and suppliers, and other sensitive information about the Group, such as the Group's business plans, transactions and intellectual property. Unauthorised access to confidential information may be difficult to anticipate, detect, or prevent, particularly given that the methods of unauthorised access constantly change and evolve. The Group may experience unauthorised access or distribution of confidential information by third parties or employees, errors or breaches by third party suppliers, or other breaches of security that compromise the integrity of confidential information, and such breaches can have an adverse effect on the Group's business or damage the Group's reputation. See "*Risks Relating to the Telecommunications Industry—Telecommunications companies could suffer loss of consumer confidence and/or legal action due to a failure to protect their customer information*".

There can be no guarantee that the Group will not be subject to cyber attacks which, individually or in the aggregate, may adversely affect to the Group's operations, financial condition or results of operations.

***The Group may not be able to adequately protect its intellectual property, which could harm the value of its brand and branded products***

The Group depends on its brands and branded products and believes that these brands are important to its business. The success of the Group's business depends on its ability to increase brand awareness and further develop its branded products and services in its markets.

The Group has protected certain intellectual property (including through trademark registrations) in the markets in which it is currently used, although there is no assurance that the protection it has obtained will be effective to stop third-party infringements in all cases.

Further, the Group cannot always be certain that the brands it uses will not infringe on previously protected third-party rights in any of its markets. As a result, the Group may incur liability for trademark or other intellectual property right infringement, which could result in damage to the Group's reputation and potentially significant financial costs.

***If the Group fails to attract and retain qualified and experienced employees, its business may be harmed***

If the Group is unable to attract and retain experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, in its core markets, or if the Group fails to recruit skilled professional and technical staff at a pace consistent with its growth, its business, financial condition or results of operations may be adversely affected. Experienced and capable personnel in the telecommunications industry remain in high demand and there is continuous competition for their talents. In addition, as the Group seeks to expand the scope of its activities beyond traditional telecommunication services, it may face additional challenges in recruiting suitably trained staff. The Group may not be able to successfully recruit, train or retain the necessary qualified personnel in the future. The loss of some members of the Group's senior management team or any significant number of its mid-level managers and skilled professionals may result in a loss of organisational focus, poor execution of operations and corporate strategy or an inability to identify and execute potential strategic initiatives such as expansion of capacity or acquisitions and investments. These adverse consequences could, individually or in the aggregate, have an adverse effect on the Group's business, financial condition or results of operations.

***Antitrust and competition laws in the countries in which the Group operates may limit its growth and subject it to antitrust and other investigations or legal proceedings***

The antitrust and competition laws and related regulatory policies in Saudi Arabia generally favour increased competition in the telecommunications industry and may impact its operating entities' commercial decisions and ability to maximise competitiveness and prohibit the Group from making further acquisitions; or impact its operating entities' ability to continue to engage in particular practices to the extent that such entity holds a significant market share in such countries. In addition, violations of such laws and policies could expose the Group's operating entities to administrative proceedings, regulatory measures, civil lawsuits or criminal prosecution, including fines and imprisonment, and to the payment of punitive damages.

Regulators in Saudi Arabia are particularly focused on establishing rules and a regulatory framework for interconnection between telecommunications networks, including mobile termination (i.e., the ability of a telecommunications provider to terminate a call on another operator's network (i.e., calling between networks)) and the related pricing mechanisms (i.e., mobile termination rates). In fixed-line networks, although the incumbent provider, such as the Group in Saudi Arabia, has generally been obliged by the regulator to offer access to its network for the purposes of interconnection or call termination at prices which have usually been set by the regulator to equal cost, such pricing could also be set well below cost. Decisions by any of the Group's operating entities' relevant regulators requiring the relevant entity to provide mobile termination and interconnection services well below current rates, which is more likely to be required in countries in which the Group is viewed or designated by the local regulator as having significant market power, could prevent the Group from realising a significant amount of revenue and have an adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, antitrust and competition laws are subject to change, and existing or future laws may be implemented or enforced in a manner that is detrimental to the Group. For example, there is currently a new draft telecommunications act proposed in Saudi Arabia. The Group cannot predict the effect that current or any future lawsuits, appeals or investigations by regulatory bodies or by any third party in any of the countries in which it operates will have on its business, financial condition or results of operations. There can be no assurance that there will not be additional material antitrust or competition related lawsuits and as a result cause the Group material losses and expenses. In addition, any fines, or other penalties on an operating entity imposed by an antitrust or competition authority as a result of any such investigation, or any prohibition on such entity's engaging in certain types of business in Saudi Arabia, Kuwait or Bahrain, could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

**Risks Relating to the Telecommunications Industry**

***The telecommunications industry is heavily regulated and new, or changes in existing, laws, regulations or governmental policy could adversely affect industry participants***

Telecommunications companies, including the Group, must comply with an extensive range of laws and regulations pertaining to the licensing, construction and operation of telecommunications networks and services, as implemented by relevant agencies or other regulatory bodies in the countries in which they operate.

Telecommunications regulators generally have significant latitude in the administration and interpretation of telecommunications licences and laws, rules and regulations. In connection with the general trend toward liberalisation of telecommunications services, these regulators have sought, and may continue to seek, to regulate the market in such a way that companies with existing networks (including the Group) must permit their competitors access to those networks instead of building their own. Local loop unbundling, asymmetric termination rates, roaming regulation, price regulation, interconnection arrangements and provision of open access to mobile virtual network operators may be used to regulate telecommunications markets. In addition, telecommunications regulators may prohibit the Group from making further acquisitions or continuing to engage in particular practices to the extent that it holds a significant market share in that jurisdiction. Actions taken by regulators in the administration and interpretation of licences and laws, rules and regulations may be influenced by local political and economic pressures.



Telecommunications licences, including the Group's licences, contain extensive obligations with which the licensee is required to comply. These obligations may include network buildout requirements, restrictions on rates, capital investment requirements, minimum quality standards and service and coverage conditions. These licences also typically include provisions for their termination in specific circumstances, such as, for example, the noncompliance with licence conditions or for general public interest reasons. Licences could possibly be revoked or amended for other reasons, such as changes in regulation, laws, government policy and/or the economic or political environment. Certain of the Group's licences have finite terms. Decisions by regulators regarding the grant, amendment or renewal of licences to members of the Group or to third parties, or regarding laws, rules, and regulations, could adversely affect the Group's operations. The Group cannot provide any assurance that governments or regulatory bodies in the countries in which it operates will not issue telecommunications licences to new operators whose services will compete with the services provided by the Group.

In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise adversely affect telecommunications operators such as the Group. Decisions by regulators and new legislation, including in relation to retail, wholesale and interconnect price regulation, could adversely affect the pricing of, or adversely affect the revenue from, the services by these operators. Decisions by regulators may include limiting an operator's pricing flexibility, raising its costs, reducing its retail or wholesale revenues or conferring greater pricing flexibility on competitors.

Laws and regulations are subject to change which could result in material compliance costs for the Group. For example, there is currently a draft of a New ICT act with the Government in Saudi Arabia which may reallocate the powers and responsibilities of the CITC and MCIT, but there is no firm timetable for its passage or any drafts of the new by-laws relevant to a new telecommunications act. Existing or future laws and regulations may be implemented or enforced in a manner that is detrimental to the Group. In addition, violations of any applicable laws and regulations could expose the Group to administrative proceedings, civil lawsuits, criminal prosecution (including fines) or a prohibition on the Group engaging in certain types of business or offering certain products or services in one or more of the core markets in which it operates. The Group also cannot predict the effect that current or any future lawsuits, appeals or investigations by regulatory bodies or by any third party in any of the countries in which it operates will have on its business, financial condition or results of operations.

***Telecommunications companies are reliant on the continuing operations of their networks and the networks of other operators***

Telecommunication companies depend to a significant degree on the uninterrupted operation of their networks to provide their services. Customers may experience blocked or dropped calls because of network capacity constraints. In addition, telecommunications networks, including related information systems, information technology and infrastructure, are vulnerable to damage or interruptions in operation from a variety of sources including natural disasters, power loss, equipment failure, malicious acts, network software flaws, transmission cable disruption or similar events. See "*Risks relating to the Group's Business—Any failure in the Group's information and technology systems could result in interruptions of the Group's business operations*".

Telecommunications companies also rely to a certain extent on interconnection to the networks of other telecommunications operators to carry calls from their customers to the customers of other fixed line and mobile operators, both within a given country and internationally. While the Group has interconnection and international roaming agreements in place with many other telecommunications operators, it has no direct control over the quality of these networks and the interconnections and international roaming services they provide.

Any difficulties or delays in interconnecting with other networks and services, or the failure of any operator to provide reliable interconnections or roaming services to the Group on a consistent basis, could cause customer dissatisfaction and result in a loss of subscribers or a decrease in traffic, which could adversely affect the Group's business, financial condition or results of operations.

Any interruption of the Group's operations or the provision of any service, whether from operational disruption, natural disaster or otherwise, could damage the Group's ability to attract and retain customers, cause significant customer dissatisfaction and have an adverse effect on its business, financial condition or results of operations.

***Telecommunications companies rely on third-party standards and protocols***

Telecommunications companies are reliant on third-party standards and protocols in delivering communication services and depend on the efficient and uninterrupted operation of communication networks. The third-party standards and protocols on which the Group relies could be compromised due to various factors, including, but not limited to, power loss, telecommunications failures, attacks, data corruption, security breaches, software malfunction, natural disasters or other acts not in the Group's control. If any of these standards were to be compromised, or in the case of GSM, the encryption code breached, customers could lose faith in the integrity of the affected mobile networks. Any compromise in third-party standards and protocols or customers moving to providers with alternative delivery methods could have an adverse effect on the Group's business, financial condition or results of operations.

***Telecommunications networks may be adversely affected by natural disasters or other catastrophic events beyond the control of their operators***

Telecommunications operators face the risk that their business operations, technical infrastructure (including network infrastructure) and development projects could be adversely affected or disrupted by natural disasters (such as earthquakes, floods, tsunamis, hurricanes, fires or typhoons) or other catastrophic or otherwise disruptive events (such as changes to predominant natural weather, hydrologic and climatic patterns; major accidents, including chemical or other material environmental contamination; and power loss).

The occurrence of any of these events, or a similar such event, at one or more of the Group's facilities or in the regions in which the Group operates may cause disruptions to the Group's operations in part or in whole, may increase the costs associated with providing services as a result of, among other things, costs associated with remedial work, may subject the Group to liability or impact the Group's brands and reputation and may otherwise hinder the normal operation of the Group's business, which could adversely affect its business, financial condition or results of operations.

In addition, the Group's technical infrastructure is vulnerable to damage or interruption from information and telecommunication technology failures, acts of war, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at the Group's facilities, system failures, hardware or software failures, computer viruses or cybercrime in any form could affect the quality of its services and cause service interruptions. Any of these occurrences could result in reduced user traffic and reduced revenues and could harm the Group's operations.

The effect of any of these events on the Group's business, financial condition or results of operations may be worsened to the extent that any such event involves risks for which the Group is uninsured or not fully insured, or which are not currently insurable, such as acts of war and terrorism. It is the Group's policy to procure appropriate insurance cover (such as property damage and business interruption cover); however, the Group cannot give any assurance that the insurance procured by the Group and in place at any particular time will cover all potential risks sufficiently or that its insurers will have the financial ability to pay all claims that may arise. Further, if there are changes in the insurance markets or insurance costs rise, the Group cannot provide assurance that insurance coverage will continue to be available on terms similar to those presently available to the Group or at all.

***Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage***

The effects of any damage caused by exposure to an electromagnetic field have been and continue to be the subject of careful evaluations by the international scientific community, but to date there is no scientific evidence of harmful effects on health. However, the Group cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

The Group's mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers and reduced usage per customer or, if the risks were to be established, in potential liability to customers. In addition, concerns in relation to electromagnetic risks may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

***Telecommunications companies could suffer loss of consumer confidence and/or legal action due to a failure to protect their customer information***

Mobile networks carry and store large volumes of confidential personal and business voice traffic and data. In common with other telecommunications companies, the Group hosts significant quantities and types of customer data in each of its core markets and needs to ensure its service environments are sufficiently secure to protect it from loss or corruption of customer information. In addition, many countries are imposing new data protection regulations. For example, the general data protection regulation recently implemented in Europe could be adopted by regulators in the countries in which the Group operates. Failure to adequately protect customer information could have an adverse effect on the Group's reputation and may lead to legal action against the Group, which could have an adverse impact on its financial position and its operations.

**Risks Relating to Saudi Arabia and the Middle East**

*STC is majority-owned by the Government of the Kingdom of Saudi Arabia. Moreover, a significant portion of the asset base of the Group is located in, and a significant portion of the Group's revenues are derived from, its operations in Saudi Arabia and the Middle East. As a result, the Group's business, operating results and growth are affected in general by financial, economic and political developments in or affecting Saudi Arabia and the Middle East. Certain risks relating to this region are set out below.*

*Unless otherwise specified or the context otherwise requires, information in the following risk factors has been derived from the base prospectus dated 7 September 2018 prepared by, and relating to the trust certificate issuance programme of, KSA Sukuk Limited and the Kingdom of Saudi Arabia (acting through the Ministry of Finance) (the "KSA Prospectus").*

***Saudi Arabia and the Middle East are subject to ongoing political and security concerns***

Saudi Arabia and other parts of the Middle East region have been subject to political and security concerns, especially in recent years. Several countries in the region are currently subject to armed conflicts and/or social and political unrest, including conflicts or disturbances in Yemen, Syria, Libya and Iraq, as well as the multinational conflict with "Da'esh" (also referred to as the Islamic State). In some instances, the recent and ongoing conflicts are a continuation of the significant political and military upheaval experienced by certain regional countries from 2011 onwards, commonly referred to as the "Arab Spring", which gave rise to several instances of regime change and increased political uncertainty across the region. In addition, tensions have persisted between Saudi Arabia and Iran, as exemplified in January 2016 by Saudi Arabia recalling its ambassador to Iran. Furthermore, in March 2015, a coalition of countries, led by Saudi Arabia and supported by the international community, commenced military action against the Al Houthi rebels in Yemen. Although the coalition scaled back its military operations in Yemen in March 2016 and a ceasefire was declared in April 2016, the conflict in Yemen is not yet fully resolved and military operations continue at a reduced scale. Saudi Arabia was targeted on several occasions by ballistic missiles fired by the Al Houthi rebels in Yemen during 2017 and 2018, all of which were successfully intercepted by Saudi Arabia's defence systems. There can be no assurance that the conflict in Yemen will not continue or re-escalate.

On 5 June 2017, three GCC countries – Saudi Arabia, the UAE and Bahrain – as well as Egypt and Yemen – severed diplomatic ties with Qatar, cut trade and transport links and imposed sanctions on Qatar. The stated rationale for such actions was Qatar's support of terrorist and extremist organisations and Qatar's interference in the internal affairs of other countries. There can be no assurance as to when diplomatic relations will be restored or air, land and sea connections reopened with Qatar.

These geopolitical events may contribute to instability in the Middle East and surrounding regions (that may or may not directly impact Saudi Arabia) and may have an adverse effect on Saudi Arabia's or this region's attractiveness for foreign investment and capital, its ability to engage in international trade and, subsequently, its economy and financial condition. Furthermore, such geopolitical events may also contribute to increased defence spending, which could in turn have an adverse impact on the relevant countries' fiscal position or the budget available for other projects.

***Saudi Arabia has experienced terrorist attacks and other disturbances in the past***

Saudi Arabia has experienced occasional terrorist attacks and other disturbances in recent years, including incidents in Jeddah, Medina and Qatif in July 2016. There can be no assurance that extremists or terrorist groups will not attempt to target Saudi Arabia or commit or attempt to commit violent activities in the future. Any occurrences or escalation of terrorist incidents or other disturbances in Saudi Arabia may have an adverse effect on Saudi Arabia's economic and financial condition.

***Saudi Arabia's economy has been, and may continue to be, adversely affected by a low oil-price environment***

The hydrocarbon sector is the single largest contributor to Saudi Arabia's economy and oil revenues account for a majority of the Government's total revenues and export earnings. See further "*Overview of Saudi Arabia—Economy*".

As oil is Saudi Arabia's most important export, any change in oil prices affects various macroeconomic and other indicators, including, but not limited to, GDP, Government revenues, balance of payments and foreign trade. International oil prices have fluctuated significantly over the past two decades and may remain volatile in the future. More recently, international oil prices have witnessed a significant decline since mid-2014, with the OPEC Reference Basket price (a weighted average of prices per barrel for petroleum blends produced by the OPEC countries) declining from a monthly average of U.S.\$107.89 in June 2014 to a monthly average of U.S.\$26.50 in January 2016, before partially recovering to a monthly average of U.S.\$73.22 in June 2018. The price per barrel of Arabian Light Crude Oil (which is produced by Saudi Arabia and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

As a result of the decrease in Government revenues occasioned by the recent decline in oil prices, in the fiscal year 2014, the Government recorded an actual budget deficit equivalent to 2.3 per cent. of Saudi Arabia's nominal GDP for the year ended 31 December 2014, its first deficit since 2009. The Government's actual budget deficit for the fiscal year 2015 increased to 14.9 per cent. of Saudi Arabia's nominal GDP for the year ended 31 December 2015. The Government's actual budget deficit for the fiscal year 2016 decreased to 12.9 per cent. of Saudi Arabia's nominal GDP for the year ended 31 December 2016, excluding an expenditure amount of SAR105.0 billion (U.S.\$28.0 billion) during the fiscal year relating to settling due payments from prior years. Based on preliminary figures, the Government's actual budget deficit for the fiscal year 2017 further decreased to 8.9 per cent. of Saudi Arabia's nominal GDP for the year ended 31 December 2017. In its 2019 budget the Ministry of Finance estimated that Saudi Arabia's budget deficit for the fiscal year 2018 will be SAR136.0 billion.

The low global oil price environment from mid-2014 can be attributed to a number of factors, including, but not limited to, a decline in demand for oil due to a worsening of global economic conditions, the increase in oil production by other producers and competition from alternative energy sources. In general, international prices for crude oil are also affected by the economic and political developments in oil producing regions, particularly the Middle East; prices and availability of new technologies; and the global climate and other relevant conditions. There can be no assurance that these factors, in combination with others, will not result in a prolonged or further decline in oil prices, which may continue to have an adverse effect on Saudi Arabia's GDP growth, Government revenues, balance of payments and foreign trade and, in turn, may affect the Group's operations in Saudi Arabia.

***The Government's efforts to diversify Saudi Arabia's economy and effect structural changes may have undesirable effects***

Through Vision 2030, the Government is seeking to implement far-reaching reforms of Saudi Arabia's economy and society. See further "*Overview of Saudi Arabia—Vision 2030*". Some of the measures envisaged include the greater participation of Saudi citizens in the private sector, a decrease in certain subsidies historically available to the fuel and energy sectors, as well as the imposition of new taxes and administrative fees. The implementation of these and other similar measures may be a lengthy and complex process, and there can be no assurance that these measures will not have unexpected or undesirable consequences in Saudi Arabia. The implementation of these and other similar measures, in whole or in part, may have a disruptive effect and consequently may have an adverse effect on Saudi Arabia's economic and financial condition.

***Global financial conditions have had, and similar events in the future may have, an impact on the regional economic and financial condition***

The Saudi Arabian and other Middle Eastern economies may be adversely affected by worsening global economic conditions and external shocks, including the continuing impact of the global financial crisis of 2008-2009 and those that could be caused by future significant economic difficulties of their major regional trading partners or by more general "contagion" effects, which could have an adverse effect on the regional economic growth. In a referendum held in June 2016, voters in United Kingdom voted to exit the European Union. The results of the referendum led to a significant depreciation of the Pounds Sterling against other major currencies and created volatility on most major stock exchanges around the world. To the extent that such economic uncertainty continues or the process of the United Kingdom's expected exit from the European Union causes further economic uncertainty and disruption in the global financial markets, this may have adverse consequences for the global economy. No assurance can be given that a further global economic downturn or financial crisis will not occur and, to the extent that further instability in the global financial markets occurs, it is likely that this would have an adverse effect on the Saudi Arabian and other Middle Eastern financial sectors and economies.

***Investing in securities involving emerging markets such as Saudi Arabia generally involves a higher degree of risk***

Investing in securities involving emerging markets, such as Saudi Arabia, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate, and are familiar with, the significance of the risks involved in investing in emerging markets.

Saudi Arabia's economy is susceptible to future adverse effects similar to those suffered by other emerging market countries. In addition, as a result of "contagion", Saudi Arabia could be adversely affected by negative economic or financial developments in other emerging market countries. Key factors affecting the environment include the timing and size of increases in interest rates in the United States, further evidence of an economic slowdown in China, geopolitical tensions in the Middle East and in the Korean peninsula, and other similar significant global events.

Accordingly, there can be no assurance that the market for securities bearing emerging market risk, such as the Certificates, will not be affected negatively by events elsewhere, especially in other emerging markets.

***There can be no assurance that the Government will not reconsider Saudi Arabia's exchange rate policy***

The Saudi Riyal has been pegged to the U.S. dollar since 1986. Although, as at the date of this Base Prospectus, this currency peg is maintained at its existing level, there can be no assurance that future unanticipated events, including an increase in the rate of decline of the Government's reserve assets, will not lead the Government to reconsider its exchange rate policy. Any change to the existing exchange rate policy that results in a significant depreciation of the Saudi Riyal against the U.S. dollar or other major currencies could have an adverse effect on Saudi Arabia's social, economic and financial condition.

***Risks Relating to the Lease Agreement and the Service Agency Agreement under Saudi Arabian Law***

***Payments of rental are subject to the Lessee having full use and enjoyment of the Lease Assets***

Under Saudi Arabian law, an obligation to pay rent cannot be unconditional and irrevocable and accordingly the quantum of the rent will be limited in circumstances where the lessee does not have a corresponding full use and enjoyment of the lease assets. Pursuant to the Lease Agreement, the Initial Rental, which corresponds to 15 per cent. of the face amount due under the Certificates of each Series, is payable in respect of the first three months of the relevant lease. To the extent that the Lessee can successfully claim that it did not have the full use and enjoyment of the relevant Lease Assets for such three-month period (for example if an STC Event occurs and a decision is taken to terminate the relevant Lease Agreement prior to the completion of such three-month period) or that the quantum of the Initial Rental paid does not reflect a reasonable rental value for such rental period, a Saudi Arabian court or judicial committee may reduce the quantum of the Initial Rental payable by the Lessee so that it

corresponds to the reasonable rental value or the period of time that Lessee actually had the full use and enjoyment of the relevant Lease Assets. If, in such circumstances, the full amount of the Initial Rental is not paid (or is not required to be paid) by the Lessee, this will result in a shortfall in the amount required by the Trustee to pay the Dissolution Amount due to Certificateholders under the Certificates.

***An agreement between the same party in different capacities may be void***

Each of the Lease Agreement and Service Agency Agreement to be entered into in respect of each Series will be entered into between: (i) STC, acting as mudareb in respect of the mudaraba (such mudaraba being an arrangement which comprises the interests of both the Trustee and STC as mudareb); (ii) STC in its own capacity as lessee; (iii) the Trustee; and (iv) the Delegate. As a matter of *Shari'a* law, some scholars take the view that a transaction which is entered into by: (a) a party acting on behalf of another person (such as STC acting as mudareb in respect of the mudaraba); and (b) the same person, acting in its own capacity (such as STC acting as Lessee), may be void. However, other scholars argue that such a risk may be mitigated where the principal (in this case, the Trustee) approves of the terms of the transaction in sufficient detail so as to remove any element of discretion on the mudareb's part. In any proceedings relating to the Certificates and/or the Transaction Documents in Saudi Arabia, *Shari'a*, as interpreted in Saudi Arabia, may be applied by the relevant court or judicial committee (see further "*Risks Relating to Enforcement—There are uncertainties around the choice of English law as the governing law of certain Transaction Documents and around enforcing arbitral awards and foreign judgments in Saudi Arabia*" and "*Risks Relating to Enforcement—The legal system in Saudi Arabia continues to develop and this, as well as certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity*"). As a result, and although the Trustee is a party to the Lease Agreement and Service Agency Agreement and the Trustee has explicitly consented to the entry into the Lease Agreement and Service Agency Agreement by STC as Mudareb, there can be no assurance as to whether a Saudi Arabian court or judicial committee would conclude that the Lease Agreement and Service Agency Agreement are void for the aforementioned reasons. If that is the case, a Saudi Arabian court or judicial or administrative tribunal is likely to require that STC returns to the Trustee the relevant Issue Proceeds less any Periodic Distribution Amounts and/or Dissolution Amounts already paid in respect of the relevant Series. It is uncertain whether the parties will be entitled to any damages.

**Risks Relating to the Master Restricted Mudaraba Agreement under Saudi Arabian Law**

***Rab Al Maal Profit may be less than the expected profit amount or subordinated in certain circumstances***

Under Saudi Arabian law: (i) a mudareb can only be liable for losses of the mudaraba as a result of its own default or negligence; and (ii) it is not permissible to guarantee the returns from the mudaraba. The Master Restricted Mudaraba Agreement provides for Rab Al Maal Profit to be paid by the Mudareb to the Trustee. The Rab Al Maal Profit is the Rab Al Maal's share of the income of the Mudaraba, less any costs of the Mudaraba. The income of the Mudaraba is generated from the restricted activity of leasing the relevant Lease Assets to STC as lessee and, pursuant to the Master Restricted Mudaraba Agreement, the Mudareb requires the approval of the Trustee and the Delegate before incurring any costs. However, to the extent that the Mudareb does incur any costs or if it otherwise suffers any losses which the Mudareb could not avoid or in respect of which it could not obtain consent before incurring such cost, notwithstanding the absence of the approval of the Trustee or the Delegate, a Saudi Arabian court or judicial committee could permit the Mudareb to deduct its costs or losses from the income of the Mudaraba and in such a case, the Rab Al Maal Profit actually received by the Trustee may be less than the expected profit amount which is required by the Trustee to pay the amounts due under the Certificates.

In addition, under Saudi Arabian law, upon the insolvency of a mudareb, the rights of a rab-al-maal may constitute an equity interest (as opposed to a debt claim). Whilst the Master Restricted Mudaraba Agreement is a restricted mudaraba where the rights are clearly identified, it is not certain whether a Saudi Arabian court or a judicial committee would treat the rights of the Rab Al Maal as against the Mudareb as a debt claim or an equity interest claim which is subordinated to the other general creditors of STC (see further "*Risks Relating to Enforcement—Compliance with bankruptcy law in Saudi Arabia may affect STC's ability to perform its obligations under the Transaction Documents to which it is a party*").

## **Risks Relating to Enforcement**

### ***There are uncertainties around the choice of English law as the governing law of certain Transaction Documents and around enforcing arbitral awards and foreign judgments in Saudi Arabia***

The Certificates and the Transaction Documents are expressed to be governed by English law and provide for the resolution of disputes through arbitration in London under the LCIA Arbitration Rules. STC is a Saudi Arabian company and is incorporated in and has its operations and the majority of its assets located in Saudi Arabia. Despite this, the courts and judicial committees of Saudi Arabia may not recognise the choice of English law or submission to foreign arbitration and may decide to apply Saudi Arabian law and/or require the arbitration to be in Saudi Arabia. Saudi courts will also not, honour any provision of foreign law that is contrary to *Shari'a* principles, public policy, order or morals in the Kingdom, or to any mandatory law of, or applicable in, the Kingdom. Accordingly, in any proceedings relating to the Certificates in Saudi Arabia, *Shari'a*, as interpreted in Saudi Arabia, may be applied by the relevant court or judicial committee. The courts and judicial committees of Saudi Arabia have the discretion to deny the enforcement of any contractual or other obligations, if, in their opinion, the enforcement thereof would be contrary to the principles of *Shari'a* or public policy.

The Saudi enforcement courts may, at their discretion, enforce all, or any part of, an arbitral award or a foreign judgment, subject to certain conditions, which include: (i) the award or judgment does not conflict with public policy in Saudi Arabia; (ii) reciprocity between Saudi Arabia and the country in which the award was made; (iii) the courts of the Kingdom not having jurisdiction over the dispute and the arbitral award or judgment having been issued in accordance with the jurisdictional rules of the country in which such award or judgment was made; (iv) the respective parties to the dispute having been present, duly represented and able to defend themselves; (v) the arbitral award or the judgment being final in accordance with the rules of the issuing tribunal or court; and (vi) the arbitral award or the judgment not conflicting with any ruling or order issued by a court of competent jurisdiction on the same matter in the Kingdom. Reciprocity may be demonstrated by way of the existence of a treaty or protocol between the Kingdom and the relevant jurisdiction (in this regard, we note that Saudi Arabia has acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 and is also a signatory to the Arab League Treaty for the Reciprocal Enforcement of Judgments dated 16 April 1983 and the Agreement on Enforcement of Judgments, Delegations and Judicial Summonses in the States of the Cooperation Council for the Arab Gulf States dated 6 December 1995) or by virtue of a plaintiff providing evidence that the relevant foreign court has recognised and enforced a Saudi Arabian judgment on a previous occasion.

No assurance can be given that investors would be able to meet the requirements of reciprocity of enforcement or that the court would agree to enforce the judgment or the award even if all requirements are met. In addition, even if such requirements were met, Certificateholders should also be aware that if any terms of the Certificates or the Transaction Documents (including any provisions relating to the payment of profit) were found to be inconsistent with *Shari'a*, they would not be enforced by the Saudi enforcement courts (see further "*Risks Relating to Enforcement—The legal system in Saudi Arabia continues to develop and this, as well as certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity*"). In practice, however, whether the courts in the Kingdom will enforce a foreign arbitral award in accordance with the terms of the New York Convention, or otherwise, is yet to have a clear established practice, however, there are a few precedents where the enforcement courts have enforced arbitral awards in accordance with the terms of the New York Convention. Pursuant to the new Saudi Arabian Arbitration Regulation, which entered into force on 18/8/1433H (corresponding to 8 July 2012), a Saudi Arabian court must decline to hear a dispute if the parties have entered into a prior agreement to submit disputes to arbitration and the defendant raises the issue before entering a defence on the merits. If parties to court proceedings agree in the course of the proceedings to submit the dispute to arbitration, the Arbitration Regulation makes it mandatory for the courts to discontinue the action. Judicial precedents in Saudi Arabia have no binding effect on subsequent decisions. In addition, court decisions in Saudi Arabia are not generally or consistently indexed and collected in a single publication or place or made publicly available. These factors create greater judicial uncertainty.

***There are concerns as to the effectiveness under Saudi law of any transfer of an interest in an asset in Saudi Arabia, or on the return of investment of any activity in Saudi Arabia, to a Saudi Arabian company on behalf of foreign nationals unless a corporate presence is formed in Saudi Arabia and the relevant licensing requirements have been met***

The Foreign Investment Law issued under Royal Decree No. M/1 dated 5/1/1421H (corresponding to 10 April 2000) and the Anti-Cover Up Regulations issued in the Official Gazette on 28/5/1425H (corresponding to 16 July 2004) prohibit Saudi Arabian companies from doing business in Saudi Arabia on behalf of foreign nationals unless a corporate presence is formed in Saudi Arabia and the relevant licensing requirements have been met. The Trustee and STC could be interpreted as contravening this prohibition by entering into the Master Restricted Mudaraba Agreement and the other Transaction Documents to which they are each a party.

On the basis of the foregoing, prospective investors should note that there is uncertainty as to the effectiveness under Saudi law of any transfer of an interest in an asset in Saudi Arabia pursuant to the Transaction Documents relating to a Series, or on the return of investment of any activity in Saudi Arabia, absent compliance with the matters specified above. As a result, if STC fails to comply with its obligations under the Transaction Documents, a Saudi Arabian court, judicial or administrative tribunal or a government authority may characterise the transactions contemplated by the Transaction Documents as an unlawful investment which is void as a result of non-compliance with any of the matters specified above. If that is the case, a Saudi Arabian court or judicial or administrative tribunal is likely to require that STC returns to the Trustee the relevant Issue Proceeds less any Periodic Distribution Amounts and/or Dissolution Amounts already paid in respect of the relevant Series. It is uncertain whether the parties will be entitled to any damages.

***Courts and judicial committees in Saudi Arabia may not give effect to the STC Events***

Prospective Certificateholders should note that the courts and judicial committees of Saudi Arabia may not give effect to any of the STC Events (as set out in the Conditions) other than those STC Events relating to the non-payment of amounts due under the Transaction Documents.

***Courts and judicial committees in Saudi Arabia may not give effect to penalties and certain types of indemnities***

Prospective Certificateholders should note that should any provision of the Transaction Documents be construed by a court or judicial committee in Saudi Arabia to be an agreement to pay a penalty rather than a genuine estimate of loss incurred, such provision may not be enforced in Saudi Arabia. Further, any indemnity provided by STC pursuant to the Transaction Documents or in relation to any Series may not be enforceable under the laws and regulations of Saudi Arabia in certain circumstances.

STC has undertaken in the Master Declaration of Trust that, if on a Dissolution Date, any Rental (which includes Initial Rental) or Deferred Sale Price is not paid in accordance with the provisions of the relevant Transaction Documents for any reason whatsoever, STC shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates of such Series and, accordingly, the amount payable under any such indemnity claim will equal the Rental and/or Deferred Sale Price.

However, prospective Certificateholders should note that any indemnity provided by STC pursuant to the Transaction Documents may not be enforceable under Saudi Arabian law to the extent that it: (i) purports to be effective notwithstanding any judgment or order of a court to the contrary; (ii) is contrary to any applicable law, *Shari'a* law or public policy relating thereto; or (iii) is in respect of an underlying obligation which is illegal or unenforceable (see, for example, the matters described under "*Risks Relating to the Lease Agreement and the Service Agency Agreement under Saudi Arabian Law*" and "*Risks Relating to the Master Restricted Mudaraba Agreement under Saudi Arabian Law*"). Accordingly, to the extent that the payment of the Rental (including Initial Rental) or Deferred Sale Price is illegal or unenforceable, the indemnity given by STC in respect thereof may also be unenforceable. If, in such circumstances, the Trustee (or the Delegate on its behalf) does not have an enforceable indemnity claim, this will result in a shortfall in the amount required by the Trustee to redeem in full the outstanding Certificates of the relevant Series.



### ***STC's waiver of immunity might not be upheld***

STC has waived its rights in relation to sovereign immunity in respect of the Transaction Documents to which it is a party. However, Article 21(1) of the Enforcement Law issued pursuant to Royal Decree No. M/53 dated 13/08/1433H (corresponding to 3 July 2012) (the "**Enforcement Law**") provides that no seizure or execution may be made of or against property owned by the Government. Further, the Enforcement Law is not clear as to how seizure or execution of or against any assets owned, wholly or partially, by a company such as STC (where the Government has an ownership) can be made and there are no established and binding judicial precedents of such seizure or execution. Therefore, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by STC is valid and binding under the laws of Saudi Arabia.

### ***Compliance with bankruptcy law in Saudi Arabia may affect STC's ability to perform its obligations under the Transaction Documents to which it is a party***

In the event of STC's insolvency, the Bankruptcy Law issued pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 13 February 2018), came into force on 18 August 2018 (the "**Bankruptcy Law**"). and its implementing regulations issued pursuant to the Council of Ministers Resolution No. 622 dated 24/12/1439H (corresponding to 4 September 2018) and published in the official gazette on 30/12/1439H (corresponding to 10 September 2018) (the "**Bankruptcy Law Implementing Regulations**") may adversely affect STC's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Trustee's ability to perform its obligations in respect of the Certificates. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate would be resolved in the event of STC's bankruptcy and, accordingly, it is uncertain exactly how and to what extent the Transaction Documents would be enforced by a Saudi Arabian adjudicatory body if such Saudi Arabian adjudicatory body were to void or otherwise cause such document, or any part thereof, to be void or ineffective and, therefore, there can be no assurance that Certificateholders will receive repayment of their claims in full or at all in these circumstances.

The Bankruptcy Law provides various procedures with respect to protective settlement, financial restructuring, liquidation, and administrative liquidation and provides, among other things, that contract termination provisions triggered as a result of certain bankruptcy procedures are generally void with exceptions stipulated in relation to government contracts and financing contracts. Further exceptions in relation to finance transactions are to be determined by the Saudi Arabian Monetary Authority and the Capital Market Authority after liaising and agreeing with the Saudi Arabian Ministry of Commerce and Investment. The Bankruptcy Law also provides that a court (in respect of a protective settlement) may terminate a contract based on a request by the debtor (subject to certain exceptions and procedures) if such termination: (i) is in the interest of the majority of the relevant creditors; (ii) would not materially harm the counterparty; and (iii) will protect the business of the debtor.

A court may, after accepting a request to open any of the procedures set out in the Bankruptcy Law, take certain precautionary measures, at its own discretion or upon a request by an interested party, such as seizing the assets of the debtor whether such assets are held by the debtor or by third parties.

The Bankruptcy Law and its implementing regulations are recent and hence their application, and how the Saudi Arabian courts and judicial committees will apply them, is yet to be seen in full effect in practice.

### ***A court may not grant an order for specific performance***

In the event that STC fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific performance of STC's obligations.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. Specific performance, injunctive relief and declaratory judgments and remedies are rarely available as judicial and other adjudicative remedies in Saudi Arabia. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors, including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by STC to perform its obligations set out in the Transaction Documents to which it is a

party. Damages for loss of profits, consequential damages or other speculative damages are not awarded in Saudi Arabia by the courts or other adjudicatory authorities, and only actual, direct and proven damages are awarded.

***The terms of the Declarations of Trust may not be enforceable in Saudi Arabia***

The laws of Saudi Arabia do not recognise the concept of a trust or beneficial interests. Accordingly, there is no certainty that the terms of the Master Declaration of Trust and any Supplemental Declaration of Trust (each of which will be governed by English law) would be enforced by the courts of Saudi Arabia and, as such, there can be no assurance that the obligations of the Trustee and/or the Delegate under the Master Declaration of Trust and any Supplemental Declaration of Trust to act on behalf of the Certificateholders in accordance with their instructions (given in accordance with the Conditions) are enforceable as a matter of contract under the laws of Saudi Arabia or that the courts of Saudi Arabia would recognise any claim of the Delegate on behalf of Certificateholders under the Transaction Documents pursuant to the Master Declaration of Trust.

***The legal system in Saudi Arabia continues to develop and this, as well as certain aspects of the laws of Saudi Arabia, may create an uncertain environment for investment and business activity***

The courts and adjudicatory bodies in Saudi Arabia have wide discretion as to how laws, regulations and principles of Islamic law (*Shari'a*) are applied to a particular set of circumstances. There is no doctrine of binding precedent in the courts of Saudi Arabia, decisions of various courts and judicial committees of Saudi Arabia and Royal Decrees, ministerial decisions and resolutions, departmental circulars and other pronouncements of official bodies of Saudi Arabia which have the force of law are not generally or consistently indexed and collected in a central place or made publicly available. Accordingly, it is uncertain exactly how and to what extent any Certificate, the Conditions and/or the Transaction Documents would be enforced by a Saudi Arabian court or any other Saudi Arabian adjudicatory body, should circumstances dictate that they have jurisdiction. Further, in some circumstances, it may not be possible to obtain the legal remedies provided under the laws and regulations of Saudi Arabia in a timely manner. As a result of these and other factors, the outcome of any legal disputes in Saudi Arabia may be uncertain.

Under Islamic law (*Shari'a*) as applied in Saudi Arabia, a loan that generates a benefit to the lender is considered "*riba*". As such, an obligation to pay interest or a sum in the nature of interest (whether described as "commission", "profit" or another synonym), including any form of benefits, is not enforceable. Prospective Certificateholders should note that the provisions of the Transaction Documents relating to the payment of commission or profit (whether described as "commission", "profit" or another synonym) and possibly any arrangement, commitment, agency, administration or upfront fees, may not be enforceable under the laws of Saudi Arabia and therefore prospective Certificateholders may not be able to enforce their right to receive such amounts under the Transaction Documents.

A court or judicial committee in Saudi Arabia is likely to refuse to give a judgment in respect of principal amounts to the payee of such amounts in an amount greater than the principal sums found by such court or judicial committee to be due and payable less the amount of sums in the nature of interest (however described) already paid by the payer to the payee. Any amounts previously paid to the Certificateholders on the Certificates and/or pursuant to the Transaction Documents in respect of sums in the nature of commission or profit may therefore reduce the amount receivable by the Certificateholders in relation to payments of principal.

***No assurances can be given as to change of law after the date of this Base Prospectus***

The structure of each issue of Certificates under the Programme is based on English law, Cayman Islands law, the laws of Saudi Arabia and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to, or interpretation of, English, Cayman Islands or Saudi law or administrative practices in such jurisdiction after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of STC to comply with its obligations under the Transaction Documents to which it is a party.

## **Risks Relating to the Certificates**

### ***The Certificates are limited recourse obligations***

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Trustee in respect of each Series is limited to the Trust Assets of that Series and the proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, or early dissolution pursuant to Condition 11, the sole rights of each of the Trustee, the Delegate and, through the Delegate, the Certificateholders of the relevant Series of Certificates to realise proceeds from the Trust Assets will be against STC to perform its obligations under the Transaction Documents to which it is a party. The obligations of STC under the Transaction Documents are unsecured and rank *pari passu* with STC's other unsecured indebtedness. Certificateholders will otherwise have no recourse to any assets of the Trustee or STC or any other party in respect of any shortfall in the expected amounts due under the relevant Trust Assets. STC is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Trustee and the Delegate will have direct recourse against STC to recover payments due to the Trustee from STC pursuant to the Transaction Documents. In the absence of default by the Delegate, Certificateholders have no direct recourse to STC and there can be no assurance that the proceeds of the realisation of, or enforcement with respect to, the Trust Assets (which, as described above, will be by way of enforcing each of STC's and the Trustee's respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the Certificates of the relevant Series. After enforcing the rights in respect of the Trust Assets (in the manner described above) and distributing the net proceeds of such Trust Assets in accordance with Condition 6(b), the obligations of the Trustee in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents, and the sole right of the Trustee, the Delegate and the Certificateholders against STC shall be to enforce the obligation of STC to perform its obligations under the Transaction Documents to which it is a party.

### ***The Certificates may be subject to early dissolution***

In certain circumstances the Certificates may be subject to early dissolution. In the event that the Trustee or STC would be obliged to increase the amounts payable in respect of any Series of Certificates due to certain changes affecting taxation in the Cayman Islands or Saudi Arabia or any political sub-division or authority therein or thereof having the power to tax (as provided in Condition 12), the Trustee may redeem all but not some only of the outstanding Certificates of such Series in accordance with Condition 11(b). In addition, upon the occurrence of a Change of Control Put Event, the holder of any Certificate may redeem its Certificates in whole or in part in accordance with Condition 11(d). If 75 per cent. or more of the aggregate face amount of the relevant Series have been redeemed pursuant to Condition 11(d), the Trustee may redeem or purchase all (but not some only) of the remaining outstanding Certificates in accordance with Condition 11(d).

If so provided in the applicable Final Terms (or Pricing Supplement, as applicable), a Series may be redeemed early at the option of the Trustee (upon instructions from STC). In the case of Certificates with an additional optional dissolution feature, STC may choose to redeem such Certificates when its cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time. In addition, such an optional dissolution feature could limit the market value of Certificates prior to or during any period when STC may elect to redeem Certificates as the market value of those Certificates generally would not rise substantially above the Partial Dissolution Amount or Dissolution Amount (as applicable) at which they can be redeemed.

***The Certificates will not accrue any further amounts (over and above the Dissolution Amount) from and including the relevant Dissolution Date***

The Conditions provide that no further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date. The Transaction Documents do not provide for any further amounts to be payable by STC in circumstances where STC has failed to pay in full an amount which is due to the Trustee for the purpose of satisfying the Trustee's payment obligations under the Certificates. Accordingly, if the Trustee does not pay to the Certificateholders the Dissolution Amount in full on the relevant Dissolution Date (as a result of the Trustee not receiving such amount from STC or otherwise), Certificateholders should be aware that the Conditions and the Transaction Documents do not provide for any further amounts to be claimed from the Trustee or STC in respect of the delay in such payment being made in full. See Condition 8(d) and Condition 9(g) for further details.

***The terms of the Certificates may be modified by a majority of Certificateholders without the consent of, or notice to, all Certificateholders***

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Certificateholders, including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Master Declaration of Trust and the Conditions also provide that, the Delegate may agree, without any consent or sanction of Certificateholders, to any modification of the Master Declaration of Trust, any Supplemental Declaration of Trust or any Transaction Document which is, in the opinion of the Delegate, of a formal, minor or technical nature or to correct a manifest error. The Trustee may also agree to: (i) any other modification to the Master Declaration of Trust, any Supplemental Declaration of Trust or any Transaction Document (other than in respect of a Reserved Matter or any provision of the Master Declaration of Trust referred to in the definition of a Reserved Matter) that is, in the opinion of the Delegate, not materially prejudicial to the interests of the Certificateholders; and/or (ii) any Benchmark Amendment in accordance with Condition 9(e). The Delegate may also, without the consent or sanction of the Certificateholders and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time if, in the opinion of the Delegate, such waiver, authorisation or determination is not materially prejudicial to the interests of the outstanding Certificateholders: (i) agree to waive or to authorise, on such terms as seem expedient to it, any breach or proposed breach of any provision of these presents, the Conditions or any other Transaction Document; or (ii) determine that any Dissolution Event shall not be treated as such provided that the Delegate will not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 15. Any such modification, consent, waiver, authorisation or determination shall be binding on the Certificateholders.

***Certificates where denominations involve integral multiples: Definitive Certificates***

In relation to any issue of Certificates which have denominations consisting of a minimum Specified Denomination (as specified in the applicable Final Terms (or Pricing Supplement, as applicable)) plus one or more higher integral multiples of another smaller amount, it is possible that such Certificates may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination.

In such a case a holder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system, would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a principal amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Investors in the Certificates must rely on DTC, Euroclear and Clearstream, Luxembourg procedures to exercise certain rights under the Certificates***

The Certificates of each Series will be represented on issue by one or more Global Certificates that may be deposited with a nominee for DTC or may be deposited with a common depository for Euroclear and Clearstream, Luxembourg (see further, "*Form of the Certificates*"). Except in the circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Certificate held through it. While the Certificates are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Certificates are represented by Global Certificates, the Trustee will discharge its payment obligations under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Certificates. Neither the Trustee nor STC has any responsibility or liability for the records relating to, or payments made in respect of, ownership interests in any Global Certificate.

Holders of ownership interests in a Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***The transferability of the Certificates may be limited under applicable securities and tax laws, which may adversely affect the value of the Certificates***

The Certificates have not been registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. The Certificates may not be offered, sold or otherwise transferred in the United States or to or for the account or benefit of a U.S. person other than to persons that are QIBs. In addition, each purchaser of a Certificate will be required to represent that it is not a Benefit Plan Investor as described under "*Certain ERISA and Related Considerations*". Each purchaser of the Certificates will also be deemed, by its acceptance of such Certificates, to have made certain representations and agreements intended to restrict transfers of the Certificates as described under "*Subscription and Sale and Transfer and Selling Restrictions*". It is the obligation of each purchaser of the Certificates to ensure that its offers and sales of the Certificates comply with all applicable securities laws.

In addition, if at any time the Trustee or STC determines that any owner of Certificates, or any account on behalf of which an owner of Certificates purchased its Certificates, is a Benefit Plan Investor, the Trustee or STC may require that such owner's Certificates be sold or transferred to a person designated by or acceptable to the Trustee and STC.

***Regulation and reform of EURIBOR, LIBOR or other "benchmarks" could adversely affect any Certificates linked to such benchmarks***

Euro interbank offered rate ("**EURIBOR**"), London interbank offered rate ("**LIBOR**") and other rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Certificates linked to such a benchmark.

Key international reforms of "benchmarks" include IOSCO's Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the Benchmarks Regulation.

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability as well as the quality and transparency of benchmark design and methodologies. The first review published by IOSCO in

February 2015 of the status of the voluntary market adoption of the IOSCO Benchmark Principles noted that, as the benchmarks industry is in a state of change, further steps might need to be taken by IOSCO in the future, but that it was too early to determine what those steps should be. The first review noted that there had been a significant market reaction to the publication of the IOSCO Benchmark Principles, and widespread efforts made to implement the IOSCO Benchmark Principles by the majority of administrators surveyed.

In February 2016, IOSCO published its second review of the implementation of the IOSCO Benchmark Principles by administrators of EURIBOR, LIBOR and the Tokyo Inter-Bank Offer Rate ("**TIBOR**"). The second review noted that the administrators of EURIBOR, LIBOR and TIBOR had been proactively engaged in addressing the issues raised in the first review. Nevertheless, the second review set out recommendations for each administrator in order to strengthen the implementation of the IOSCO Benchmark Principles and proposed that relevant national authorities monitor the progress made by the three administrators in order to implement those recommendations.

The Benchmarks Regulation entered into force on 30 June 2016 and became applicable on 1 January 2018. The Benchmarks Regulation applies to "administrators" of, "contributors" to and "users" of "benchmarks" in the EU. Among other things, the Benchmarks Regulation: (i) requires EU benchmark administrators to be authorised or registered by a national regulator (unless an exemption applies); (ii) provides that in order to be used by supervised entities in the EU, a non-EU benchmark must be qualified for use in the EU under the third-country regime (through equivalence, recognition or endorsement) and comply with extensive requirements in relation to the administration of the non-EU benchmark; and (iii) bans the use by "supervised entities" of: (a) EU "benchmarks" whose administrators are not authorised or registered; and (b) non-EU "benchmarks" that are not qualified for use in the EU under the third-country regime.

The scope of the Benchmarks Regulation is wide and, in addition to so-called "critical benchmarks" such as EURIBOR, could also potentially apply to many other indices, as well as equity, commodity and foreign exchange rate indices and other indices (including "proprietary" indices or strategies) which are referenced in certain financial instruments (including securities or OTC derivatives traded on an EU regulated market, EU multilateral trading facility (MTF), EU organised trading facility (OTF) or via a "systematic internaliser"), certain financial contracts and investment funds. Different types and categories of "benchmark" are subject to more or less stringent requirements, and in particular a lighter touch regime may apply where a "benchmark" is not based on profit rates or commodities and the value of financial instruments, financial contracts or investment funds referring to a benchmark is less than €50 billion, subject to further conditions.

The Benchmarks Regulation could have a material impact on any Certificates linked to a "benchmark", including in any of the following circumstances:

- a rate or index which is a "benchmark" could not be used as such if its administrator does not obtain authorisation/registration or is not able to rely on one of the regimes available to non-EU benchmarks. In such event, depending on the particular "benchmark" and the applicable terms of the Certificates, the terms and conditions of Certificates linked to any such "benchmark" might be adjusted pursuant to Condition 9(e) or the profit rate applicable to such Certificates might effectively become fixed at the rate last set in accordance with the Conditions; and
- the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmarks Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level.

In addition, any of the international, national or other reforms or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could result in adjustments to the terms and conditions of Certificates linked to any such "benchmark" pursuant to Condition 9(e) or to the profit rate applicable to such Certificates effectively becoming fixed at the rate last set in accordance with the Conditions. Any such consequence could have a material adverse effect on the value of and return on any such Certificates.

In addition, if the terms and conditions of the Certificates are adjusted pursuant to Condition 9(e) so as to provide for an alternative reference rate, there can be no assurance that any applicable margin will be adjusted for any difference between the alternative reference rate and the original reference rate applicable to the Certificates or that any adjustment made will correspond to the difference between the original reference rate and the alternative reference rate when assessed at any particular date.

Furthermore, LIBOR is the subject of ongoing regulatory reforms. Following the implementation of any of these reforms, the manner of administration of LIBOR may change, with the result that it may perform differently than in the past or be eliminated entirely, or there could be other consequences that cannot be predicted. For example, on 27 July 2017, the FCA announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). Further, on 12 July 2018, the FCA announced that LIBOR may cease to be a regulated benchmark under the Benchmark Regulations. The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. At this time, it is not possible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for LIBOR-linked securities. The potential elimination of benchmarks, such as LIBOR, the establishment of alternative reference rates or other reforms may require adjustments to the terms of benchmark-linked securities and may result in other consequences, such as profit payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form.

***Value of fixed rate Certificates may be adversely affected by movements in market interest rates***

Investment in fixed rate Certificates involves the risk that if market interest rates subsequently increase above the rate paid on the fixed rate Certificates, this will adversely affect the value of fixed rate Certificates.

***There is no assurance that the Certificates will be compliant with the principles of Islamic finance***

The HSBC Saudi Arabia Executive Shariah Committee, the Shariah advisers of J.P. Morgan Securities plc and the Shariah Supervisory Committee of Standard Chartered Bank have each issued a *fatwa* in respect of the Certificates and the related structure and mechanism described in the Transaction Documents and their compliance with *Shari'a* principles. However, a *fatwa* is only an expression of the view of the relevant *Shari'a* advisory board based on its experience in the subject and is not a binding opinion. There can be no assurance as to the *Shari'a* permissibility of the structure or the issue and the trading of the Certificates and neither the Trustee, STC, the Delegate, the Arrangers nor the Dealers make any representation as to the same. Investors are reminded that, as with any *Shari'a* views, differences in opinion are possible. Investors are advised to obtain their own independent *Shari'a* advice as to whether the structure meets their individual standards of compliance and make their own determination as to the future tradability of the Certificates on any secondary market. Questions as to the *Shari'a* permissibility of the structure or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would be, if in dispute, the subject of arbitration in London under the LCIA Arbitration Rules. In such circumstances, the arbitrator will first apply the relevant law of the relevant Transaction Document in determining the obligation of the parties.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Prospective investors should consult their legal advisers to determine whether and to what extent: (i) the Certificates are legal investments for such prospective investors; (ii) the Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to their purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk based capital or similar rules.

## **Risks Relating to the Market Generally**

### ***A secondary market may not develop for any Certificates***

The Certificates may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. The liquidity of any market for the Certificates that may develop depends on a number of factors, including:

- the Periodic Distribution Amounts payable to the Certificateholders;
- the time remaining to the Scheduled Dissolution Date;
- the outstanding amount of the Certificates;
- the redemption features of the Certificates; and
- the level, direction and volatility of market interest rates generally.

Therefore, investors may not be able to sell their Certificates easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material and adverse effect on the market value of Certificates.

### ***Investments in emerging markets are subject to greater risk than investments in more developed markets***

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

### ***The Certificates may be subject to exchange rate risk and exchange controls***

The Trustee will pay Periodic Distribution Amounts, Partial Dissolution Amounts and Dissolution Amounts on the Certificates in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. The Trustee does not have any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. However, fluctuations between currencies in the past are not necessarily indicative of fluctuations that may occur in the future. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency-equivalent value of the principal payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of any Periodic Distribution Amount, Partial Dissolution Amounts or Dissolution Amounts on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Certificate may not be available at such Certificate's maturity.



***Credit ratings assigned to STC and/or the Certificates are subject to ongoing evaluation and there can be no assurance that the ratings currently assigned to STC and/or the Certificates will not be placed on credit watch or downgraded***

As at the date of this Base Prospectus, STC has been assigned a long term credit rating of A1 with a "stable outlook" by Moody's and a corporate credit rating of A- with a "stable outlook" by S&P. The Programme is expected to be assigned a rating of A1 by Moody's and A- by S&P. The rating of certain Series of Certificates to be issued under the Programme and the credit rating agency issuing such rating may be specified in the applicable Final Terms (or Pricing Supplement, as applicable). Each of Moody's and S&P is established in the EU and is registered under the CRA Regulation. One or more independent credit rating agencies may also assign credit ratings to the Certificates. Any ratings of either STC or the Certificates may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Base Prospectus and other factors that may affect the value of the Certificates. Nevertheless, real or anticipated changes in STC's credit ratings or the ratings of the Certificates generally will affect the market value of the Certificates. Any adverse change in the applicable credit rating could adversely affect the trading price of the Certificates.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Limited information with respect to ratings will be disclosed in the applicable Final Terms (or Pricing Supplement, as applicable). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, change or withdrawal at any time by the assigning rating agency and each rating should be evaluated independently of any other rating.

## OVERVIEW OF THE STC GROUP

*This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more extensive information contained elsewhere in this Base Prospectus. This overview does not contain all of the information that prospective investors should consider before deciding to invest in the Certificates and any such decision should be based on a consideration of this Base Prospectus as a whole. Prospective investors should read this entire Base Prospectus carefully, including the financial statements and related notes and the information set forth under the headings "Risk Factors".*

### Overview of the Group

The Group is the leading telecommunications operator in Saudi Arabia with a 73 per cent. share of the aggregate revenue of telecommunications providers in Saudi Arabia in 2018. Within Saudi Arabia, the Group provides a wide variety of telecommunications services, including mobile, fixed line and broadband access products, wholesale, data centre hosting, solutions for office and home environments, cybersecurity and other information and communication technology ("ICT") and related solutions. The Group had 24.3 million mobile, fixed line and broadband subscribers in total as at 31 December 2018 in Saudi Arabia. The Group also provides mobile telecommunications services in Bahrain and Kuwait through subsidiaries.

The Government is STC's major shareholder and as at 31 March 2019 directly owned 70.0 per cent. of STC's share capital through the Public Investment Fund and indirectly owned 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. The remaining 16.2 per cent. of STC's share capital at 31 March 2019 was publicly held and listed on the Tadawul. As a provider of key communications infrastructure in Saudi Arabia, STC is a flagship national company and an important strategic investment of the Government. Six of the nine members of STC's Board of Directors are nominated by, and represent, the three key Government shareholders.

As at 31 December 2018, STC was the second largest listed company in the Kingdom in terms of market capitalisation. The Group's STC brand in Saudi Arabia was classified as the highest value telecom brand in the Middle East for 2018 and it was also the only Saudi Arabian brand within the world's top 500 brands, in each case according to Brand Finance 2018. The Group had consolidated revenues of SAR 52.0 billion and net profit (attributable to the equity holders) of SAR 10.8 billion for the year ended 31 December 2018. The Group's total assets were SAR 111.9 billion as at 31 December 2018 and the Group's market capitalisation was SAR 216 billion as at 31 March 2019.

STC's commercial registration number is 1010150269. Its registered office is King Abdulaziz Complex, Imam bin Saudi Street, Al Murasalat Area, Riyadh, Kingdom of Saudi Arabia and its telephone number is +966 11 452 7000.

### Risk Factors

An investment in the Certificates involves significant risks, including: (i) risks relating to the Group's business such as risks associated with increased competition in Saudi Arabia, the ability of the Group to attract and retain subscribers, and the concentration of the Group's revenue, profit, and cash flows in Saudi Arabia; (ii) risks relating to the telecommunications industry, such as risks associated with anti-trust and competition laws and regulations, reliance on third parties, natural disasters and other catastrophic events; (iii) risks related to Saudi Arabia and the Middle East such as risks associated with the political, economic and social environments of the region and adverse effects of hydrocarbon prices on the economy; and (iv) risks relating to the Certificates, such as risks associated with limited recourse provisions, ability of the Delegate to modify certain provisions and risks associated with Certificates to which floating periodic distributions apply.

Investors should review these risks carefully prior to making any decision regarding an investment in the Certificates. See "*Risk Factors*".

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche, is supplemented by the applicable Final Terms (or Pricing Supplement, as applicable). The Trustee, STC and any relevant Dealer may agree that Certificates shall be issued in a form other than that contemplated in the Terms and Conditions of the Certificates, in which event, in the case of Certificates other than Exempt Certificates, a new Base Prospectus or a supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Certificates.*

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Terms and Conditions of the Certificates*" (the "**Conditions**") and "*Form of the Certificates*" shall have the same meanings in this overview.

**Trustee**..... STC Sukuk Company Limited, as trustee for and on behalf of the Certificateholders and, in such capacity, as issuer of the Certificates, an exempted company incorporated with limited liability in the Cayman Islands on 21 March 2019 with registered number 349592 with its registered office at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party. The Trustee shall on each Issue Date issue the Certificates to the Certificateholders and act as Trustee in respect of the Trust Assets for the benefit of the Certificateholders.

**Ownership of the Trustee** ..... The authorised share capital of the Trustee is U.S.\$50,000 consisting of 50,000 shares of U.S.\$1.00 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held on trust by MaplesFS Limited as share trustee under the terms of a share declaration of trust dated 23 April 2019.

**Administration of the Trustee** ..... The affairs of the Trustee are managed by MaplesFS Limited (the "**Administrator**"), who provide, *inter alia*, certain management functions and provide certain clerical, administrative and other services for and on behalf of the Trustee pursuant to a corporate services agreement dated 23 April 2019 between the Administrator and the Trustee (the "**Corporate Services Agreement**").

**STC** ..... Saudi Telecom Company, a joint stock company incorporated in the Kingdom of Saudi Arabia with commercial registration number 1010150269 and having its registered office at P.O. Box 87912, Riyadh 11652, Kingdom of Saudi Arabia.

As at the date of this Base Prospectus, the Government directly owns 70.0 per cent. of STC's shares through the Public Investment Fund.

**Description** ..... Trust Certificate Issuance Programme.

**Size** ..... Up to U.S.\$5,000,000,000 (or its equivalent in other currencies at the date of issue) aggregate face amount of Certificates outstanding at any time. The size of the Programme may be increased in accordance with the terms of

the Dealer Agreement.

**Risk Factors** ..... There are certain factors that may affect the Trustee's and STC's ability to fulfil its obligations under Certificates issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme. These include certain risks relating to the structure of a particular Series of Certificates and certain market risks. See "*Risk Factors*".

**Arrangers** ..... HSBC Bank plc, J.P. Morgan Securities plc and Standard Chartered Bank.

**Dealers** ..... HSBC Bank plc, J.P. Morgan Securities plc and Standard Chartered Bank.

The Trustee and STC may from time to time terminate the appointment of any arranger and/or dealer under the Programme or appoint additional arrangers and/or dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

**Delegate** ..... HSBC Corporate Trustee Company (UK) Limited (the "**Delegate**"). In accordance with the Master Declaration of Trust, the Trustee will, *inter alia*, unconditionally and irrevocably appoint the Delegate to be its attorney and to exercise certain future powers, authorities and discretions vested in the Trustee by certain provisions in the Master Declaration of Trust in accordance with the terms of the Master Declaration of Trust. In addition, pursuant to the Master Declaration of Trust, certain powers will be vested solely in the Delegate.

**Principal Paying Agent, Paying Agent and Exchange Agent** ..... HSBC Bank plc.

**Euro Registrar and Transfer Agent (in respect of Unrestricted Certificates)** ..... HSBC Bank plc.

**U.S. Registrar and Transfer Agent (in respect of Restricted Certificates) ...** HSBC Bank USA, National Association.

**Method of Issue** ..... The Certificates will be issued on a syndicated or non-syndicated basis. The Certificates will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of profit), the Certificates of each Series being intended to be interchangeable with all other Certificates of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of profit

and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the "**applicable Final Terms**") or, in the case of Exempt Certificates, the pricing supplement (the "**applicable Pricing Supplement**").

**Issue Price** ..... The Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms (or Pricing Supplement, as applicable). The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, STC and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

**Status of the Certificates** ..... Each Certificate will represent an undivided ownership interest in the Trust Assets of the relevant Series, is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without preference or priority, with all other Certificates of the relevant Series issued under the Programme.

Each Certificate will represent an undivided ownership interest in the Trust Assets of the relevant Series, is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without preference or priority, with all other Certificates of the relevant Series issued under the Programme.

**Form and Delivery**..... The Certificates will be issued in registered form only. The Certificates of each Series will be represented on issue by ownership interests in one or more global certificates (each a "**Global Certificate**"), which will be deposited with, and registered in the name of a nominee for, the Depository Trust Company ("**DTC**") and/or a common depository (the "**Common Depository**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") (as applicable).

Certificates sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by an unrestricted global certificate (an "**Unrestricted Global Certificate**") and Certificates sold to QIBs in reliance on Rule 144A will initially be represented by a restricted global certificate (a "**Restricted Global Certificate**").

Ownership interests in a Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by DTC, Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. Certificates in definitive form evidencing holdings of Certificates ("**Definitive Certificates**") will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances. See "*Form of the Certificates*".

**Clearing Systems** ..... Certificateholders must hold their interest in the relevant Global Certificate in book-entry form through DTC, Euroclear and/or Clearstream, Luxembourg and in relation to any Series, such other clearing system as may be agreed between the Trustee, STC, the relevant Dealer(s), the Principal Paying Agent and the Delegate. Transfers within and between each of DTC and/or Euroclear and/or Clearstream, Luxembourg will

	be in accordance with the usual rules and operating procedures of the relevant clearing system.
<b>Specified Currencies</b> .....	Subject to compliance with all relevant laws, regulations and directives, Certificates may be issued in any currency agreed between the Trustee, STC and the relevant Dealer(s).
<b>Maturities</b> .....	The Certificates will have such maturities as may be agreed between the Trustee, STC and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee or the relevant Specified Currency.
<b>Specified Denomination</b> .....	The Certificates will be in such denominations as may be specified in the applicable Final Terms (or Pricing Supplement, as applicable), subject to compliance with then current laws and regulations and the provisions of the following sentence. Certificates will have a minimum denomination of €100,000 (or its equivalent in other currencies as at the date of issue), and: (i) in the case of any Certificates (including Certificates denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Trustee in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA, the minimum specified denomination shall be £100,000 (or its equivalent in other currencies), unless otherwise permitted by then current law and regulations; and (ii) in the case of any Certificates to be sold in the United States to QIBs, the minimum specified denomination shall be U.S.\$200,000 (or its equivalent in other currencies).
<b>Negative Pledge</b> .....	The Certificates will have the benefit of a negative pledge granted by STC, as more particularly described in Condition 5.
<b>Cross-default</b> .....	In respect of STC, the Certificates will have the benefit of a cross-default provision, as more particularly described in Condition 15.
<b>Trustee Covenants</b> .....	The Trustee has agreed to certain restrictive covenants as set out in Condition 7.
<b>Trust Assets</b> .....	Pursuant to the relevant Declaration of Trust for each Series, the Trustee has declared that it will hold the Trust Assets (as defined in Condition 6(a)) upon trust absolutely for, and on behalf of, the Certificateholders <i>pro rata</i> according to the face amount of Certificates held by each Certificateholder.
<b>Limited Recourse</b> .....	Each Certificate of a particular Series will represent an undivided ownership interest in the Trust Assets for such Series. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets.  Certificateholders have no recourse to any assets of the Trustee (other than the relevant Trust Assets) or STC (to the extent that it fulfils its obligations under the Transaction Documents to which it is a party) or the Delegate or any of their respective affiliates in respect of any shortfall in the

expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been enforced, realised and fully discharged following which all obligations of the Trustee and STC shall be extinguished.

**Periodic Distribution Amounts.....** Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the Conditions and the applicable Final Terms (or Pricing Supplement, as applicable).

**Dissolution on the Scheduled Dissolution Date.....** Unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will redeem the Series of Certificates at an amount equal to the relevant Final Dissolution Amount (as defined in the Conditions) and the Trust in relation to the relevant Series will be dissolved by the Trustee on the relevant Scheduled Dissolution Date specified in the applicable Final Terms (or Pricing Supplement, as applicable) for such Series.

**Early Dissolution of the Trust .....** Subject to the applicable Final Terms (or Pricing Supplement, as applicable) in respect of each Series, the Trust may be dissolved prior to the Scheduled Dissolution Date upon:

- (i) the occurrence of a Tax Event;
- (ii) all of the Certificates of a relevant Series being redeemed following the exercise by STC of an Optional Dissolution Right (Call Option) (as applicable);
- (iii) all of the Certificateholders of a relevant Series exercising the Change of Control Put Option;
- (iv) all of the Certificateholders of a relevant Series exercising the Optional Dissolution Right (Put Option);
- (v) the occurrence of a Total Loss Event (as defined in the Conditions);
- (vi) the occurrence of a Dissolution Event; and
- (vii) all of the Certificates of the relevant Series being cancelled following the purchase of such Certificates by or on behalf of STC and/or any of its Subsidiaries.

**Tax Event .....** Upon the occurrence of a Tax Event (as defined in Condition 11(b)), the Certificates may be redeemed by the Trustee in whole, but not in part, at the relevant Tax Redemption Amount.

**Optional Dissolution Right (Call Option) and Optional Dissolution Right (Put Option).....** The applicable Final Terms (or Pricing Supplement, as applicable) issued in respect of each Series of Certificates will state whether such Certificates may be redeemed prior to the Scheduled Dissolution Date at the option of STC (either in whole or in part) or at the option of the Certificateholders, and, if so, the terms applicable to such redemption.

For *Shari'a* reasons, the Optional Dissolution Right (Call Option) and the Optional Dissolution Right (Put Option) cannot both be specified as applicable in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable

	Pricing Supplement) in respect of any single Series of Certificates.
<b>Change of Control Put Option .....</b>	The applicable Final Terms (or Pricing Supplement, as applicable) issued in respect of each Series of Certificates will state whether such Certificates may be redeemed prior to the Scheduled Dissolution Date at the option of the Certificateholders upon the occurrence of a Change of Control Event, and, if so, the terms applicable to such redemption.
<b>Total Loss Event .....</b>	Upon the occurrence of a Total Loss Event (as defined in Condition 11(f)), the Certificates may be redeemed by the Trustee in whole, but not in part, at the relevant Total Loss Dissolution Amount.
<b>Dissolution Events .....</b>	The Certificates will be subject to certain dissolution events as described in Condition 15. Following the occurrence of a Dissolution Event, the Certificates of the relevant Series may be redeemed in full at an amount equal to the relevant Final Dissolution Amount.
<b>Cancellation of Certificates .....</b>	STC and any Subsidiary may at any time purchase Certificates in the open market or otherwise at any price. All Certificates purchased by or on behalf of STC or any Subsidiary may be surrendered for cancellation pursuant to Condition 14 by surrendering the Certificate to the Principal Paying Agent for cancellation by or on behalf of the Trustee, and, in each case, if so surrendered, shall, together with all Certificates redeemed by STC, be cancelled forthwith.
<b>Withholding Tax.....</b>	<p>All payments by or on behalf of the Trustee in respect of the Certificates shall be made free and clear of, and without deduction or withholding for, or on account of, any present or future Taxes (as defined in Condition 12), unless such deduction or withholding is required by law. In that event, the Trustee shall pay such additional amounts as shall result in receipt by the Certificateholders of such net amounts as would have been receivable by them had no such deduction or withholding been required, except that no such additional amounts shall be payable in certain circumstances specified in Condition 12.</p> <p>The Master Restricted Mudaraba Agreement, the Master Murabaha Agreement, the Lease Agreement and the Service Agency Agreement each provide that payments thereunder by STC shall be made without deduction or withholding for, or on account of, any present or future Taxes, unless the deduction or withholding of the Taxes is required by law and, in such case, provide for the payment by STC of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.</p>
<b>Governing Law .....</b>	Each Transaction Document, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, English law.
<b>Waiver of Immunity .....</b>	STC has irrevocably agreed in the Master Declaration of Trust that no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) in relation to any proceedings relating to a dispute and instituted pursuant to the provisions of the Master Declaration of Trust



shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. STC irrevocably agrees that it and its assets are, and shall be, subject to such proceedings in respect of its obligations under the Master Declaration of Trust.

**Transaction Documents .....**

The Transaction Documents, in relation to each Series, comprise the Master Declaration of Trust, the Supplemental Declaration of Trust, the Declaration of Commingling of Assets (if any), the Agency Agreement, the Master Restricted Mudaraba Agreement, the Supplemental Mudaraba Agreement, the Lease Agreement, the Service Agency Agreement and the Master Murabaha Agreement (together with all documents, notices of request to purchase, offer notices, acceptances, notices and confirmations delivered or entered into as contemplated by the Master Murabaha Agreement in connection with the relevant Series).

**Listing and Admission to Trading**

Application has been made to list the Certificates issued under the Programme (other than Exempt Certificates) for a period of 12 months from the date of this Base Prospectus on the Official List and to admit them to trading on the Regulated Market and references to listing shall be construed accordingly.

A Series of Certificates (the "**Exempt Certificates**") may be unlisted or be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Trustee and STC.

**Ratings.....**

The Programme is expected to be assigned a rating of A1 by Moody's and A- by S&P. Series of Certificates to be issued under the Programme may be rated or unrated. Where a Series of Certificates is to be rated, the relevant rating(s) (and the credit rating agency issuing such rating(s)) will be specified in the applicable Final Terms (or Pricing Supplement, as applicable).

*A securities rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, change or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating.*

**Certain ERISA and Related Considerations .....**

Benefit Plan Investors subject to Title I of ERISA or Section 4975 of the Code may not acquire Certificates (or an interest therein).

**Tax Considerations.....**

See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

**Transfer and Selling Restrictions....**

There are restrictions on the offer, sale and transfer of the Certificates. See "*Subscription and Sale and Transfer and Selling Restrictions*".

## SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

Set forth below is selected financial information for the Group for the periods indicated. The consolidated financial information for the Group as at and for the three months period ended 31 March 2019 and 2018 have been extracted without material adjustment from the 2019 Unaudited Interim Condensed Consolidated Financial Statements. The consolidated financial information for the Group as at and for the year ended 31 December 2018, and the year ended 31 December 2017 (Restated) has been extracted without material adjustment from the 2018 Audited Financial Statements. The consolidated financial information for the Group as at and for the years ended 31 December 2017 and 2016 has been extracted without material adjustment from the 2017 Audited Financial Statements. See "*Presentation of Certain Financial and Other Information—New Accounting Standards Adopted in 2018*" for more information on the restatement as at and for the year ended 31 December 2017.

### Consolidated statement of profit or loss data

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
			(SAR '000)			
Revenues .....	13,385,753	12,349,080	51,963,243	50,661,335	50,746,675	52,673,659
Cost of revenues .....	(5,482,277)	(5,414,229)	(21,416,928)	(22,105,926)	(21,255,477)	(23,985,878)
<b>GIROSS PROFIT</b> .....	<b>7,903,476</b>	<b>6,934,851</b>	<b>30,546,315</b>	<b>28,555,409</b>	<b>29,491,198</b>	<b>28,687,781</b>
<b>OPERATING EXPENSES</b>						
Selling and marketing .....	(1,115,657)	(1,250,911)	(5,463,212)	(5,608,634)	(5,726,280)	(6,327,144)
General and administration .....	(1,402,316)	(1,156,882)	(5,247,348)	(4,516,029)	(4,471,573)	(4,331,428)
Depreciation and amortisation .....	(2,110,299)	(1,894,704)	(7,590,530)	(7,444,735)	(8,208,360)	(8,078,118)
<b>TOTAL OPERATING EXPENSES</b> .....	<b>(4,628,272)</b>	<b>(4,302,497)</b>	<b>(18,301,090)</b>	<b>(17,569,398)</b>	<b>(18,406,213)</b>	<b>(18,736,690)</b>
<b>OPERATING PROFIT</b> .....	<b>3,275,204</b>	<b>2,632,354</b>	<b>12,245,225</b>	<b>10,986,011</b>	<b>11,084,985</b>	<b>9,951,091</b>
<b>OTHER INCOME AND EXPENSES</b>						
Cost of early retirement .....	(150,000)	-	(450,000)	(600,000)	(600,000)	(401,703)
Finance income .....	181,120	149,668	554,909	584,682	584,681	722,732
Finance cost .....	(164,176)	(97,379)	(398,814)	(353,542)	(354,199)	(379,062)
Other income/(expenses), net .....	(126,314)	94,395	102,943	85,036	85,075	(62,565)
Share of results of investments in associates and joint ventures, net <sup>(1)</sup> .....	(35,538)	36,025	(10,605)	305,591	308,384	116,246
Other gains/ (losses), net .....	7,427	40,967	(215,493)	(18,405)	(18,091)	(70,110)
<b>TOTAL OTHER INCOME AND EXPENSES</b> .....	<b>(287,481)</b>	<b>223,676</b>	<b>(417,060)</b>	<b>3,362</b>	<b>5,850</b>	<b>(74,462)</b>
<b>NET PROFIT BEFORE ZAKAT AND TAX</b> .....	<b>2,987,723</b>	<b>2,856,030</b>	<b>11,828,165</b>	<b>10,989,373</b>	<b>11,090,835</b>	<b>9,876,629</b>
Zakat and income tax .....	(180,553)	(198,639)	(747,667)	(720,700)	(720,700)	(750,797)
<b>NET PROFIT</b> .....	<b>2,807,170</b>	<b>2,657,391</b>	<b>11,080,498</b>	<b>10,268,673</b>	<b>10,370,135</b>	<b>9,125,832</b>
<i>Net profit attributable to:</i>						
Equity holders .....	2,749,735	2,587,530	10,779,771	10,015,576	10,133,224	8,898,857
Non-controlling interests .....	57,435	69,861	300,727	253,097	236,911	226,975
	<b>2,807,170</b>	<b>2,657,391</b>	<b>11,080,498</b>	<b>10,268,673</b>	<b>10,370,135</b>	<b>9,125,832</b>
Basic and diluted earnings per share (in Saudi Riyals) .....	<b>1.37</b>	<b>1.29</b>	<b>5.39</b>	<b>5.01</b>	<b>5.07</b>	<b>4.45</b>

<sup>(1)</sup> Labelled as "(Loss)/gain from investments in associates and joint ventures, net" in 2018 Audited Financial Statements.

## Consolidated statement of financial position data

	As at 31 March		As at 31 December		
	2019	2018	2017 (Restated) (SAR '000)	2017	2016
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	41,243,110	41,920,409	39,940,616	39,940,616	39,418,554
Intangible assets and goodwill	9,342,212	9,560,119	7,174,575	7,773,839	7,840,443
Investments in associates and joint ventures	6,385,146	6,581,733	6,908,653	6,927,303	6,301,641
Right of use assets	2,468,609	-	-	-	-
Contract costs <sup>(1)</sup>	966,687	1,030,129	1,091,254	n/a	n/a
Contract assets <sup>(1)</sup>	602,376	504,042	276,842	n/a	n/a
Financial assets <sup>(2)</sup>	-	3,373,016	7,793,291	n/a	n/a
Other non-current assets <sup>(3)</sup>	7,820,418	371,621	860,851	8,657,822	7,652,195
<b>TOTAL NON-CURRENT ASSETS</b>	<b>68,828,558</b>	<b>63,341,069</b>	<b>64,046,082</b>	<b>63,299,580</b>	<b>61,212,833</b>
<b>Current Assets</b>					
Inventories	829,873	787,456	482,281	460,431	466,766
Trade and other receivables	15,559,908	14,422,178	20,368,531	25,549,424	19,768,149
Short term murabahas	6,087,181	9,685,491	14,465,364	14,465,364	15,004,490
Contract assets <sup>(1)</sup>	5,750,202	8,117,463	5,211,211	n/a	n/a
Financial assets <sup>(2)</sup>	-	5,488,245	335,487	n/a	n/a
Other current assets <sup>(3)</sup>	5,978,083	1,952,878	1,006,073	1,770,961	1,693,448
Cash and cash equivalents	6,180,154	8,153,865	2,567,044	2,567,044	3,631,202
Assets held for sale	267,728	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>40,653,129</b>	<b>48,607,576</b>	<b>44,435,991</b>	<b>44,813,224</b>	<b>40,564,055</b>
<b>TOTAL ASSETS</b>	<b>109,481,687</b>	<b>111,948,645</b>	<b>108,482,073</b>	<b>108,112,804</b>	<b>101,776,888</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Issued capital	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Statutory reserves	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Other reserves	(2,229,455)	(1,903,878)	(1,775,390)	(1,769,028)	(1,935,833)
Retained earnings	40,593,271	37,417,562	34,637,791	34,010,412	31,877,188
<b>Equity attributable to the holders of the Parent Company<sup>(4)</sup></b>	<b>68,363,816</b>	<b>65,513,684</b>	<b>62,862,401</b>	<b>62,241,384</b>	<b>59,941,355</b>
Non-controlling interests	1,085,311	1,147,914	939,180	1,003,289	1,336,976
<b>TOTAL EQUITY</b>	<b>69,449,127</b>	<b>66,661,598</b>	<b>63,801,581</b>	<b>63,244,673</b>	<b>61,278,331</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Long term borrowings	3,937,536	3,965,479	4,005,980	4,005,980	4,017,231
Provisions	1,019,639	891,910	1,203,152	1,202,448	1,158,654
Provision for end of service benefits	3,937,717	3,919,362	3,922,065	3,922,769	3,775,668
Deferred income <sup>(5)</sup>	2,352,191	2,144,290	990,275	1,763,440	1,445,777
Lease liabilities	1,593,893	-	-	-	-
Contract liabilities <sup>(1)</sup>	771,915	771,915	773,165	n/a	n/a
Other financial liabilities <sup>(2)</sup>	-	1,526,259	59,755	n/a	n/a
Other non-current liabilities <sup>(6)</sup>	1,572,548	32,726	87,227	145,543	292,530
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>15,185,439</b>	<b>13,251,941</b>	<b>11,041,619</b>	<b>11,040,180</b>	<b>10,689,860</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	11,596,131	16,670,958	13,155,927	13,827,806	13,885,561
Short term borrowings	282,292	320,533	647,763	647,763	1,867,220
Provisions	6,506,482	6,829,451	7,633,280	7,633,984	5,682,808
Zakat and income tax liabilities <sup>(7)</sup>	1,645,272	1,465,775	1,507,881	1,623,423	1,460,129
Lease liabilities	734,208	-	-	-	-
Deferred income <sup>(5)</sup>	46,381	41,141	96,431	2,872,083	2,816,841
Contract liabilities <sup>(1)</sup>	2,247,115	2,538,940	3,261,695	n/a	n/a
Other financial liabilities <sup>(1)</sup>	-	90,731	54,640	n/a	n/a
Other current liabilities <sup>(6)</sup>	1,789,240	4,077,577	7,281,256	7,222,892	4,096,138
<b>TOTAL CURRENT LIABILITIES</b>	<b>24,847,121</b>	<b>32,035,106</b>	<b>33,638,873</b>	<b>33,827,951</b>	<b>29,808,697</b>
<b>TOTAL LIABILITIES</b>	<b>40,032,560</b>	<b>45,287,047</b>	<b>44,680,492</b>	<b>44,868,131</b>	<b>40,498,557</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>109,481,687</b>	<b>111,948,645</b>	<b>108,482,073</b>	<b>108,112,804</b>	<b>101,776,888</b>

(1) Contract assets were part of trade receivables until the date of IFRS 15 implementation. Under IFRS 15, if an entity has transferred goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In relation to contract costs, Under IAS 18, contract costs related to commission (cost to obtain) and installation service (cost to fulfil) were expensed as incurred as it was not qualified to be recognised as an asset under any other accounting standards. Under IFRS 15, these will now be capitalised as contract costs and included as assets in the consolidated statement of financial position. Contract liabilities were part of deferred revenues until the date of IFRS 15 implementation. Under IFRS 15, prepaid amounts received from customers against telecom services are classified as contract liabilities. Also, performance obligations related to customer loyalty programs are classified as contract liabilities.

(2) Not separately disclosed in 2019 Unaudited Interim Condensed Consolidated Financial Statements.

(3) Includes Financial Assets as at 31 March 2019, 31 December 2017 and 31 December 2016.

(4) Labelled as "Equity attributable to owners of the Parent Company" in 2017 Audited Financial Statements.

(5) Labelled as "Deferred revenues" in 2017 Audited Financial Statements.

<sup>(6)</sup> Includes Financial Liabilities as at 31 March 2019, 31 December 2017 and 31 December 2016.

<sup>(7)</sup> Labelled as "Tax and zakat liabilities" in 2017 Audited Financial Statements.

## Consolidated statement of cash flow data

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
	(SAR '000)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net profit before zakat and tax <sup>(1)</sup>	2,987,723	2,856,030	11,828,165	10,989,373	11,090,835	9,876,629
Adjustments for:						
Depreciation and amortisation	2,110,299	1,894,704	7,590,530	7,444,735	8,208,360	8,078,118
Amortisation and impairment of contract costs and assets <sup>(2)</sup>	148,782	182,708	623,136	579,468	n/a	n/a
Impairment loss on trade receivables	82,009	158,181	741,583	848,495	870,614	775,050
Write-down of inventory	19,339	64,532	31,863	124,487	n/a	n/a
Finance income	(181,120)	(149,668)	(554,909)	(584,682)	(584,681)	(722,732)
Finance costs	164,176	97,379	398,814	353,542	354,199	379,062
Provision for employee end of service benefits and other provisions	249,739	772,160	1,293,581	2,806,935	2,808,241	4,954,866
Share of results from investments in associates and joint ventures, net <sup>(3)</sup>	35,538	(36,025)	10,605	(305,591)	(308,384)	(116,246)
Other (gains)/losses, net	(7,427)	(40,967)	215,493	18,405	18,091	70,110
<b>Operating profit before working capital adjustments</b>	<b>5,609,058</b>	<b>5,799,034</b>	<b>22,178,861</b>	<b>22,275,167</b>	<b>22,457,275</b>	<b>23,294,857</b>
<b>Movements in working capital:</b>						
Trade and other receivables	(1,047,599)	(2,189,023)	5,274,505	(8,298,267)	(6,772,947)	(7,460,010)
Inventories	(61,756)	33,898	(337,038)	(132,252)	6,334	456,449
Contract costs <sup>(2)</sup>	(54,631)	(485,103)	(477,758)	(404,074)	n/a	n/a
Contract assets <sup>(2)</sup>	(339,834)	(1,046,390)	(3,339,955)	1,756,702	n/a	n/a
Other assets	(328,020)	(212,647)	(1,210,921)	(702,237)	(573,167)	853,544
Trade and other payables	(3,244,956)	807,083	3,246,720	410,636	(263,130)	709,707
Deferred income	213,141	148,742	1,098,725	374,007	411,999	745,160
Contract liabilities <sup>(2)</sup>	(291,825)	(283,412)	(724,005)	(1,027,978)	n/a	n/a
Other liabilities	(3,162,788)	588,728	(5,482,112)	2,813,388	2,582,832	908,210
<b>Cash (used in) generated from operations</b>	<b>(2,709,210)</b>	<b>3,160,909</b>	<b>20,227,022</b>	<b>17,065,092</b>	<b>17,849,196</b>	<b>19,507,917</b>
Less: Zakat and income taxes paid	-	(63,022)	(690,934)	(649,427)	(649,427)	(680,701)
Less: Provision for end of service benefits paid	(115,192)	(74,347)	(521,861)	(499,614)	(499,614)	(452,120)
<b>Net cash (used in) generated from operating activities</b>	<b>(2,824,402)</b>	<b>3,023,540</b>	<b>19,014,227</b>	<b>15,916,051</b>	<b>16,700,155</b>	<b>18,375,096</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Additions to property, plant and equipment	(171,798)	(1,349,213)	(8,406,935)	(6,576,858)	(6,576,858)	(7,607,416)
Additions to intangible assets	(214,097)	(197,160)	(1,350,151)	(1,359,313)	(2,143,417)	(2,414,905)
Proceeds from sale of property, plant and equipment	85,550	6,876	123,283	13,375	13,375	36,136
Purchase of interest in an associate	-	-	-	(375,095)	(375,095)	-
Dividends received from associates	-	-	-	41,077	41,077	26,062
Proceeds from finance income	701,595	55,586	595,731	752,261	752,261	555,023
Proceeds related to financial assets	5,997,028	6,757,553	-	-	-	-
Payments related to financial assets <sup>(4)</sup>	(5,208,888)	(6,833,728)	4,129,233	498,916	498,916	1,677,396
<b>Net cash from (used in) investing activities</b>	<b>1,189,390</b>	<b>(1,560,086)</b>	<b>(4,908,839)</b>	<b>(7,005,637)</b>	<b>(7,789,741)</b>	<b>(7,727,704)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Dividends paid	(1,528)	(1,994)	(8,054,671)	(8,019,234)	(8,019,234)	(8,031,468)
Acquisition cost of non-controlling interests in a subsidiary <sup>(5)</sup>	-	-	-	(437,382)	(437,382)	(1,619,339)
Repayment of borrowings	(131,700)	(334,021)	(635,710)	(3,298,573)	(3,298,573)	(1,711,564)
Proceeds from borrowings	50,000	-	303,936	1,924,461	1,924,461	-
Finance costs paid	(77,799)	(21,762)	(130,517)	(149,454)	(149,454)	(148,195)
Repayment of lease liabilities	(175,697)	-	-	-	-	-
<b>Net cash used in financing activities</b>	<b>(336,724)</b>	<b>(357,777)</b>	<b>(8,516,962)</b>	<b>(9,980,182)</b>	<b>(9,980,182)</b>	<b>(11,510,566)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,971,736)</b>	<b>1,105,677</b>	<b>5,588,426</b>	<b>(1,069,768)</b>	<b>(1,069,768)</b>	<b>(863,174)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR</b>	<b>8,153,865</b>	<b>2,567,044</b>	<b>2,567,044</b>	<b>3,631,202</b>	<b>3,631,202</b>	<b>4,487,827</b>
Net foreign exchange difference	(1,975)	2,873	(1,605)	5,610	5,610	6,549
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR</b>	<b>6,180,154</b>	<b>3,675,594</b>	<b>8,153,865</b>	<b>2,567,044</b>	<b>2,567,044</b>	<b>3,631,202</b>

(1) Labelled as "Net profit before zakat, tax and non-controlling interests" in 2017 Audited Financial Statements.

(2) Contract assets were part of trade receivables until the date of IFRS 15 implementation. Under IFRS 15, if an entity has transferred goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In relation to contract costs, Under IAS 18, contract costs related to commission (cost to obtain) and installation service (cost to fulfil) were expensed as incurred as it was not qualified to be recognised as an asset under any other accounting standards. Under IFRS 15, these will now be capitalised as contract costs and included as assets in the consolidated statement of financial position. Contract liabilities were part of deferred revenues until the date of IFRS 15 implementation. Under IFRS 15, prepaid amounts received from customers against telecom services are classified as contract liabilities. Also, performance obligations related to customer loyalty programs are classified as contract liabilities.

(3) Labelled as "(Loss)/gain from investments in associates and joint ventures, net" in the 2018 Audited Financial Statements.

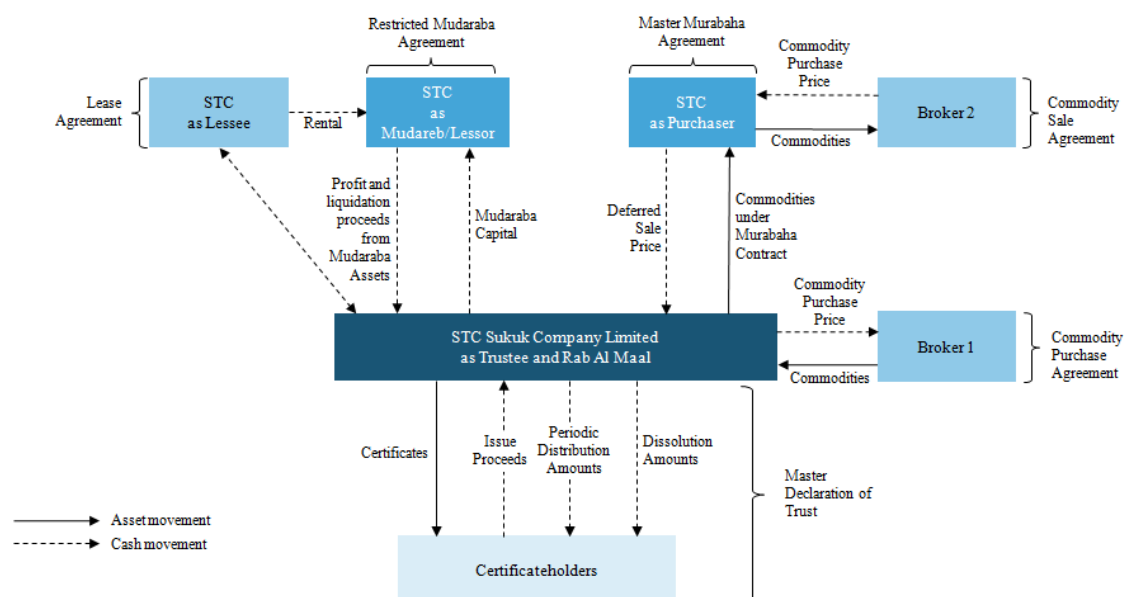
(4) Labelled as "Proceeds and payments related to financial assets, net" in the 2018 Audited Financial Statements and the 2017 Audited Financial Statements.

<sup>(5)</sup> Labelled as "Acquisition of non-controlling interests in a subsidiary" in the 2017 Audited Financial Statements.

## STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Base Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Base Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Base Prospectus carefully, especially the risks of investing in Certificates issued under the Programme discussed under "Risk Factors".

### Structure Diagram



### Payments by the Certificateholders and the Trustee

On the issue date of each Tranche of each Series (the "**Issue Date**"), the relevant Certificateholders will pay the issue proceeds in respect of the Certificates (the "**Issue Proceeds**") to the Trustee and the Trustee will use the Issue Proceeds as follows:

- (i) an amount specified in the applicable Final Terms (or Pricing Supplement, as applicable) (the "**Mudaraba Capital**"), being no less than 51 per cent. of the aggregate face amount of such Tranche, shall be provided by the Trustee (in its capacity as rab-al-maal, the "**Rab Al Maal**") to STC (in its capacity as the mudareb, the "**Mudareb**") to apply as the capital of the mudaraba (the "**Mudaraba**") constituted by the Master Restricted Mudaraba Agreement and the relevant Supplemental Mudaraba Agreement (together, the "**Restricted Mudaraba Agreement**") and the Mudareb shall use the Mudaraba Capital to acquire certain moveable and tangible *Shari'a*-compliant assets and pay an amount equal to the All Expense Reserve Amount to the Service Agent in accordance with the Service Agency Agreement as an advance for Service Charge Amounts to be incurred by the Service Agent (the "**Mudaraba Assets**"); and
- (ii) an amount specified in the applicable Final Terms (or Pricing Supplement, as applicable) (the "**Murabaha Investment Amount**"), being no greater than 49 per cent. of the aggregate face amount of such Tranche, shall be used by the Trustee to purchase certain *Shari'a*-compliant commodities (the "**Commodities**") through the Commodity Agent and the Trustee (in its capacity as seller, the "**Seller**") will sell such Commodities to STC (in its capacity as buyer, the "**Buyer**") on a deferred payment basis for a sale price (the "**Deferred Sale Price**") pursuant to a murabaha contract (the "**Murabaha Contract**") under the terms of the Master Murabaha Agreement.

In respect of each Tranche, pursuant to the Restricted Mudaraba Agreement, there shall be an obligation on the Mudareb to: (a) lease the Mudaraba Assets pursuant to a Lease Agreement between the Trustee, the Mudareb (in its capacity as lessor, the "**Lessor**"), STC (in its capacity as lessee, the "**Lessee**") and the Delegate in return for certain initial rental, periodic rental and other rental payments payable by the Lessee to the Lessor (the "**Rental**"); and (b) enter into a service agency agreement pursuant to a Service Agency Agreement between the Trustee, the Lessor, STC (as "**Service Agent**") and the Delegate.

The income from the Mudaraba Assets (including, for the avoidance of doubt, any Rental received by the Mudareb under the Lease Agreement) less mudaraba costs (consisting of the costs and expenses incurred by the Mudareb in performing the Mudaraba activities) shall be the "**Mudaraba Income**". The Mudaraba Income will be shared between the Mudareb and the Trustee (as Rab Al Maal) in the following profit sharing ratio: 1 per cent. for the Mudareb (the "**Mudareb Profit**") and 99 per cent. for the Rab Al Maal (the "**Rab Al Maal Profit**").

#### ***Periodic Distribution Payments***

On the business day prior to each Periodic Distribution Date, the Mudareb shall calculate the Mudaraba Income received during the relevant Return Accumulation Period on the basis of the Mudaraba Income, including Rental received pursuant to the Lease Agreement by the Mudareb during the relevant periodic distribution period, and shall credit the Mudaraba Income to a ledger collection account opened and maintained by the Mudareb (the "**Mudaraba Collection Account**"). On each Periodic Distribution Date, the Mudareb shall apply the amounts standing to the credit of the Mudaraba Collection Account on a *pari passu* basis as follows: (i) with respect to any Mudareb Profit, to retain such amount for itself; and (ii) with respect to any Rab Al Maal Profit, by crediting to a non-interest bearing account of the Trustee maintained in London (the "**Transaction Account**") the amount equal to the scheduled Periodic Distribution Amount Payable under the Certificates on the immediately following Periodic Distribution Date (the "**Expected Amount**") and shall be applied by the Trustee for such purpose.

Any Rab Al Maal Profit remaining in the Mudaraba Collection Account in excess of the Expected Amount shall be held by the Mudareb for the benefit of the Trustee, save that the Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Collection Account at any time prior to the applicable Dissolution Date to reinvest such amounts in additional Mudaraba Assets.

#### ***Dissolution Payments***

On the Scheduled Dissolution Date or in any other instance where the relevant Series is redeemed in full:

- (i) the Buyer shall pay the aggregate outstanding Deferred Sale Price in full to the Seller by crediting such amount to the relevant Transaction Account; and
- (ii) the outstanding Rental under the Lease Agreement shall become immediately due and payable in accordance with its terms and the Mudareb shall liquidate the Mudaraba Assets at their current market value on the applicable redemption date. The proceeds of such liquidation shall be paid by the Mudareb: (a) to the Transaction Account, provided that such payment shall not exceed an amount equal to 15 per cent. of the outstanding face amount of the Certificates plus any accrued but unpaid Periodic Distribution Amounts relating to the aggregate face amounts of Certificates being redeemed all outstanding amounts due under the Certificates on the business day prior to the applicable redemption date; and (b) the balance being paid into the Mudaraba Collection Account.

Such amounts will be used to fund the relevant Dissolution Amount payable by the Trustee under the Certificates. Following the redemption of the Certificates in full, the Mudareb shall be entitled to deduct and retain all Rab Al Maal Profit remaining in the Mudaraba Collection Account as an incentive for its own account.

To the extent there is an early partial dissolution event in respect of which a Partial Dissolution Amount is due and payable a corresponding part of the Deferred Sale Price under the Master Murabaha Agreement and a corresponding part of the Rental under the Lease Agreement shall become due and payable and there will be a partial liquidation of the Mudaraba and such proceeds shall be used to satisfy the Trustee's obligations to the Certificateholders.



For *Shari'a* reasons, the Optional Dissolution Right (Call Option) and the Optional Dissolution Right (Put Option) cannot both be specified as applicable in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) in respect of any single Series of Certificates.

## FORM OF THE CERTIFICATES

The Certificates of each Series will be in registered form. The Certificates will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

### Global Certificates

#### *Form of Certificates*

The Certificates of each Series offered and sold in reliance on Regulation S, which will be sold to persons who are not U.S. persons outside the United States, will initially be represented by beneficial interests in a global certificate in registered form (an "**Unrestricted Global Certificate**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Series of Certificates, beneficial interests in a Unrestricted Global Certificate may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Unrestricted Global Certificate will bear a legend regarding such restrictions on transfer.

The Certificates of each Series offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions to QIBs, in each case acting for their own account or for the account of one or more QIBs. The Certificates of each Series sold to QIBs in reliance on Rule 144A will initially be represented by a global certificate in registered form (a "**Restricted Global Certificate**", the Restricted Global Certificate and the Unrestricted Global Certificate, each a "**Global Certificate**"). By the acquisition of a beneficial interest in such certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Certificate.

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless: (i) the transfer is to a person that is both a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Restricted Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is to a non-U.S. person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification to the effect that the transfer is being made to a person who is a non-U.S. person in accordance with Regulation S.

Global Certificates will either: (a) be deposited with a custodian for, and registered in the name of a nominee of, DTC; or (b) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms (or Pricing Supplement, as applicable). Persons holding beneficial interests in Global Certificates will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Certificates in fully registered form.

### *Payments*

Each payment in respect of the Global Certificates will be made to the person shown as the holder in the relevant Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificates are being held is open for business. None of the Trustee, STC, the Delegate, the Principal Paying Agent, any Paying Agent or any Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

### ***Exchange for Definitive Certificates***

Interests in a Global Certificates will be exchangeable (free of charge), in whole but not in part, for definitive Certificates of a particular Series only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that: (i) a Dissolution Event (as defined in Condition 15) has occurred and is continuing; (ii) in the case of Certificates registered in the name of a nominee for DTC, either DTC has notified the Trustee that it is unwilling or unable to continue to act as depository for the Certificates or DTC has ceased to constitute a clearing agency registered under the Exchange Act and, in either case, no alternative clearing system is available; (iii) in the case of Certificates registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available; or (iv) the Trustee has or will become subject to adverse tax consequences which would not be suffered were the Certificates represented by the Global Certificates in definitive form and a certificate to that effect signed by two Directors of the Trustee is given to the Delegate. The Trustee will promptly give notice to Certificateholders in accordance with Condition 18 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Global Certificates) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) and (iii) above, the Trustee may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar. Definitive Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".

### ***Delivery***

Upon the transfer, exchange, or replacement of a definitive Certificate bearing the legend referred to under "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*", or upon specific request for removal of the legend on a definitive Certificate, the Trustee will deliver only definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Trustee and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Trustee, that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. The same transfer restrictions outlined herein and in "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*" are applicable to any definitive Certificates.

### ***Cancellation***

Cancellation of any Certificate represented by a Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the aggregate face amount of the relevant Global Certificate in the relevant register of the Certificateholders, whereupon the face amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

### ***Put Option***

If the Change of Control Put Option and/or the Optional Dissolution Right (Put Option) is specified as applicable in the applicable Final Terms (or Pricing Supplement, as applicable), the Change of Control Put Option and/or the Optional Dissolution Right (Put Option) may be exercised by the holder of the Global Certificate giving notice to the relevant Registrar or the relevant Transfer Agent of the face amount of Certificates in respect of which the option is exercised and presenting the Global Certificate within the time limit specified in Condition 11(d) or, as the case may be, Condition 11(e).

### *Notices*

So long as any Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the Certificateholders of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Certificateholders of that Series. Any such notice shall be deemed to have been given to the Certificateholders on the day on which such notice is delivered to the relevant clearing system as aforesaid. The Trustee shall also ensure that notices are duly published in a manner that complies with any relevant rules of any stock exchange or other relevant authority on which the Certificates are for the time being, or by which they have for the time being been, admitted to trading.

### **Transfer of Interests**

Interests in a Global Certificates may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Global Certificate. No beneficial owner of an interest in a Global Certificates will be able to transfer such interest, except in accordance with the applicable procedures of DTC and/or Euroclear and/or Clearstream, Luxembourg, in each case to the extent applicable.

**The Certificates are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".**

### **General**

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms (or Pricing Supplement, as applicable) or as may otherwise be approved by the Trustee, STC and the Principal Paying Agent.

## FORM OF APPLICABLE FINAL TERMS

**[MiFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET** – Solely for the purposes of [the]/[each] manufacturer's product approval process, the target market assessment in respect of the Certificates has led to the conclusion that: (i) the target market for the Certificates is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")]/[MiFID II]; and (ii) all channels for distribution of the Certificates to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Certificates (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Certificates (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

**[Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Certificates are ["prescribed capital markets products"/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products"/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

**Final Terms dated [ ]**

**STC Sukuk Company Limited**  
**Legal Entity Identifier (LEI): 549300XDIYY7XEYHTO45**

**Issue of [Title of Certificates]**

**under the U.S.\$5,000,000,000**  
**Trust Certificate Issuance Programme**

### **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Certificates (the "**Conditions**") set forth in the base prospectus dated 26 April 2019 (the "**Base Prospectus**") [and the supplement(s) to it dated [ ]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Certificates described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Trustee, STC and the offer of the Certificates is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement(s) to it dated [ ]] and the Final Terms are available for viewing on the website of the Central Bank of Ireland (<http://www.centralbank.ie>) and are available for inspection during normal business hours at the registered office of the Trustee and at the specified office of the Principal Paying Agent.

- |    |       |  |                           |
|----|-------|--|---------------------------|
| 1. | (i)   | Trustee:   | STC Sukuk Company Limited |
|    | (ii)  | Obligor:   | Saudi Telecom Company     |
| 2. | (i)   | Series Number:   | [ ]                       |
|    | (ii)  | Tranche:   | [ ]                       |
|    | (iii) | [Date on which the Certificates will be consolidated and form a single Series: | [ ]]                      |
| 3. |       | Specified Currency or Currencies:  | [ ]                       |

4. Aggregate Face Amount:
- (i) Series Number: [ ]
- (ii) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Face Amount [plus accrued Periodic Distribution Amounts from [ ]]
6. (i) Specified Denominations: [ ] [and integral multiples of [ ] in excess thereof]
- (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]
- (ii) Scheduled Dissolution Date: [ ]
8. Profit Basis: [[ ] per cent. Fixed Periodic Distribution Amount]
- [[ ] +/- [ ] per cent. Floating Periodic Distribution Amount]
- (further particulars described in paragraph [12]/[13] below)
9. Dissolution Basis: Dissolution at par
10. Put/Call Options: [Optional Dissolution Right (Call Option)]
- [Change of Control Put Option]
- [Optional Dissolution Right (Put Option)]
- [Not Applicable]
- (further particulars described in paragraph [14]/[15]/[16] below)
11. Date [board] approval for issuance of Certificates obtained: [ ] in the case of the Trustee
- [ ] in the case of STC

#### PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS

12. Fixed Periodic Distribution Provisions: [Applicable]/[Not Applicable]
- (i) Profit Rate: [ ] per cent. per annum payable [[annually]/[semi-annually]/[quarterly]/[monthly]] in arrear on each Periodic Distribution Date
- (ii) Periodic Distribution Date(s): [ ] [and [ ]] in each year [up to and including the Scheduled Dissolution Date, commencing on [ ]/[ ]]
- (iii) Fixed Amount[(s)]: [[ ] per Calculation Amount]/[Not Applicable]
- (iv) Broken Amount(s): [[ ] per Calculation Amount payable on [ ]]/[Not Applicable]
- (v) Day Count Fraction: [30/360 or 360/360 or Bond Basis]
- [30E/360 or Eurobond Basis]
- [30E/360 (ISDA)]

- [Actual/360]
- [Actual/365 (Fixed)]
- [Actual/365 (Sterling)]
- [Actual/Actual or Actual/Actual – ISDA]
- [Actual/Actual (ICMA)]
- (vi) Determination Dates: [[ ] in each year]/[Not Applicable]
13. Floating Periodic Distribution Provisions: [Applicable]/[Not Applicable]
- (i) Periodic Distribution Date(s): [ ]/[Not Applicable]
- (ii) Specified Period: [ ]/[Not Applicable]
- (iii) Business Day Convention: [Floating Rate Convention]
- [Following Business Day Convention]
- [Modified Following Business Day Convention]
- [Preceding Business Day Convention]
- (iv) Additional Business Centre(s): [ ]/[Not Applicable]
- (v) Manner in which the Profit Rate(s) is/are to be determined: Screen Rate Determination
- (vi) Reference Rate: [EURIBOR]/[LIBOR]
- [EURIBOR is provided by [European Money Markets Institute]. As at the date hereof, [European Money Markets Institute] [[appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011, as amended (the "**Benchmarks Regulation**"). As far as the Trustee and STC are aware, EURIBOR [[does not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of the Benchmarks Regulation]/[the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that European Money Markets Institute is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence)]]]
- [LIBOR is provided by ICE Benchmark Administration Limited. As at the date hereof, ICE Benchmark Administration Limited appears in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011, as amended]
- (vii) Periodic Distribution Determination Date: [ ]

- (viii) Relevant Screen Page: [ ]
- (ix) Relevant Time: [ ]
- (x) Linear Interpolation: [Applicable – the Profit Rate for the [long/short] [first/last] Return Accumulation Period shall be calculated using Linear Interpolation]/[Not Applicable]
- (xi) Margin: [ ]
- (xii) Day Count Fraction: [30/360 or 360/360 or Bond Basis]  
[30E/360 or Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/360]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/Actual or Actual/Actual – ISDA]  
[Actual/Actual (ICMA)]
- (xiii) Calculation Agent (if other than the Principal Paying Agent): [ ]

**PROVISIONS RELATING TO DISSOLUTION**

- 14. Optional Dissolution Right (Call Option): [Applicable]/[Not Applicable]
  - (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
  - (ii) Optional Dissolution Call Date: [ ]
  - (iii) If redeemable in part:
    - (a) Minimum Dissolution Amount: [[ ] per Calculation Amount]/[Not Applicable]
    - (b) Maximum Dissolution Amount: [[ ] per Calculation Amount]/[Not Applicable]
  - (iv) Notice Period (if other than as set out in the Conditions): [ ]/[Not Applicable]
- 15. Change of Control Put Option [Applicable]/[Not Applicable]
  - (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
- 16. Optional Dissolution Right (Put Option): [Applicable]/[Not Applicable]
  - (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
  - (ii) Optional Dissolution Put Date: [ ]



- (iii) Notice Period (if other than as set out in the Conditions): [ ]/[Not Applicable]
17. Final Dissolution Amount of each Certificate: [Final Dissolution Amount]/[[ ] per Calculation Amount]
18. Tax Redemption Amount of each Certificate (following early dissolution for tax reasons): [Final Dissolution Amount]/[[ ] per Calculation Amount]
19. Total Loss Dissolution Amount of each Certificate: [Final Dissolution Amount]/[[ ] per Calculation Amount]

#### PROVISIONS IN RESPECT OF THE TRUST ASSETS

20. On the Issue Date:
- (i) Mudaraba Capital: [ ]
- (ii) Murabaha Investment Amount: [ ]
21. Transaction Account: STC Sukuk Company Limited Transaction Account No. [ ] with [ ] for Series No. [ ]
22. Trust Assets: Condition 6(a) applies
23. Other Transaction Documents:
- (i) Supplemental Declaration of Trust: Supplemental Declaration of Trust dated [ ] between the Trustee, STC and the Delegate
- (ii) Declaration of Commingling of Assets: [Declaration of Commingling of Assets dated [ ] by the Trustee]/[Not Applicable]
- (iii) Supplemental Mudaraba Agreement: Supplemental Mudaraba Agreement dated [ ] between the Rab Al Maal and the Mudareb
- (iv) Lease Agreement: Lease Agreement dated [ ] between the Trustee, the Lessor and the Lessee
- (v) Service Agency Agreement: Service Agency Agreement dated [ ] between the Trustee, the Lessor and the Service Agent
- (vi) Murabaha Contract: Notice of Request to Purchase dated [ ] from the Buyer to the Seller and Offer Notice dated [ ] from the Seller to the Buyer

#### GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

24. Form of Certificates: Registered Certificates:
- [Unrestricted Global Certificate (U.S.\$[ ] nominal amount) registered in the name of a nominee for [[DTC]/[a common depository for Euroclear and Clearstream, Luxembourg]] and exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Unrestricted Global Certificate]

[Restricted Global Certificate (U.S.\$[ ] nominal amount) registered in the name of a nominee for [[DTC]/[a common depository for Euroclear and Clearstream, Luxembourg]] and exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Restricted Global Certificate]

[Reg. S Compliance Category 2] [Rule 144A]

25. Additional Financial Centre(s) or other special provisions relating to payment dates: [ ]/[Not Applicable]

**SIGNED** on behalf of STC Sukuk Company Limited:

By: .....  
Duly authorised

**SIGNED** on behalf of Saudi Telecom Company:

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing and Admission to trading: [Application [has been/is expected to be] made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on Euronext Dublin's regulated market with effect from [ ]/[ ]
- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: [The Certificates to be issued [have been/are expected to be] rated [ ] by [ ]/[The following ratings reflect ratings assigned to Certificates of this type issued under the Programme generally: [ ] by [ ]/[The Certificates to be issued are unrated]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Trustee and STC are aware, no person involved in the issue of the Certificates has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, STC and its affiliates in the ordinary course of business for which they may receive fees]/[Not Applicable]

### 4. PROFIT OR RETURN

Indication of profit or return: [[ ]. The indication of profit or return is calculated at the Issue Date on the basis of the Issue Price and may not be an indication of future profit or return]/[Not Applicable]

### 5. OPERATIONAL INFORMATION

- (i) ISIN: [ ]
- (ii) Common Code: [ ]
- (iii) CUSIP: [ ]
- (iv) CINS: [ ]
- (v) Any other security identification codes: CFI: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[ ]/[Not [Applicable/Available]]
- FISN: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[ ]/[Not [Applicable/Available]]
- [ ]

- (vi) Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): /[Not Applicable]
- (vii) Delivery: Delivery [against/free of] payment
- (viii) Names and addresses of additional Paying Agent(s) (if any):
- (ix) Name and address of Registrar(s):

6. **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: /[Not Applicable]
- (iii) Stabilisation Managers(s): /[Not Applicable]
- (iv) If non-syndicated, names of Dealer: /[Not Applicable]

7. **THIRD PARTY INFORMATION**

has been extracted from . The Trustee and STC confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by  no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

## FORM OF PRICING SUPPLEMENT

[MIFID II PRODUCT GOVERNANCE – [appropriate target market legend to be included].]

### Pricing Supplement dated [ ]

No base prospectus is required to be produced in accordance with Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**") for the issue of Exempt Certificates described below and, accordingly, the Exempt Certificates issued as described below are not required to, and do not comply with, the Prospectus Directive. The Exempt Certificates do not form part of the Base Prospectus for the purposes of the Prospectus Directive and the U.K. Listing Authority has neither approved nor reviewed the information contained in this Pricing Supplement.

[**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Trustee has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Certificates are ["prescribed capital markets products"/[capital markets products other than "prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and ["Excluded Investment Products"/["Specified Investment Products"] (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]

**STC Sukuk Company Limited**  
**Legal Entity Identifier (LEI): 549300XDIYY7XEYHTO45**

**Issue of [Title of Exempt Certificates]**

**under the U.S.\$5,000,000,000**  
**Trust Certificate Issuance Programme**

### **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Certificates (the "**Conditions**") set forth in the base prospectus dated 26 April 2019 (the "**Base Prospectus**") [and the supplement(s) to it dated [ ]]. This document constitutes the Pricing Supplement relating to the issue of Exempt Certificates described herein and must be read in conjunction with the Base Prospectus [as so supplemented]. In order to get the full information on the Trustee, STC and the Exempt Certificates described herein, this Pricing Supplement must be read in conjunction with the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing on the website of the Central Bank of Ireland (<http://www.centralbank.ie>) and are available for inspection during normal business hours at the registered office of the Trustee and at the specified office of the Principal Paying Agent.

[Include whichever of the following apply or specify as "**Not Applicable**" (N/A). Note that the numbering should remain as set out below, even if "**Not Applicable**" is indicated for individual paragraphs or sub-paragraphs. *Italics denote guidance for completing the Pricing Supplement.*]

1. (i) Trustee: STC Sukuk Company Limited
- (ii) Obligor: Saudi Telecom Company
2. (i) Series Number: [ ]
- (ii) Tranche: [ ]
- (iii) [Date on which the Certificates will be consolidated and form a single Series: [ ]]
3. Specified Currency or Currencies: [ ]

4. Aggregate Face Amount:
- (i) Series Number: [ ]
- (ii) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Face Amount [plus accrued Periodic Distribution Amounts from [ ]]
6. (i) Specified Denominations: [ ] [and integral multiples of [ ] in excess thereof]
- (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]
- (ii) Scheduled Dissolution Date: [ ]
8. Profit Basis: [[ ] per cent. Fixed Periodic Distribution Amount]
- [[ ] +/- [ ] per cent. Floating Periodic Distribution Amount]
- (further particulars described in paragraph [12]/[13] below)
9. Dissolution Basis: Dissolution at par
10. Put/Call Options: [Optional Dissolution Right (Call Option)]
- [Change of Control Put Option]
- [Optional Dissolution Right (Put Option)]
- [Not Applicable]
- (further particulars described in paragraph [14]/[15]/[16] below)
11. Date [board] approval for issuance of Certificates obtained: [ ] in the case of the Trustee
- [ ] in the case of STC

#### **PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS**

12. Fixed Periodic Distribution Provisions: [Applicable]/[Not Applicable]
- (i) Profit Rate: [ ] per cent. per annum payable [[annually]/[semi-annually]/[quarterly]/[monthly]] in arrear on each Periodic Distribution Date
- (ii) Periodic Distribution Date(s): [ ] [and [ ]] in each year [up to and including the Scheduled Dissolution Date, commencing on [ ]/[ ]]
- (iii) Fixed Amount[(s)]: [[ ] per Calculation Amount]/[Not Applicable]
- (iv) Broken Amount(s): [[ ] per Calculation Amount payable on [ ]]/[Not Applicable]
- (v) Day Count Fraction: [*specify*]
- (vi) Determination Dates: [[ ] in each year]/[Not Applicable]

- (vii) Other terms applicable/relating to the method of calculating profit: /[Not Applicable]
13. Floating Periodic Distribution Provisions: /[Not Applicable]
- (i) Periodic Distribution Date(s): /[Not Applicable]
- (ii) Specified Period: /[Not Applicable]
- (iii) Business Day Convention: *[specify]*
- (iv) Additional Business Centre(s): /[Not Applicable]
- (v) Manner in which the Profit Rate(s) is/are to be determined: Screen Rate Determination
- (vi) Reference Rate: *[specify]*
- [[Reference Rate] is provided by [administrator legal name] [repeat as necessary]. [As at the date hereof, [[administrator legal name] [appears]/[does not appear]] [repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of Regulation (EU) 2016/1011, as amended. [As far as the Trustee and STC are aware, as at the date hereof, [[specify benchmark] does not fall within the scope of Regulation (EU) 2016/1011, as amended, by virtue of Article 2 of that Regulation]/[transitional provisions in Article 51 of Regulation (EU) 2016/1011, as amended, apply, such that [administrator(s) legal name(s)] [is/are] not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence)]]]/[Not Applicable]*
- (vii) Periodic Distribution Determination Date:  [ ]
- (viii) Relevant Screen Page:  [ ]
- (ix) Relevant Time:  [ ]
- (x) Linear Interpolation: /[Applicable – the Profit Rate for the [long/short] [first/last] Return Accumulation Period shall be calculated using Linear Interpolation]/[Not Applicable]
- (xi) Margin:  [ ]
- (xii) Day Count Fraction: *[specify]*
- (xiii) Calculation Agent (if other than the Principal Paying Agent):  [ ]
- (xiv) Other terms applicable/relating to the method of calculating profit: /[Not Applicable]

## PROVISIONS RELATING TO DISSOLUTION

14. Optional Dissolution Right (Call Option): [Applicable]/[Not Applicable]
- (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
- (ii) Optional Dissolution Call Date: [ ]
- (iii) If redeemable in part:
- (a) Minimum Dissolution Amount: [[ ] per Calculation Amount]/[Not Applicable]
- (b) Maximum Dissolution Amount: [[ ] per Calculation Amount]/[Not Applicable]
- (iv) Notice Period (if other than as set out in the Conditions): [ ]/[Not Applicable]
15. Change of Control Put Option: [Applicable]/[Not Applicable]
- (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
16. Optional Dissolution Right (Put Option): [Applicable]/[Not Applicable]
- (i) Optional Dissolution Amount of each Certificate: [Partial Dissolution Amount]/[[ ] per Calculation Amount]
- (ii) Optional Dissolution Put Date: [ ]
- (iii) Notice Period (if other than as set out in the Conditions): [ ]/[Not Applicable]
17. Final Dissolution Amount of each Certificate: [Final Dissolution Amount]/[[ ] per Calculation Amount]
18. Tax Redemption Amount of each Certificate (following early dissolution for tax reasons): [Final Dissolution Amount]/[[ ] per Calculation Amount]
19. Total Loss Dissolution Amount of each Certificate: [Final Dissolution Amount]/[[ ] per Calculation Amount]

## PROVISIONS IN RESPECT OF THE TRUST ASSETS

20. On the Issue Date:
- (i) Mudaraba Capital: [ ]
- (ii) Murabaha Investment Amount: [ ]
21. Transaction Account: STC Sukuk Company Limited Transaction Account No. [ ] with [ ] for Series No. [ ]
22. Trust Assets: Condition 6(a) applies
23. Other Transaction Documents:
- (i) Supplemental Declaration of Trust: Supplemental Declaration of Trust dated [ ] between the Trustee, STC and the Delegate



- |       |                                       |  |
|-------|---------------------------------------|--|
| (ii)  | Declaration of Commingling of Assets: | [Declaration of Commingling of Assets dated [ ] by the Trustee]/[Not Applicable]   |
| (iii) | Supplemental Mudaraba Agreement:      | Supplemental Mudaraba Agreement dated [ ] between the Rab Al Maal and the Mudareb  |
| (iv)  | Lease Agreement:                      | Lease Agreement dated [ ] between the Trustee, the Lessor and the Lessee   |
| (v)   | Service Agency Agreement:             | Service Agency Agreement dated [ ] between the Trustee, the Lessor and the Service Agent                                     |
| (vi)  | Murabaha Contract:                    | Notice of Request to Purchase dated [ ] from the Buyer to the Seller and Offer Notice dated [ ] from the Seller to the Buyer |

**GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES**

- |     |   |  |
|-----|---|--|
| 24. | Form of Certificates:   | Registered Certificates:<br><br>[Unrestricted Global Certificate (U.S.\$[ ] nominal amount) registered in the name of a nominee for [[DTC]/[a common depository for Euroclear and Clearstream, Luxembourg]] and exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Unrestricted Global Certificate]<br><br>[Restricted Global Certificate (U.S.\$[ ] nominal amount) registered in the name of a nominee for [[DTC]/[a common depository for Euroclear and Clearstream, Luxembourg]] and exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Restricted Global Certificate]<br><br>[Reg. S Compliance Category 2] [Rule 144A] |
| 25. | Additional Financial Centre(s) or other special provisions relating to payment dates: | [ ]/[Not Applicable]   |

**SIGNED** on behalf of STC Sukuk Company Limited:

By: .....  
Duly authorised

**SIGNED** on behalf of Saudi Telecom Company:

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Listing and Admission to trading: /[The Exempt Certificates are unlisted]
- (ii) Estimate of total expenses related to admission to trading: /[Not Applicable]

### 2. RATINGS

Ratings: [The Certificates to be issued [have been/are expected to be] rated  by ]/[The following ratings reflect ratings assigned to Certificates of this type issued under the Programme generally:  by ]/[The Certificates to be issued are unrated]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Trustee and STC are aware, no person involved in the issue of the Certificates has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, STC and its affiliates in the ordinary course of business for which they may receive fees]/[Not Applicable]

### 4. PROFIT OR RETURN

Indication of profit or return: [ ]. The indication of profit or return is calculated at the Issue Date on the basis of the Issue Price and may not be an indication of future profit or return]/[Not Applicable]

### 6. OPERATIONAL INFORMATION

- (i) ISIN:  [ ]
- (ii) Common Code:  [ ]
- (iii) CUSIP:  [ ]
- (iv) CINS:  [ ]
- (v) Any other security identification codes: CFI: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[ ]/[Not [Applicable/Available]]
- FISN: [See the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/[ ]/[Not [Applicable/Available]]
- [ ]
- (vi) Any clearing system(s) other than DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): /[Not Applicable]

- (vii) Delivery: Delivery [against/free of] payment
- (viii) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (ix) Name and address of Registrar(s): [ ]

7. **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [ ]/[Not Applicable]
- (iii) Stabilisation Managers(s): [ ]/[Not Applicable]
- (iv) If non-syndicated, names of Dealer: [ ]/[Not Applicable]
- (v) Additional selling restrictions: [ ]/[Not Applicable]

8. **THIRD PARTY INFORMATION**

[[ ] has been extracted from [ ]. The Trustee and STC confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ] no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

## TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the terms and conditions of the Certificates which, subject to completion in accordance with the provisions of Part A of the applicable Final Terms (or Pricing Supplement, as applicable) will apply to each Global Certificate (as amended by such Global Certificate) and Definitive Certificate and shall be endorsed on (or attached to) each Definitive Certificate.*

*In the case of Certificates which will not be admitted to listing, trading on a regulated market for the purposes of Directive 2014/65/EU, as amended in the European Economic Area and/or quotation by any competent authority, stock exchange and/or quotation system or will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Trustee, STC and the relevant Dealer ("**Exempt Certificates**") and, accordingly, for which no base prospectus is required to be produced in accordance with Directive 2003/71/EC, as amended or superseded, a pricing supplement (a "**Pricing Supplement**") will be issued describing the final terms of such Series of Exempt Certificates.*

STC Sukuk Company Limited (in its capacity as issuer and as trustee, the "**Trustee**") has established a programme (the "**Programme**") for the issuance of trust certificates (the "**Certificates**" and each a "**Certificate**") in a maximum aggregate face amount of U.S.\$5,000,000,000 (or its equivalent in other currencies) as may be increased in accordance with the terms of the Dealer Agreement (as defined below).

As used herein, "**Tranche**" means Certificates which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Certificates together with any further Tranche or Tranches of Certificates which are: (i) expressed to be consolidated and form a single series; and (ii) have the same terms and conditions as the outstanding Certificates of such Series or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue.

The final terms for a Certificate (or the relevant provisions thereof) are set out in Part A of the applicable Final Terms (or, in the case of Exempt Certificates, Part A of the applicable Pricing Supplement) and incorporated or endorsed on a Certificate which supplement these terms and conditions (the "**Conditions**"). References to the "**applicable Final Terms**" or "**applicable Pricing Supplement**", as the case may be, are to the final terms (or the relevant provisions thereof) incorporated or endorsed on each Certificate.

The Certificates of each Series shall form a separate series and these Conditions shall apply *mutatis mutandis* separately and independently to the Certificates of each Series and, in these Conditions, the expressions "**Certificates**", "**Certificateholders**" and related expressions shall be construed accordingly.

In these Conditions, references to "**Certificates**" shall be references to the Certificates (whether in global form as a Restricted Global Certificate (as defined herein) and/or an Unrestricted Global Certificate (as defined herein), as the context may require (each a "**Global Certificate**") or in definitive form as definitive Certificates (each a "**Definitive Certificate**")) which are the subject of the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).

Each Certificate will represent an undivided ownership interest in the relevant Trust Assets (as defined below) held on trust by the Trustee (the "**Trust**") for the holders of such Certificates pursuant to: (a) a master declaration of trust (the "**Master Declaration of Trust**") dated 26 April 2019 and entered into by the Trustee, Saudi Telecom Company ("**STC**") and HSBC Corporate Trustee Company (UK) Limited in its capacity as delegate (the "**Delegate**"); and (b) a supplemental declaration of trust to be entered into by the same parties and with the details set out in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) (the "**Supplemental Declaration of Trust**", and together with the Master Declaration of Trust, the "**Declaration of Trust**").

These Conditions include summaries of, and are subject to, the detailed provisions of the relevant Declaration of Trust and the other Transaction Documents (as defined below). Payments relating to the Certificates will be made pursuant to an agency agreement dated 26 April 2019 (the "**Agency Agreement**") made between the Trustee, STC, the Delegate, HSBC Bank plc (as initial "**Principal Paying Agent**", "**Paying Agent**" and "**Exchange Agent**"), HSBC Bank plc (as initial "**Euro Registrar**" and a "**Transfer Agent**") and HSBC Bank USA, National Association (as initial "**U.S. Registrar**" and a

"**Transfer Agent**") (the Euro Registrar and U.S. Registrar together the "**Registrars**" and each a "**Registrar**") (and together with the Calculation Agent specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), referred to in these Conditions as the "**Agents**"). References to the Agents or any of them shall include their successors. Additional Paying Agents (if any) and the relevant Registrar will be specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).

The Certificateholders entitled to the benefit of, are bound by, and are deemed to have notice of the following documents as each may be amended and restated and/or supplemented from time to time, copies of which are available for inspection during usual business hours at the registered office of the Trustee (presently c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands) and at the specified offices of the Principal Paying Agent:

- (a) the Master Declaration of Trust and, in respect of any Tranche, the Supplemental Declaration of Trust and any declaration of commingling of assets entered into pursuant to the Declaration of Trust (the "**Declaration of Commingling of Assets**");
- (b) the Agency Agreement;
- (c) the master restricted mudaraba agreement dated 26 April 2019 (the "**Master Restricted Mudaraba Agreement**") made between the Trustee (as "**Rab Al Maal**") and STC (as "**Mudareb**") and, in respect of any Tranche: (i) the supplemental mudaraba agreement to be entered into by the same parties and with the details set out in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) (the "**Supplemental Mudaraba Agreement**", and together with the Master Restricted Mudaraba Agreement, the "**Restricted Mudaraba Agreement**"); (ii) the lease agreement to be entered into between the Trustee, the Mudareb (as "**Lessor**") and STC (as "**Lessee**") and with the details set out in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) (the "**Lease Agreement**"); and (iii) the service agency agreement to be entered into between the Trustee, the Lessor and STC (as "**Service Agent**") and with the details set out in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) (the "**Service Agency Agreement**"); and
- (d) a master murabaha agreement dated 26 April 2019 (the "**Master Murabaha Agreement**") made between the Trustee (as "**Seller**") and STC (as "**Buyer**") and, in respect of any Tranche, all documents, notices of request to purchase, offer notices, acceptances, notices and confirmations delivered or entered into as contemplated by the Master Murabaha Agreement in connection with the relevant Tranche,

(together, in respect of each Series, the "**Transaction Documents**").

Each Certificateholder, by its acquisition and holding of Certificates, shall be deemed, in respect of each Tranche, to authorise and direct the Trustee on behalf of the Certificateholders: (1) to apply the relevant portion of the proceeds of the issuance as Mudaraba Capital in accordance with the Restricted Mudaraba Agreement (including, for the avoidance of doubt, entering into the transactions contemplated by the Lease Agreement and the Service Agency Agreement); (2) to apply the remaining portion of the proceeds of the issuance as Murabaha Investment Amount in accordance with the Master Murabaha Agreement; and (3) to enter into each Transaction Document to which it is a party (including, without limitation, any Declaration of Commingling of Assets), subject to the provision of the Declaration of Trust and these Conditions.

## 1. INTERPRETATION

In these Conditions the following expressions have the following meanings:

"**Additional Business Centre**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Additional Financial Centre**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Adjustment Spread"** means a spread (which may be positive or negative), or the formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Trustee and STC) determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which: (a) in the case of a Successor Rate, is formally recommended in relation to the replacement of a Reference Rate with the Successor Rate by any Relevant Nominating Body; or (b) (if no such recommendation has been made, or in the case of an Alternative Reference Rate) the Trustee and STC, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determine is customarily applied to the relevant Successor Rate or the Alternative Reference Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or (c) (if the Trustee and STC, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determine that no such spread is customarily applied) the Trustee and STC, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determine is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as the case may be);

**"Alternative Reference Rate"** means an alternative benchmark or screen rate which the Trustee and STC, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determine, in accordance with Condition 9(e), is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Certificates;

**"Benchmark Amendments"** has the meaning given to it in Condition 9(e);

**"Benchmark Event"** means: (a) the Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or (b) a public statement by the administrator of the Reference Rate that it has ceased or that it will cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate); or (c) a public statement by the supervisor of the administrator of the Reference Rate, that the Reference Rate has been or will be permanently or indefinitely discontinued; or (d) a public statement by the supervisor of the administrator of the Reference Rate as a consequence of which the Reference Rate will be prohibited from being used either generally, or in respect of the Certificates; or (e) it has become unlawful for the Trustee, STC, the Calculation Agent or any Paying Agent to calculate any payments due to be made to any Certificateholder using the Reference Rate, provided that in the case of (b) to (d) (inclusive) above, the Benchmark Event shall occur on the date of the cessation of publication of the Reference Rate, the discontinuation of the Reference Rate, or the prohibition of use of the Reference Rate, as the case may be, and not the date of the relevant public statement;

**"Broken Amount"** has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Business Day"** means:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);
- (b) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), a TARGET Settlement Day; and
- (c) either: (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency

deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre); or (ii) in relation to any sum payable in euro, a TARGET Settlement Day;

**"Business Day Convention"** means the business day convention specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) (with relevant adjustments to the Periodic Distribution Date being calculated in accordance with Condition 9(b));

**"Calculation Amount"** has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Certificateholder"** means, subject to Condition 2(b), a person in whose name a Certificate is registered in the relevant Register (or in the case of joint holders, the first named thereof);

**"Clearstream, Luxembourg"** means Clearstream Banking S.A.;

**"Change of Control Amount"** means, in respect of each Certificate of a Series, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Partial Dissolution Amount;

**"Change of Control Event"** will occur if:

- (a) at any time the government of the Kingdom of Saudi Arabia ceases to own, directly or indirectly, at least 50 per cent. of the issued share capital of STC ("**Change of Control**"); and
- (b) on the date that is the earlier of the date of the earliest Potential Change of Control Announcement (if any) and the date of the first public announcement of the Change of Control (such date, the "**Relevant Announcement Date**"), the Certificates carry: (i) an investment grade credit rating from any Rating Agency (provided by such Rating Agency at the invitation or with the consent of STC) and such rating is, within the Change of Control Period either downgraded to a non-investment grade credit rating or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to an investment grade credit rating by such Rating Agency; (ii) a non-investment grade credit rating from any Rating Agency (provided by such Rating Agency at the invitation or with the consent of STC) and such rating is within the Change of Control Period downgraded by one or more notches or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded or (in the case of a withdrawal) reinstated to its earlier credit rating or better by such Rating Agency; or (iii) no credit rating from any Rating Agency (at the invitation or with the consent of STC) and a Negative Rating Event also occurs within the Change of Control Period, and, in each case, in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to STC that such downgrading and/or withdrawal resulted, directly or indirectly, from the Change of Control;

**"Change of Control Full Put Date"** has the meaning given to it in Condition 11(d);

**"Change of Control Notice"** has the meaning given to it in Condition 11(d);

**"Change of Control Period"** means the period commencing on the Relevant Announcement Date and ending 90 days after the occurrence of the Change of Control or, where a Rating Agency has publicly announced that the Certificates are under consideration for rating review or, as the case may be, rating (such public announcement being within the period ending 90 days after the Change of Control), the later of such 90th day after the Change of Control and the date falling 60 days after such public announcement;

**"Change of Control Put Option"** means the right specified in Condition 11(d);

**"Change of Control Put Option Date"** has the meaning given to it in Condition 11(d);

"**Change of Control Put Period**" has the meaning given to it in Condition 11(d);

"**Day Count Fraction**" means, in respect of the calculation of any Periodic Distribution Amount on any Certificate for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Return Accumulation Period, the "**Calculation Period**"):

- (a) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D<sub>1</sub>** is greater than 29, in which case **D<sub>2</sub>** will be 30;

- (b) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D<sub>2</sub>** will be 30;



- (c) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case **D<sub>1</sub>** will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the Scheduled Dissolution Date; or (ii) such number would be 31, in which case **D<sub>2</sub>** will be 30;

- (d) if "**Actual/360**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the actual number of days in the Calculation Period divided by 360;
- (e) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the actual number of days in the Calculation Period divided by 365;
- (f) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the actual number of days in the Calculation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (g) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of: (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365); and
- (h) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement):
- (i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and

- (ii) if the Calculation Period is longer than one Determination Period, the sum of:
- (1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and
  - (2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year;

**"Deferred Sale Price"** has the meaning given to it in the Master Murabaha Agreement;

**"Designated Maturity"** means the period of time designated in the Reference Rate;

**"Determination Date"** means the date(s) specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) or, if none is so specified, the Periodic Distribution Date(s);

**"Determination Period"** means the period from and including a Determination Date in any year to but excluding the next Determination Date;

**"Dispute"** has the meaning given to it in Condition 22;

**"Dissolution Amount"** means the Final Dissolution Amount, the Tax Redemption Amount or the Total Loss Dissolution Amount (as the case may be);

**"Dissolution Date"** means, as the case may be:

- (a) the Scheduled Dissolution Date;
- (b) the Tax Redemption Date;
- (c) the Optional Dissolution Call Date;
- (d) the Change of Control Full Put Date;
- (e) the Optional Dissolution Put Date;
- (f) the Total Loss Dissolution Date; and
- (g) the Dissolution Event Redemption Date;

**"Dissolution Event"** has the meaning given to it in Condition 15;

**"Dissolution Event Redemption Date"** has the meaning given to it in Condition 15;

**"Dissolution Request"** has the meaning given to it in Condition 15;

**"DTC"** means The Depository Trust Company;

**"EURIBOR"** means, in respect of the euro and any specified period, the rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

**"Euroclear"** means Euroclear Bank SA/NV;

"**Extraordinary Resolution**" has the meaning given to it in schedule 3 to the Master Declaration of Trust;

"**FATCA**" has the meaning given to it in Condition 10(b);

"**Final Dissolution Amount**" means, in respect of redemption of all Certificates outstanding of a Series, in respect of each such Certificate being redeemed, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the sum of:

- (a) the outstanding face amount of such Certificate; and
- (b) any accrued but unpaid Periodic Distribution Amounts for such Certificate to but excluding the relevant Dissolution Date;

"**Financial Indebtedness**" means all present or future obligations, and guarantees or indemnities in respect of obligations, for moneys borrowed or raised (whether or not evidenced by bonds, debentures, notes, sukuk, certificates or other similar instruments);

"**Fixed Amount**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Further Rental**" has the meaning given to it in the relevant Lease Agreement;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Trustee and STC at STC's expense;

"**Initial Rental**" has the meaning given to it in the relevant Lease Agreement;

"**Issue Date**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Lease Assets**" has the meaning given to it in the relevant Lease Agreement;

"**Liability**" means, in respect of any person, any actual loss, damage, cost, fee, charge, award, claim, demand, expense, judgment, action, proceeding or other liability whatsoever and including any value added tax or similar tax charged or chargeable in respect of any sums referred to in this definition and legal or other fees and expenses on a full indemnity basis and references to "**Liabilities**" shall mean all of these;

"**LIBOR**" means, in respect of any specified currency and any specified period, the rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

"**Margin**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Maximum Dissolution Amount**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Minimum Dissolution Amount**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Mudaraba Assets**" has the meaning given to it in the relevant Restricted Mudaraba Agreement;

"**Mudaraba Income**" has the meaning given to it in the relevant Restricted Mudaraba Agreement;

**"Negative Rating Event"** shall be deemed to have occurred, if at any time there is no rating assigned to the Certificates by any Rating Agency (at the invitation or with the consent of STC), either: (a) STC does not, prior to or not later than 21 days after the occurrence of the relevant Change of Control, seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Certificates; or (b) if STC does so seek and use all such reasonable endeavours, it is unable to obtain such rating of at least investment grade by the end of the Change of Control Period and the relevant Rating Agency announces publicly or confirms in writing to the Trustee or STC that the failure to issue a rating of at least investment grade was as a result, directly or indirectly, from the Change of Control;

**"Non-recourse Project Financing"** has the meaning given to it in Condition 5;

**"Optional Dissolution Amount"** means, in respect of each Certificate of a Series, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Partial Dissolution Amount;

**"Optional Dissolution Call Date"** means the date(s) specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Optional Dissolution Partial Call Date"** has the meaning given to it in Condition 11(c);

**"Optional Dissolution Partial Put Date"** has the meaning given to it in Condition 11(e);

**"Optional Dissolution Put Date"** means the date(s) specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Optional Dissolution Right (Call Option)"** means the right specified in Condition 11(c);

**"Optional Dissolution Right (Put Option)"** means the right specified in Condition 11(e);

**"Optional Put Period"** means the period from the date of the Put Notice to the Optional Dissolution Partial Put Date;

**"Partial Dissolution Amount"** means, in respect of redemption of some but not all Certificates outstanding of a Series, in respect of each such Certificate being redeemed, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the sum of:

- (a) the outstanding face amount of such Certificate; and
- (b) any accrued but unpaid Periodic Distribution Amounts for such Certificate to but excluding the relevant Partial Dissolution Date;

**"Partial Dissolution Date"** means, as the case may be:

- (a) Optional Dissolution Partial Call Date;
- (b) Change of Control Put Option Date; and
- (c) Optional Dissolution Partial Put Date;

**"Payment Business Day"** means:

- (a) (only in the case where presentation and surrender of a definitive Certificate is required before payment can be made) a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of securities and for dealings in foreign currencies;
- (b) a day on which dealings in foreign currencies may be carried on in the place in which the specified offices of the Paying Agents are located; and
- (c) (i) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial

Centre; (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre; or (iii) if TARGET2 System is specified as an Additional Financial Centre, a day on which the TARGET2 System is open;

**"Periodic Distribution Amount"** means, in relation to a Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with Condition 8 or Condition 9 (as applicable);

**"Periodic Distribution Date(s)"** means the dates specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) or (in the case of Certificates to which Floating Periodic Distribution Provisions apply) the dates otherwise calculated in accordance with Condition 9;

**"Periodic Distribution Determination Date(s)"** means the dates specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

**"Periodic Rental"** has the meaning given to it in the relevant Lease Agreement;

**"Permitted Security Interest"** has the meaning given to it in Condition 5;

**"person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Potential Change of Control Announcement"** means any public announcement or statement by STC, any actual or potential bidder or any designated adviser thereto relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs;

**"Proceedings"** has the meaning given to it in Condition 22;

**"Profit Rate"** means: (i) in relation to a particular Series to which Fixed Periodic Distribution Provisions are applicable, the profit rate specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement); and (ii) in relation to a particular Series to which Floating Periodic Distribution Provisions are applicable, the profit rate calculated in accordance with Condition 9;

**"Put Notice"** has the meaning given to it in Condition 11(e)

**"QIBs"** means qualified institutional buyers as defined in Rule 144A under the Securities Act;

**"Rab Al Maal Profit"** has the meaning given to it in the relevant Restricted Mudaraba Agreement;

**"Rating Agency"** means any of the credit rating agencies of Moody's Investors Service or Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and their respective successors to their ratings business or any other rating agency of equivalent international standing specified by STC from time to time;

**"Record Date"** means, in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant Periodic Distribution Date and, in the case of the payment of any Dissolution Amount or Partial Dissolution Amount, the date falling two Payment Business Days before the relevant Dissolution Date or Partial Dissolution Date, as the case may be, or other due date for payment of such amount;

**"Reference Banks"** means the principal London office of each of four major banks engaged in the London or Eurozone inter-bank market selected by or on behalf of the Trustee, provided that once a Reference Bank has first been selected by or on behalf of the Trustee, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

**"Reference Rate"** means one of the following benchmark rates (as specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement)) in respect of the currency and period specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement): (a) EURIBOR; and (b) LIBOR;

**"Register"** has the meaning given to it in Condition 2(a);

**"Regulation S"** means Regulation S as defined in the Securities Act;

**"Relevant Date"** means, in respect of any Certificate, the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders that, upon further presentation or, as the case may be, surrender of the Certificate being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

**"Relevant Indebtedness"** has the meaning given to it in Condition 5;

**"Relevant Jurisdiction"** means each of the Cayman Islands (in the case of any payment made by the Trustee) and the Kingdom of Saudi Arabia (in the case of any payment made by STC) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

**"Relevant Nominating Body"** means, in respect of a reference rate: (a) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of reference rate; or (b) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of: (i) the central bank for the currency to which the reference rate relates; (ii) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; (iii) a group of the aforementioned central banks or other supervisory authorities; or (iv) the Financial Stability Board or any part thereof;

**"Relevant Powers"** has the meaning given to it in the Master Declaration of Trust;

**"Relevant Screen Page"** means the page, section or other part of a particular information service specified as the Relevant Screen Page in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) and, if no such relevant time is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), means: (a) 11:00 a.m. (Brussels time) in the case of a determination of EURIBOR; and (b) 11:00 a.m. (London time) in the case of a determination of LIBOR;

**"Reserved Matter"** has the meaning given to it in schedule 3 to the Master Declaration of Trust;

**"Restricted Global Certificate"** means the Certificates of each Series sold to QIBs in reliance on Rule 144A in registered form;

**"Return Accumulation Period"** means the period beginning on (and including) a Periodic Distribution Date (or, in the case of the first Return Accumulation Period, the Issue Date) to (but excluding) the next (or, in the case of the first Return Accumulation Period, the first) Periodic Distribution Date;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rules**" has the meaning given to it in Condition 22;

"**Scheduled Dissolution Date**" means the date specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Securitisation**" has the meaning given to it in Condition 5;

"**Security Interest**" has the meaning given to it in Condition 5;

"**Specified Currency**" means the currency specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) or, if none is specified, the currency in which the Certificates are denominated;

"**Specified Denomination(s)**" has the meaning given to it in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**Specified Period**" means the period specified as such in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement);

"**STC Event**" has the meaning given to it in Condition 15;

"**sub-unit**" means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.;

"**Subsidiary**" means, at any time, any entity whose financial statements at such time are required by law or in accordance with applicable generally accepted accounting principles at such time to be fully consolidated with those of STC;

"**Successor Rate**" means the rate that the Independent Adviser (in consultation with the Trustee and STC) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body;

"**Sukuk Obligations**" has the meaning given to it in Condition 5;

"**Supplementary Rental**" has the meaning given to it in the relevant Lease Agreement;

"**TARGET Settlement Day**" means a day on which the TARGET2 System is open;

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

"**Tax Event**" has the meaning given to it in Condition 11(b);

"**Tax Redemption Amount**" means, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Final Dissolution Amount;

"**Tax Redemption Date**" has the meaning given to it in Condition 11(b);

"**Taxes**" has the meaning given to it in Condition 12;

"**Total Loss Dissolution Amount**" means, unless otherwise specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Final Dissolution Amount;

"**Total Loss Dissolution Date**" has the meaning given to it in Condition 11(f);

"**Total Loss Event**" has the meaning given to it in Condition 11(f);

"**Transaction Account**" means, in respect of each Series, a non-interest bearing account in the name of the Trustee, opened with the Principal Paying Agent, in London, into which amounts due and payable to the Trustee under the relevant Transaction Document are payable;

"**Trust Assets**" has the meaning given to it in Condition 6(a); and

"**Unrestricted Global Certificate**" means the Certificates of each Series offered and sold in reliance on Regulation S, which will be sold in offshore transactions to persons who are not U.S. persons outside the United States, in registered form.

## 2. **FORM, DENOMINATION AND TITLE**

### (a) **Form and Denomination**

The Certificates are issued in registered form in the Specified Denomination(s) as specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).

A Definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant Definitive Certificate and in the relevant register of Certificateholders which the Trustee will cause to be kept by the relevant Registrar in accordance with the provisions of the Agency Agreement (the "**Register**").

*In respect of each Series, upon issue, Certificates will be represented by one or more Global Certificates in registered form, which will be deposited with, and registered in the name of a nominee for, DTC in respect of a Restricted Global Certificate and/or a common depositary for Euroclear and Clearstream, Luxembourg in respect of an Unrestricted Global Certificate. Certificates which are represented by a Global Certificate will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be.*

*References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).*

### (b) **Title**

Title to the Certificates passes only by registration in the Register. Subject to the terms of any relevant Global Certificate and/or the definition of "**Certificateholders**", the registered holder of any Definitive Certificate will (except as otherwise required by law) be treated as the absolute owner of the Definitive Certificates represented by the Definitive Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Definitive Certificate. The registered holder of a Definitive Certificate will be recognised by the Trustee as entitled to his Definitive Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Definitive Certificate.

*For so long as any of the Certificates is represented by a Global Certificate held on behalf of DTC in the case of Restricted Global Certificates or Euroclear and/or Clearstream, Luxembourg in the case of Unrestricted Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular face amount of such Certificates (in which regard any certificate or other document issued by a clearing system as to the face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be*



*treated by the Trustee, STC, the Delegate and the Agents as the holder of such face amount of such Certificates for all purposes other than with respect to payment in respect of such Certificates, for which purpose the registered holder of the Global Certificate shall be treated by the Trustee, STC, the Delegate and each Agent as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions "Certificateholder" and "holder" in relation to any Certificates and related expressions shall be construed accordingly.*

*In determining whether a particular person is entitled to a particular face amount of Certificates as aforesaid, each of the Trustee, STC and the Delegate may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.*

*Each holder must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate.*

### 3. TRANSFERS OF CERTIFICATES

#### (a) Transfers

Subject to Condition 3(d), Condition 3(e) and the provisions of the Agency Agreement, a Definitive Certificate may be transferred in whole or in an amount equal to the Specified Denomination(s) or any integral multiple thereof by depositing the Definitive Certificate, with the form of transfer on the back, duly completed and signed, at the specified office of the Transfer Agent together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

*Transfers of interests in a Global Certificate will be effected by DTC in the case of a Restricted Global Certificate or Euroclear or Clearstream, Luxembourg in the case of an Unrestricted Global Certificate, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in a Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Definitive Certificates only in the Specified Denomination or integral multiples thereof and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Declaration of Trust and the Agency Agreement.*

#### (b) Delivery of New Certificates

Each new Definitive Certificate to be issued upon any transfer of Certificates will, within three business days of receipt by the Registrar or the Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be delivered at its specified office to the transferee or mailed by uninsured post (at the risk of transferee) to the address of such transferee specified in the form of transfer. For the purposes of this Condition 3(b), "business day" shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the Registrar or the Transfer Agent of the original Definitive Certificate, be delivered at its specified office to the transferor or mailed by uninsured mail (at the risk of the transferor) to the address of such holder appearing on the Register or as specified in the form of transfer.

*Except in the limited circumstances described in each Global Certificate, owners of interests in a Global Certificate will not be entitled to receive physical delivery of Certificates.*

(c) **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge on behalf of the Trustee by the Registrar or the Transfer Agent but upon payment (or the giving of such indemnity as the Trustee, STC, Registrar or Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

(d) **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on (and including) the due date for any payment of any Periodic Distribution Amount, Partial Dissolution Amount or Dissolution Amount or any other date on which payment of the face amount or payment of any profit in respect of a Certificate falls due as specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).

(e) **Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfers of Certificates set out in schedule 2 to the Agency Agreement. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Certificateholder who requests in writing a copy of such regulations.

Unless otherwise requested by the relevant holder, each Certificateholder shall be entitled to receive, in accordance with Condition 2(b), only one Definitive Certificate in respect of its entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Definitive Certificate, a new Definitive Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3(b).

4. **STATUS AND LIMITED RECOURSE**

(a) **Status**

Each Certificate will represent an undivided ownership interest in the relevant Trust Assets (pursuant to the relevant Declaration of Trust) and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate will rank *pari passu*, without preference or priority, with all other Certificates of the relevant Series issued under the Programme.

The payment obligations of STC (in any capacity) under the Transaction Documents shall, save for such exceptions as may be provided for by applicable legislation and subject to the negative pledge provisions in Condition 5, at all times rank at least equally with all other unsecured and unsubordinated obligations of STC present and future.

(b) **Limited Recourse**

The proceeds of the relevant Trust Assets are the sole source of payments on the Certificates of each Series. The Certificates do not represent an interest in or obligation of any of the Trustee (other than in respect of the relevant Trust Assets), STC (to the extent that it fulfils its obligations under the Transaction Documents to which it is a party), the Delegate or any of their respective affiliates. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Trustee (and/or its shareholders, directors, officers, employees or agents) or STC (to the extent that it fulfils its obligations under the Transaction Documents to which it is a party) or the Delegate or any of their respective

affiliates in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been exhausted in accordance with the Transaction Documents, following which all obligations of the Trustee shall be extinguished.

STC is obliged to make payments under the relevant Transaction Documents to which it is a party directly to the Trustee for and on behalf of the Certificateholders. The Trustee and the Delegate (for and on behalf of the Certificateholders) have direct recourse against STC to recover payments due but unpaid to the Trustee from STC pursuant to such Transaction Documents. Neither the Trustee nor the Delegate shall be liable for the late, partial or non-recovery of any such payments from STC save in the case its wilful default, gross negligence, wilful misconduct or actual fraud.

The net proceeds of the realisation of, or enforcement with respect to, the relevant Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 16, Certificateholders will not have any claim against the Trustee (and/or its shareholders, directors, officers, employees or agents), STC (to the extent that it fulfils its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates or against any of their respective assets (other than the relevant Trust Assets) in respect of such shortfall and any unsatisfied claims of the Certificateholders shall be extinguished. In particular, no Certificateholder will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding-up or receivership of the Trustee (and/or its directors), STC (to the extent that it fulfils its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

(c) **Agreement of Certificateholders**

By purchasing Certificates, each Certificateholder is deemed to have agreed that, notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (i) no payment of any amount whatsoever shall be made by any of the Trustee, STC, the Delegate or any of their respective shareholders, directors, officers, employees, agents or corporate services provider on their behalf except: (1) in the case of the Trustee, to the extent funds are available therefor from the Trust Assets of the relevant Series; or (2) in the case of STC, to the extent it has not fulfilled its obligations under the Transaction Documents to which it is a party. The parties hereto further acknowledge and agree that no recourse shall be had for the payment of any amount due and payable hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;
- (ii) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee (and/or its directors);
- (iii) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with any Transaction Document by virtue of any customary law, statute or otherwise shall be had against any shareholder, director, officer, employee, agent or corporate services provider of the Trustee in their capacity as such for any breaches by the Trustee and any and all personal liability of every such shareholder, director, officer, employee, agent or corporate services provider of the Trustee in its capacity as

such for any breaches by the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law. The obligations of the Trustee under the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, directors, officers, employees, agents or corporate services providers of the Trustee (in their capacity as such), save in the case of their wilful default or actual fraud; and

- (iv) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of any sums due under the Transaction Documents with respect to any liability owed by it to the Trustee or claim any lien or other rights over any property held by it on behalf of the Trustee.

## 5. **NEGATIVE PLEDGE**

STC undertakes that, for so long as any Certificate remains outstanding (as defined in the Master Declaration of Trust), it will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon, or with respect to, the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto securing its payment obligations to the Trustee under the Transaction Documents to which STC is a party equally and rateably with the same Security Interest as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other Security Interest as shall be approved by an Extraordinary Resolution.

For the purpose of this Condition 5:

**"Non-recourse Project Financing"** means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that:

- (i) any Security Interest given by STC in connection therewith is limited solely to the assets of the project;
- (ii) the persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the sole source of repayment for the moneys advanced; and
- (iii) there is no other recourse to STC in respect of any default by any person under the financing;

**"Permitted Security Interest"** means:

- (i) any Security Interest existing on the date on which agreement is reached to issue the first Tranche of the relevant Series of Certificates;
- (ii) any Security Interest granted to secure a Non-recourse Project Financing or to secure any indebtedness incurred in connection with a Securitisation;
- (iii) any Security Interest securing Relevant Indebtedness of a person existing at the time that such person is merged into, or consolidated with, or acquired by, STC, provided that such Security Interest was not created in contemplation of such merger, consolidation or acquisition and does not extend to any other assets or property of STC;
- (iv) any Security Interest existing on any property or assets prior to the acquisition thereof by STC and not created in contemplation of such acquisition; or
- (v) any renewal of or substitution for any Security Interest permitted by any of paragraphs (i) to (v) (inclusive) above of this definition, provided that with respect to any such Security Interest the principal amount secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets);

**"Relevant Indebtedness"** means any present or future indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, debenture stock, loan stock, Sukuk Obligations or other securities, in each case which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market;

**"Securitisation"** means any securitisation of existing or future assets and/or revenues, provided that:

- (i) any Security Interest given by STC in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation;
- (ii) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the sole source of repayment for the money advanced or payment of any other liability; and
- (iii) there is no recourse to STC in excess of U.S.\$300,000,000 (or its equivalent in any other currency or currencies) in respect of any default by any person under the securitisation;

**"Security Interest"** means any mortgage, charge, lien, pledge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction); and

**"Sukuk Obligations"** means any undertaking or other obligation to pay money given in connection with the issue of certificates or other securities issued in connection with any Islamic financing arrangements whether or not in return for consideration of any kind.

## 6. THE TRUST

### (a) Trust Assets

Pursuant to the relevant Declaration of Trust, the Trustee holds the Trust Assets for each Series upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder. **"Trust Assets"** in respect each Series comprise: (i) the cash proceeds of the issue of such Series of Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (ii) the interests, rights, benefits and entitlements, present and future, of the Trustee in, to and under the relevant Mudaraba Assets and Lease Assets; (iii) the interests, rights, benefits and entitlements, present and future, of the Trustee in, to and under the Transaction Documents (excluding: (a) any representations given by STC to the Trustee pursuant to any of the Transaction Documents and/or any rights which have been expressly waived by the Trustee in any of the Transaction Documents; and (b) the covenants given by STC pursuant to clause 17 of the Master Declaration of Trust); (iv) all monies standing to the credit of the relevant Transaction Account from time to time, and (v) all proceeds of the foregoing.

*See "Structure Diagram and Cash Flows" and "Summary of Principal Transaction Documents" in the Base Prospectus for detail on the Transaction Documents.*

### (b) Application of Proceeds from Trust Assets

On each Periodic Distribution Date, Partial Dissolution Date, Dissolution Date or any earlier date specified for the dissolution of the Trust of the relevant Series in accordance with Condition 11, as applicable, the Principal Paying Agent shall apply the monies standing to the credit of the relevant Transaction Account in the following order of priority:

- (i) *first*, (to the extent not previously paid) to pay the Delegate all amounts owing or payable to it under the Transaction Documents in its capacity as Delegate and to any receiver, manager or administrative receiver or any other appointee

in respect of the Trust by the Delegate in accordance with the relevant Declaration of Trust;

- (ii) *second*, for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;
- (iii) *third*, only if such payment is made on a Partial Dissolution Date for application in or towards payment of the relevant Partial Dissolution Amount;
- (iv) *fourth*, only if such payment is made on a Dissolution Date, for application in or towards payment of the relevant Dissolution Amount; and
- (v) *fifth*, only if such payment is made on a Dissolution Date, to STC.

## 7. COVENANTS

The Trustee covenants that, for so long as any Certificate is outstanding (as defined in the Master Declaration of Trust), it shall not:

- (i) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (ii) grant or permit to be outstanding any lien, pledge, charge or other security interest over any of its present or future indebtedness for borrowed money or upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) (other than under or pursuant to any of the Transaction Documents));
- (iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to the relevant Transaction Documents;
- (iv) subject to Condition 19 and the Master Declaration of Trust, amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;
- (v) except as provided in the Master Declaration of Trust as supplemented by any relevant Supplemental Declaration of Trust, act as trustee in respect of any trust other than the relevant Trust in respect of a Series or in respect of any parties other than the Certificateholders of the relevant Series;
- (vi) have any subsidiaries or employees;
- (vii) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;
- (viii) use the proceeds of the issue of the Certificates of any Series for any purpose other than as stated in the Transaction Documents;
- (ix) put to its directors or shareholders any resolution for, or for the appointment of any liquidator for, its winding-up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or
- (x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:
  - (1) as provided for or permitted in the Transaction Documents;

- (2) the ownership, management and disposal of the relevant Trust Assets in respect of a Series as provided in the Transaction Documents; and
- (3) such other matters which are incidental thereto.

## 8. **FIXED PERIODIC DISTRIBUTION PROVISIONS**

### (a) **Application**

This Condition is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable.

### (b) **Periodic Distribution Amount**

Subject to Condition 6(b) and Condition 10, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

### (c) **Calculations**

The Periodic Distribution Amount payable in respect of each Certificate in definitive form for any Return Accumulation Period shall be the Fixed Amount or, if so specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Broken Amount so specified.

Except in the case of Certificates in definitive form where a Fixed Amount or Broken Amount is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Periodic Distribution Amount payable shall be calculated by applying the Profit Rate (expressed as a percentage per annum) applicable to the relevant Return Accumulation Period to:

- (i) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or
- (ii) in the case of Certificates in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

### (d) **Cessation of Profit Entitlement**

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date.

## 9. **FLOATING PERIODIC DISTRIBUTION PROVISIONS**

### (a) **Application**

This Condition is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable.

(b) **Periodic Distribution Amount**

Subject to Condition 6(b) and Condition 10, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on:

- (i) the Periodic Distribution Date(s); or
- (ii) if no Periodic Distribution Date(s) is/are specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), each date (each such date being a "**Periodic Distribution Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Issue Date.

In relation to each Periodic Distribution Date, the distribution payable will be equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

If a Business Day Convention is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) and: (1) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur; or (2) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) (in any case where Specified Periods are specified in accordance with Condition 9(b)(ii)) the Floating Rate Convention, such Periodic Distribution Date: (x) in the case of (1) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis*; or (y) in the case of (2) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event: (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred;
- (B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day;
- (C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

(c) **Screen Rate Determination**

The Profit Rate (expressed as a percentage per annum) applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (i) if the Reference Rate specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) is a composite quotation or customarily supplied by one entity, the Calculation Agent will



determine the Reference Rate which appears on the Relevant Screen Page as at the Relevant Time on the relevant Periodic Distribution Determination Date;

- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as at the Relevant Time on the relevant Periodic Distribution Determination Date;
- (iii) if, in the case of paragraph (i) above, such rate does not appear on that page or, in the case of paragraph (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable (other than in the circumstances provided for in Condition 9(e)), the Calculation Agent will:
  - (1) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and
  - (2) determine the arithmetic mean of such quotations; and
- (iv) other than in the circumstances provided for in Condition 9(e), if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11:00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time, and the Profit Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined, provided that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Profit Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

(d) **Calculations**

The Calculation Agent will, as soon as practicable after the time at which the Profit Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount shall be calculated by applying the Profit Rate applicable to the relevant Return Accumulation Period to:

- (i) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or
- (ii) in the case of Certificates in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

(e) **Benchmark Replacement**

Notwithstanding the other provisions of this Condition 9, if the Trustee and STC determine that a Benchmark Event has occurred when any Profit Rate (or any component part thereof) remains to be determined by reference to the relevant Reference Rate then the following provisions shall apply:

- (i) the Trustee and STC shall use their reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine no later than 10 days prior to the relevant Periodic Distribution Determination Date relating to the next succeeding Return Accumulation Period (the "**IA Determination Cut-Off Date**"), a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for the purposes of determining the Profit Rate (or the relevant component part thereof) applicable to the relevant Certificates. The Independent Adviser appointed pursuant to this Condition 9(e) shall act in good faith and in a commercially reasonable manner and the Independent Adviser shall act as an expert;
- (ii) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Return Accumulation Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 9(e));
- (iii) if the Independent Adviser, following consultation with the Trustee and STC, determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser, following consultation with the Trustee and STC, may also specify changes to these Conditions which are necessary to ensure the proper operation of such Successor Rate or Alternative Reference Rate (as applicable) (including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Day, Periodic Distribution Determination Date and/or the definition of Reference Rate applicable to the Certificates and the method for determining the fallback rate in relation to the Certificates). If the Independent Adviser (in consultation with the Trustee and STC) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). For the avoidance of doubt, the Trustee, STC, the Delegate and the Agents shall, at the direction and expense of STC, without the requirement for any consent or approval of the Certificateholders be obliged to, effect such amendments to these Conditions, the Declaration of Trust and the Agency Agreement as may be specified by the Independent Adviser (following consultation with the Trustee and STC) in order to give effect to this Condition 9(e)(iii) (such amendments, the "**Benchmark Amendments**"), provided that none of the Trustee, the Delegate or any Agent shall be required to effect any such Benchmark Amendments if the same would impose, in its opinion, more onerous obligations upon it or expose it to any liability against which it is not adequately indemnified and/or secured and/or prefunded to its satisfaction or impose any additional duties, responsibilities or liabilities or reduce or amend its rights and/or the protective provisions afforded to it. Prior to any such Benchmark Amendments taking effect:
  - (1) the Trustee shall provide a certificate signed by a director or a duly authorised signatory of the Trustee to the Delegate and the Principal Paying Agent; and
  - (2) STC shall provide a certificate signed by a duly authorised signatory of STC to the Trustee, the Delegate and the Principal Paying Agent,

that such Benchmark Amendments are: (x) in the Trustee's or STC's (as the case may be) reasonable opinion (following consultation with the Independent Adviser), necessary to give effect to any application of this Condition 9(e); and (y) in each case, have been drafted solely to such effect, and the Trustee, the Delegate and the Principal Paying Agent (as the case may be) shall be entitled to rely on such certificates without further enquiry or liability to any person. For the avoidance of doubt, none of the Delegate or any Agent shall be liable to the Certificateholders or any other person for so acting or relying on such certificate, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person;

- (iv) the Trustee shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable) and the specific terms of any amendments to these Conditions and/or any Transaction Document, give notice to the Delegate, the Agents and, in accordance with Condition 18, the Certificateholders confirming: (a) that a Benchmark Event has occurred; (b) the Successor Rate or Alternative Reference Rate (as applicable); (c) the applicable Adjustment Spread; and (d) the specific terms of the Benchmark Amendments (if any) and that such Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate or Alternative Reference Rate (as applicable) and, in either case, the applicable Adjustment Spread; and
- (v) if a Successor Rate or an Alternative Reference Rate is not determined by an Independent Adviser in accordance with the above provisions prior to the relevant IA Determination Cut-Off Date, then the Profit Rate (or the relevant component part thereof) for the next Return Accumulation Period shall be equal to the Profit Rate last determined in relation to the relevant Certificates in respect of the preceding Return Accumulation Period (or alternatively, if there has not been a first Periodic Distribution Date, the Profit Rate (or the relevant component part thereof) for the first Return Accumulation Period) (subject, where applicable, to substituting the Margin that applied to such preceding Return Accumulation Period for the Margin that is to be applied to the relevant Return Accumulation Period). For the avoidance of doubt, this Condition 9(e)(v) shall apply to the relevant Return Accumulation Period only and any subsequent Return Accumulation Periods are subject to the subsequent operation of and to adjustment as provided in, this Condition 9(e).

(f) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of a Return Accumulation Period in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), the Profit Rate for such Return Accumulation Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate, one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Return Accumulation Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Return Accumulation Period however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(g) **Cessation of Profit Entitlement**

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date.

(h) **Publication**

The Calculation Agent will cause each Profit Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, STC, the Delegate, the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Profit Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the fourth day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders.

The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period and any such recalculation will be notified to the Trustee, STC, the Delegate, the Paying Agents, the Certificateholders and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination.

(i) **Notifications, etc. to be final**

All communications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 9 by the Calculation Agent will (in the absence of wilful default, gross negligence, wilful misconduct, actual fraud or manifest error) be binding on the Trustee, STC, the Delegate, the Agents and all Certificateholders and (in the absence of wilful default, gross negligence, wilful misconduct or actual fraud) no liability shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 9.

10. **PAYMENT**

(a) **Payments in respect of Certificates**

Payment of each Periodic Distribution Amount, the relevant Partial Dissolution Amount, and the relevant Dissolution Amount, as applicable, will be made by the relevant Paying Agent in the Specified Currency, by wire transfer in same day funds to the registered account of each Certificateholder. Payments of the Partial Dissolution Amount and the Dissolution Amount, as applicable, will only be made against surrender of the relevant Certificate at the specified office of the relevant Paying Agent. Each Periodic Distribution Amount, the relevant Partial Dissolution Amount, and the relevant Dissolution Amount, as applicable, will be paid to the relevant holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of these Conditions:

- (i) a Certificateholder's "**registered account**" means an account denominated in the Specified Currency maintained by or on behalf of it with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date; and
- (ii) a Certificateholder's "**registered address**" means its address appearing on the Register at that time.

(b) **Payments Subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to: (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 12; and (ii) any deduction or withholding required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986,

as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code ("**FATCA**"), any regulations or agreements thereunder, official interpretations thereof or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof, or any law implementing such an intergovernmental agreement. No commission or expenses shall be charged to the Certificateholders in respect of such payments.

(c) **Payment only on a Payment Business Day**

Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated by the relevant Paying Agent on the due date for payment or, in the case of a payment of any Partial Dissolution Amount or Dissolution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of the relevant Paying Agent.

Certificateholders will not be entitled to any additional Periodic Distribution Amount, Partial Dissolution Amount, Dissolution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering his Certificate (if required to do so).

If any Periodic Distribution Amount, Partial Dissolution Amount or Dissolution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

(d) **Agents**

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided in the Master Declaration of Trust and the Agency Agreement) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders or any other party to the Transaction Documents.

The names of the initial Agents and their initial specified offices are set out in this Condition 10(d). The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and/or to appoint additional or other Agents, provided that the Trustee shall at all times maintain: (i) an Principal Paying Agent; (ii) a Registrar; (iii) a Transfer Agent; (iv) (if a Calculation Agent other than the Principal Paying Agent has been specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement)) a Calculation Agent; and (v) such other agents as may be required by any other stock exchange on which the Certificates may be listed.

Notice of any such change or any change of any specified office shall be given to the Trustee, the Delegate and the Certificateholders in accordance with the provisions of the Agency Agreement.

The name and specified office of the Principal Paying Agent, the Paying Agent and the Exchange Agent:

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

The name and specified office of the Euro Registrar and Transfer Agent:

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ  
United Kingdom

The name and specified office of the U.S. Registrar and Transfer Agent:

**HSBC Bank USA, National Association**

Corporate Trust & Loan Agency

452 Fifth Avenue

New York, New York 10018

United States of America

11. **CAPITAL DISTRIBUTIONS OF THE TRUST**

(a) **Dissolution on the Scheduled Dissolution Date**

Unless the Certificates are previously redeemed or purchased and cancelled as provided in this Condition 11, the Trustee will redeem each Certificate on the Scheduled Dissolution Date at its Final Dissolution Amount.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(a) and payment in full of the Final Dissolution Amount, the Trust will be dissolved by the Trustee on the relevant Scheduled Dissolution Date, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(b) **Early Dissolution for Tax Reasons**

Upon the occurrence of a Tax Event, the Certificates may be redeemed by the Trustee in whole, but not in part:

- (i) at any time (if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable); or
- (ii) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable),

(such date, the "**Tax Redemption Date**") at the Tax Redemption Amount for such Certificates on giving not less than 30 nor more than 60 days' notice to the Certificateholders (such notice, the "**Tax Dissolution Notice**") in accordance with Condition 18 (which notice shall be irrevocable), provided that no such Tax Dissolution Notice shall be given earlier than 60 days prior to the earliest date on which (in the case of paragraph (1) below) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of paragraph (2) below) STC would be obliged to pay such additional amounts if a payment to the Trustee under the relevant Transaction Document(s) was then due.

For this purpose, "**Tax Event**" means:

- (1) the determination by the Trustee or STC that: (x) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after the Issue Date of the first Tranche of the relevant Series; and (y) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or
- (2) the receipt by the Trustee of notice from STC that: (x) STC has or will become obliged to pay additional amounts pursuant to the terms of any Transaction Document to which it is a party as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change

or amendment becomes effective after the Issue Date of the first Tranche of the relevant Series; and (y) such obligation cannot be avoided by STC taking reasonable measures available to it.

Prior to the delivery by the Trustee of any Tax Dissolution Notice to Certificateholders pursuant to this Condition 11(b), the Trustee shall deliver to the Delegate: (A) a certificate signed by a director or duly authorised signatory of the Trustee (in the case of paragraph (1) above) or a duly authorised signatory of STC (in the case of paragraph (2) above) stating that the Trustee is entitled to effect such dissolution and redemption and setting forth a statement of facts showing that the conditions precedent in paragraphs (1) or (2) above, as the case may be, to the right of the Trustee so to dissolve have occurred; and (B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Trustee or STC, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(b) and payment in full of the Tax Redemption Amount, the Trust will be dissolved by the Trustee on the relevant Tax Redemption Date, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(c) **Dissolution at the Option of the Trustee**

If the Optional Dissolution Right (Call Option) is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable, the Certificates may be redeemed by the Trustee (upon instructions from STC) in whole or, if so specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement), in part on the Optional Dissolution Call Date (in case the relevant Series of Certificates is redeemed in part on such date, being the "**Optional Dissolution Partial Call Date**") on the Trustee giving not less than 15 nor more than 30 days' notice to the Certificateholders (unless a different notice period is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement)) (such notice, the "**Optional Dissolution Call Notice**") in accordance with Condition 18 (which notice shall be irrevocable).

The Trustee shall redeem the relevant Certificates: (1) in the case of a redemption in whole, at the Final Dissolution Amount on the Optional Dissolution Call Date; and (2) in the case of a redemption in part, at the Optional Dissolution Amount on the Optional Dissolution Partial Call Date, as applicable. Any such redemption or exercise of the Optional Dissolution Right (Call Option) in part must be in respect of Certificates of a face amount at least equal to the Minimum Dissolution Amount and no greater than the Maximum Dissolution Amount, in each case if so specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement).

If the Certificates are to be redeemed in part only in accordance with this Condition 11(c), the Certificates to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation, and the Optional Dissolution Call Notice shall specify the serial numbers of the Certificates to be so redeemed.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(c) and payment in full of the Final Dissolution Amount, the Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be

payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

*For Shari'a reasons, the Optional Dissolution Right (Call Option) and the Optional Dissolution Right (Put Option) cannot both be specified as applicable in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) in respect of any single Series of Certificates.*

(d) **Dissolution following a Change of Control Event**

If the Change of Control Put Option is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable, and if a Change of Control Event occurs, the Trustee (upon instructions from STC) shall within 14 days of the occurrence of a Change of Control Event give notice to the Certificateholders in accordance with Condition 18 specifying the nature of the Change of Control Event (the "**Change of Control Notice**").

The holder of any Certificate may redeem its Certificates in whole, but not in part, by giving not less than 15 nor more than 30 days' notice to the Trustee (such notice, the "**Put Notice**") within the Change of Control Put Period (which notice shall be irrevocable). For this purpose, "**Change of Control Put Period**" means the period from and including the date on which a Change of Control Notice is given to, but excluding, the thirtieth day following the date of the Change of Control Notice.

Upon the holder of any Certificate giving a Put Notice within the Change of Control Put Period in accordance with this Condition 11(d), the Trustee shall redeem such Certificate on the Change of Control Put Option Date at their Change of Control Amount. For this purpose, "**Change of Control Put Option Date**" means the tenth Business Day following the last day of the Change of Control Put Period.

Notwithstanding the previous paragraph, if the holder of every Certificate outstanding in a Series delivers a Put Notice within the Change of Control Put Period in accordance with this Condition 11(d) (unless prior to the giving of the relevant Put Notice the Trustee has given notice of redemption under Condition 11(b)), the Trustee will redeem the Certificates at the Final Dissolution Amount on the Periodic Distribution Date immediately following the expiry of the Change of Control Put Period (the "**Change of Control Full Put Date**").

To exercise any option pursuant to this Condition 11(d), the holder of this Certificate must, if this Certificate is in definitive form and held outside DTC, Euroclear and/or Clearstream, Luxembourg, deposit this Certificate with the Registrar or any Transfer Agent at its specified office, together with a duly completed Put Notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the relevant period. No Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Trustee.

If 75 per cent. or more of the aggregate face amount of the Certificates of the relevant Series have been redeemed pursuant to this Condition 11(d), the Trustee (upon instructions from STC) may, on giving not less than 15 days nor more than 30 days' notice to the Certificateholders in accordance with Condition 18 (such notice to be given within 30 days of the Change of Control Put Option Date) redeem or, at the Trustee's (upon instructions from STC) option, purchase (or procure the purchase of) all but not some only of the remaining outstanding Certificates at their Change of Control Amount.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(d) and payment in full of the Final Dissolution Amount, the Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.



(e) **Dissolution at the Option of the Certificateholders**

If the Optional Dissolution Right (Put Option) is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) as being applicable, the Certificates may be redeemed by the holder of any Certificate in whole or in part on the Optional Dissolution Put Date (in case the relevant Series of Certificates is redeemed in part on such date, being the "**Optional Dissolution Partial Put Date**") on such holder giving not less than 15 nor more than 30 days' notice to the Trustee (unless a different notice period is specified in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement)) (such notice, the "**Put Notice**") (which notice shall be irrevocable).

Notwithstanding the previous paragraph, if the holder of every Certificate outstanding in a Series delivers a Put Notice within the Optional Put Period in accordance with this Condition 11(e) (unless prior to the giving of the relevant Put Notice the Trustee has given notice of redemption under Condition 11(b)), the Trustee will redeem the Certificates at the Final Dissolution Amount on the Periodic Distribution Date immediately following the expiry of the Optional Put Period (the "**Optional Dissolution Put Date**").

To exercise any option pursuant to this Condition 11(e), the holder of this Certificate must, if this Certificate is in definitive form and held outside DTC, Euroclear and/or Clearstream, Luxembourg, deposit this Certificate with the Registrar or any Transfer Agent at its specified office, together with a duly completed Put Notice in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the relevant period. No Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Trustee.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(e) and payment in full of the Final Dissolution Amount, the Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

*For Shari'a reasons, the Optional Dissolution Right (Call Option) and the Optional Dissolution Right (Put Option) cannot both be specified as applicable in the applicable Final Terms (or, in the case of Exempt Certificates, the applicable Pricing Supplement) in respect of any single Series of Certificates.*

(f) **Dissolution following a Total Loss Event**

Upon the occurrence of a Total Loss Event and unless the Mudaraba Assets are replaced by STC in accordance with the relevant Restricted Mudaraba Agreement, the Certificates shall be redeemed by the Trustee in whole, but not in part by no later than the close of business in London on the 61<sup>st</sup> day after the occurrence of the Total Loss Event (the "**Total Loss Dissolution Date**") at the Total Loss Dissolution Amount.

For this purpose, "**Total Loss Event**" means: (i) the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances payable or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or (ii) the expropriation, nationalisation, requisition, confiscation, attachment, sequestration or execution of any legal process in respect of the whole of the Lease Assets.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(f) and payment in full of the Total Loss Dissolution Amount, the Trust will be dissolved by the Trustee, the Certificates shall cease to

represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

(g) **Dissolution following a Dissolution Event**

Upon the occurrence of a Dissolution Event, the Certificates shall be redeemed by the Trustee in whole, but not in part on the Dissolution Event Redemption Date at the Final Dissolution Amount, as more particularly specified in Condition 15.

Upon redemption of all of the outstanding Certificates of the relevant Series in accordance with this Condition 11(g) and payment in full of the Final Dissolution Amount, the Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

(h) **No Other Dissolution**

The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust otherwise than as provided in this Condition 11, Condition 14 and Condition 15.

(i) **Cancellations**

All Certificates which are redeemed and all Certificates delivered for cancellation pursuant to Condition 14 will forthwith be cancelled and accordingly may not be held, reissued or resold.

12. **TAXATION**

All payments by or on behalf of the Trustee in respect of the Certificates shall be made free and clear of, and without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction or any political sub-division or any authority therein or thereof having power to tax ("**Taxes**") (which expression shall take the same meaning for the purposes of this Condition 12 as it takes for the purposes of Condition 11(b)), unless such deduction or withholding is required by law. In that event, the Trustee shall pay such additional amounts as shall result in receipt by the Certificateholders of such net amounts as would have been receivable by them had no such deduction or withholding been required, except that no such additional amounts shall be payable with respect to any Certificate:

- (i) presented for payment in a Relevant Jurisdiction;
- (ii) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Certificate by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Certificate; or
- (iii) presented or (if applicable) surrendered (or (if applicable) in respect of which the relevant Certificate is presented or (if applicable) surrendered) for payment more than 30 days after the Relevant Date (defined below) except to the extent that the holder thereof would have been entitled to such additional amounts on presenting or, as the case may be, surrendering it for payment on such thirtieth day.

Notwithstanding anything to the contrary in these Conditions, the Trustee, STC, any paying agent and any other person shall be permitted to deduct and/or withhold, and shall not be required to pay any additional amounts with respect to, any deduction or withholding imposed on or with respect to any Certificate pursuant to FATCA, any treaty, law, regulation or other official guidance implementing FATCA, or any agreement (or related guidance) between the Trustee, STC, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

*The Master Restricted Mudaraba Agreement, the Master Murabaha Agreement, the Lease Agreement and the Service Agency Agreement each provide that payments thereunder by STC shall be made without deduction or withholding for, or on account of, any present or future Taxes, unless the deduction or withholding of the Taxes is required by law and, in such case, provide for the payment by STC of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.*

13. **PRESCRIPTION**

Claims against the Trustee or STC for payment in respect of the Certificates shall be prescribed and become void unless made within 10 years (in the case of any Partial Dissolution Amount or Dissolution Amount, as the case may be) or five years (in the case of Periodic Distribution Amounts) from the appropriate Relevant Date in respect of them.

14. **PURCHASE AND CANCELLATION OF CERTIFICATES**

(a) **Purchases**

STC and any Subsidiary may at any time purchase Certificates in the open market or otherwise at any price. Certificates so purchased, while held by or on behalf of STC or any Subsidiary, shall not entitle the holder to vote at any meeting of the Certificateholders and shall not be deemed to be outstanding for the purposes of calculating the quorum at any meeting of Certificateholders or for the purposes of Condition 14(b).

(b) **Cancellation of Certificates held by STC and/or any of its Subsidiaries**

All Certificates purchased by or on behalf of STC or any Subsidiary may be surrendered for cancellation by surrendering the Certificate to the Principal Paying Agent for cancellation by or on behalf of the Trustee, and, in each case, if so surrendered, shall, together with all Certificates redeemed by STC, be cancelled forthwith (the "**Cancelled Certificates**"). Any Cancelled Certificates so surrendered may not be reissued or resold and the obligations of the Trustee in respect of any such Cancelled Certificates shall be discharged.

(c) **Dissolution of the Trust upon Cancellation of all outstanding Certificates in a Series**

In the event that STC and/or any Subsidiary purchases all the outstanding Certificates in a Series and all such Certificates are subsequently cancelled by or on behalf of the Trustee, the relevant Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

15. **DISSOLUTION EVENTS**

Upon the occurrence of any of the following events (each a "**Dissolution Event**"):

(a) **Non-payment:** default is made in the payment of any Periodic Distribution Amount, Partial Dissolution Amount or Dissolution Amount due in respect of the Certificates or any of them and the default continues for a period of seven days in the case of any Partial Dissolution Amount or Dissolution Amount and 14 days in the case of any Periodic Distribution Amount;

(b) **Breach of other obligations:** the Trustee defaults in the performance or observance of or compliance with any of its other obligations or undertakings under these Conditions or the Transaction Documents to which it is a party and such default is not capable of remedy (in the opinion of the Delegate) or (if capable of remedy (in the opinion of the Delegate)) is not remedied within 30 days after written notice of such default shall have been given to the Trustee by the Delegate (provided that the Delegate shall have certified in writing to the Trustee that in its opinion such event is materially prejudicial to the interests of the Certificateholders);

- (c) **STC Event:** a STC Event occurs;
- (d) **Repudiation:** the Trustee repudiates any Transaction Document to which it is a party or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document to which it is a party;
- (e) **Illegality:** at any time it is or will become unlawful or impossible for the Trustee (by way of insolvency or otherwise) to perform or comply with any or all of its obligations under the Transaction Documents or any of the obligations of the Trustee under the Transaction Documents are not or cease to be legal, valid, binding and enforceable;
- (f) **Insolvency:** either: (i) the Trustee becomes insolvent or is unable to pay its financial obligations as they fall due; (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Trustee is appointed (or application for any such appointment is made); (iii) the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it; or (iv) the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business, in each case, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or
- (g) **Winding-up:** an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Trustee; or
- (h) **Analogous event:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (f) and (g) above,

the Delegate shall, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction, and having been notified in writing of or otherwise determining that (such determination by the Delegate to be in its absolute discretion) such Dissolution Event has occurred, give notice in writing of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 18 with a request to such holders to indicate if they wish the Trust to be dissolved. Following the issuance of such notice the Delegate may, or if so requested in writing by the holders of at least one-fourth of the then aggregate face amount of the Series outstanding or if so directed by an Extraordinary Resolution of the Certificateholders (a "**Dissolution Request**"), shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) give notice to the Trustee and STC of the Dissolution Request (a "**Dissolution Notice**") whereupon the Certificates shall be immediately due and payable at the Final Dissolution Amount on the date specified in the Dissolution Notice (the "**Dissolution Event Redemption Date**").

Upon payment in full of the Final Dissolution Amount in accordance with this Condition 15, the Trust will be dissolved by the Trustee, the Certificates shall cease to represent undivided ownership interests in the Trust Assets, no further amounts shall be payable in respect of the Certificates and the Trustee shall have no further obligations in respect of the Certificates.

For the purposes of this Condition 15, a "**STC Event**" will occur if one or more of the following events occurs:

- (i) **Non-payment:** in respect of a Series of Certificates, STC (acting in any capacity) fails to pay:
  - (1) an amount payable by it pursuant to any Transaction Document to which it is a party which corresponds to all or a part of a Periodic Distribution Amount payable by the Trustee on a Periodic Distribution Date and the failure continues for a period of 14 days; or
  - (2) an amount payable by it pursuant to any Transaction Document to which it is a party which corresponds to all or a part of a Partial

Dissolution Amount or Dissolution Amount payable by the Trustee on a Partial Dissolution Date or Dissolution Date (as the case may be) and the failure continues for a period of seven days;

(ii) **Breach of other obligations:** (1) STC defaults in the performance or observance of any of its other obligations under or in respect of the Transaction Documents to which it is a party and such default is not capable of remedy or (if in the opinion of the Delegate, acting reasonably, capable of remedy) is not remedied within 45 days after written notice of such default shall have been given to STC by the Delegate requiring the same to be remedied (provided that the Delegate shall have certified in writing that in its opinion such event is materially prejudicial to the interests of the Certificateholders); or (2) STC (acting in its capacity as Lessee) rejects a notice delivered in accordance with clause 3.2 of the Lease Agreement entered into in respect of the relevant Series;

(iii) **Cross-default:**

(1) (x) any Financial Indebtedness of STC is not paid when due or (as the case may be) within any applicable grace period; (y) any Financial Indebtedness of STC becomes or is declared due and payable prior to its stated maturity by reason of default (howsoever described); or (z) any guarantee or indemnity of any Financial Indebtedness given by STC is not honoured when due and called upon;

(2) any Security Interest given by STC for any Financial Indebtedness becomes enforceable and any step is taken to enforce the Security Interest (including the taking of possession or the appointment of a receiver, manager or other similar person, but excluding the issue of any notification to STC that such Security Interest has become enforceable) unless the full amount of the Financial Indebtedness which is secured by the relevant Security Interest is discharged within 90 days of the later of the first date on which: (x) a step is taken to enforce the relevant Security Interest; and (y) STC is notified that a step has been taken to enforce the relevant Security Interest,

provided that, the amount of Financial Indebtedness referred to in paragraphs (1) and/or (2) above, individually or in the aggregate, exceeds U.S.\$150,000,000 (or its equivalent in any other currency or currencies);

(iv) **Enforcement proceedings:** one or more judgment(s) or order(s) for the payment of an amount in excess of U.S.\$150,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against STC and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment, unless such judgment(s) or order(s) are being appealed in good faith;

(v) **Insolvency:**

(1) STC becomes, or is deemed by law to be, insolvent or is unable to pay its debts as they fall due;

(2) an administrator or liquidator or other similar official is appointed (other than in respect of any restructuring on a solvent basis) over the whole or substantially all of the undertaking, assets and revenues of STC and such appointment is not discharged within 60 days;

(3) STC makes a general assignment or an arrangement or composition with, or for the benefit of, its creditors in respect of any Financial Indebtedness (including any arrangement under the Bankruptcy Law (as enacted by Royal Decree No. M/50 dated 28/05/1439H (corresponding to 13 February 2018))) or declares a moratorium in respect of any of its

Financial Indebtedness (otherwise than for the purposes of, or pursuant to an amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution); or

- (4) STC ceases or threatens to cease to carry on the whole or substantially all of its business (otherwise than for the purposes of, or pursuant to an amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution);
- (vi) **Winding-up:** an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of STC (otherwise than for the purposes of, or pursuant to an amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution);
- (vii) **Analogous Events:** any event occurs under the laws, regulations or rules of the Kingdom of Saudi Arabia that has an analogous effect to any of the events referred to in paragraphs (v) and (vi) above; or
- (viii) **Illegality or repudiation:** (1) it is or becomes unlawful for STC to perform or comply with any or all of its obligations under the Transaction Documents to which it is a party; or (2) STC repudiates or denies any of its obligations under the Transaction Documents to which it is a party.

## 16. ENFORCEMENT AND EXERCISE OF RIGHTS

### (a) Enforcement

Upon the occurrence of a Dissolution Event and following the delivery of a Dissolution Notice in accordance with Condition 15, to the extent that any amount payable in respect of the Certificates of the relevant Series has not been paid in full, the Trustee or the Delegate may, and shall if so requested in writing by the holders of at least one-fourth of the then outstanding aggregate face amount of the relevant Series of Certificates or if so directed by an Extraordinary Resolution (and, in each case, subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) take one or more of the following steps:

- (i) enforce the provisions of the Transaction Documents in accordance with their terms; and/or
- (ii) take such other actions steps or proceedings as the Trustee or the Delegate may consider necessary to recover amounts due to the Certificateholders.

### (b) Certificateholders Not Entitled to Proceed Directly

No Certificateholder shall be entitled to proceed directly against the Trustee or STC under any Transaction Document to which either of them is a party unless: (i) the Delegate: (1) fails to do so within a reasonable time of becoming so bound and such failure its continuing; or (2) is unable by reason of an order of a court having competent jurisdiction to do so and such inability is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or STC as the case may be) holds at least one-fourth of the then outstanding aggregate face amount of the Certificates pertaining to the relevant Series. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets, and the sole right of the Delegate and the Certificateholders against the Trustee and/or STC shall be to enforce their respective obligations under the Transaction Documents.

(c) **Trustee and Delegate Not Bound to Act**

Neither the Trustee nor the Delegate shall be bound in any circumstances to take any action to enforce or to realise the relevant Trust Assets or take any action, steps or proceedings against the Trustee and/or STC (as applicable) under any Transaction Document to which either of the Trustee or STC is a party unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the holders of at least one-fourth of the then outstanding aggregate face amount of the Certificates of the relevant Series and, in each case, then only if it is indemnified and/or secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby render itself liable and provided that neither the Trustee nor the Delegate shall be held liable for the consequences of exercising or not exercising its discretion or taking or not taking any such action and may do so without having regard to the effect of such action or the failure to take action on individual Certificateholders.

(d) **No Further Liability**

Condition 16(b) and Condition 16(c) are subject to this Condition 16(d). After enforcing or realising the Trust Assets in respect of the Certificates of the relevant Series and distributing the net proceeds of the Trust Assets in accordance with Condition 6(b) and the Master Declaration of Trust, the obligations of the Trustee in respect of such Certificates shall be satisfied and the Trustee shall not be liable for any further sums in respect of such Series and, accordingly, no Certificateholder may take any action, steps or proceedings against the Trustee (to the extent that the Trust Assets have been exhausted) (or any steps against the Delegate) or any other person (including STC (to the extent that it fulfils all of their relevant obligations under the relevant Transaction Documents to which they are a party)) to recover any further sums in respect of such Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any steps for the winding-up of the Trustee nor shall any of them have any claim in respect of the Trust Assets of any other trust established by the Trustee.

17. **REPLACEMENT OF CERTIFICATES**

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Trustee on demand the amount payable by the Trustee in respect of such Certificate) and otherwise as the Trustee may reasonably require. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

18. **NOTICES**

Notices to the holders of Certificates shall be mailed to them (or, in the case of joint holders, to the first named) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Any such notice will be deemed to have been given on the first date of such publication. Notices to Certificateholders shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the "*Financial Times*"). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. The Trustee shall also ensure that notices are duly published in a manner that complies with any other relevant rules of any stock exchange or other relevant authority on which the Certificates are for the time being or by which they have for the time being admitted to trading. Any such notice shall be deemed to have

been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

*Until such time as any Definitive Certificates are issued, there may, so long as the Global Certificate representing the Certificates is held in its entirety on behalf of DTC and/or Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to DTC, Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Certificates. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.*

19. **MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

(a) **Meetings of Certificateholders**

The Master Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Master Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than one-fourth in aggregate face amount of the Certificates of a Series for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing more than 50 per cent. (a clear majority) in aggregate face amount of the Certificates of a Series for the time being outstanding, or at any adjourned meeting one or more persons holding or representing more than 25 per cent. in aggregate face amount of the Certificates of a Series for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Certificateholders (whether or not they were present at the meeting at which such resolution was passed).

The Master Declaration of Trust provides that a resolution may be in writing signed by or on behalf of the Certificateholders holding not less than  $66\frac{2}{3}$  per cent. in aggregate face amount of the Certificates of a Series for the time being outstanding (a "**Written Resolution**"). Further, the Master Declaration of Trust provides that, where the Certificates are held by or on behalf of a clearing system or clearing systems, approval of a resolution proposed by the Trustee, STC or the Delegate (as the case may be) may be given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) to the Principal Paying Agent or another specified agent and/or the Trustee, STC and/or the Delegate in accordance with the operating rules and procedures of the relevant clearing system(s) by or on behalf of the holders of not less than  $66\frac{2}{3}$  per cent. in aggregate face amount of the Certificates then outstanding (an "**Electronic Consent**"). Any Written Resolution or Electronic Consent shall take effect as an Extraordinary Resolution and will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

(b) **Modification of the Declaration of Trust**

The Master Declaration of Trust, any Supplemental Declaration of Trust and any Transaction Document can only be amended by the Trustee with the consent of the Delegate and the Delegate may agree, without any consent or sanction of Certificateholders, to any modification of the Master Declaration of Trust, any Supplemental Declaration of Trust or any Transaction Document which is, in the opinion of the Delegate, of a formal, minor or technical nature or to correct a manifest error. The Trustee may also agree to: (i) any other modification to the Master Declaration of Trust, any Supplemental Declaration of Trust or any Transaction Document (other than in respect of a Reserved Matter or any provision of the Master Declaration of Trust referred to in the definition of a Reserved Matter) that is, in the opinion of the Delegate, not materially prejudicial to the interests of the Certificateholders; and/or (ii) any Benchmark Amendments in accordance with Condition 9(e). Any such modification



shall be binding on the Certificateholders and shall be notified by the Trustee to the Certificateholders in accordance with Condition 18 as soon as practicable thereafter.

(c) **Waiver, Authorisation and Determination**

The Delegate may, without the consent or sanction of the Certificateholders and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time if, in the opinion of the Delegate, such waiver, authorisation or determination is not materially prejudicial to the interests of the outstanding Certificateholders: (a) agree to waive or to authorise, on such terms as seem expedient to it, any breach or proposed breach of any provision of the Master Declaration of Trust, any Supplemental Declaration of Trust, the Conditions or any other Transaction Document; or (b) determine that any Dissolution Event shall not be treated as such provided that the Delegate will not do so in contravention of an express direction given by an Extraordinary Resolution or a Dissolution Request made pursuant to Condition 15. No such direction or request will affect a previous waiver, authorisation or determination. Any such consent, waiver, authorisation or determination shall be binding on the Certificateholders and shall be notified by the Trustee to the Certificateholders in accordance with Condition 18 as soon as practicable thereafter.

20. **THE DELEGATE**

The Trustee has in the Master Declaration of Trust irrevocably and unconditionally appointed the Delegate to be its attorney and in its name and on its behalf and as its act and deeds in respect of the Relevant Powers, provided that:

- (a) no obligations, duties, Liabilities or covenants of the Trustee pursuant to the relevant Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of this delegation;
- (b) in no circumstances will such delegation result in the Delegate holding on trust or managing the relevant Trust Assets; and
- (c) such delegation and the Relevant Powers shall not include any duty, power, trust, authority, rights or discretion to dissolve any of the trusts constituted by a Declaration of Trust following the occurrence of a Dissolution Event or to determine the remuneration of the Delegate.

The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In connection with the exercise by it of any of its powers, trusts, authorities and discretions under the Declaration of Trust (including, without limitation, any modification), the Trustee and the Delegate shall have regard to the general interests of the Certificateholders as a class and shall not have regard to any interest arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof or taxing jurisdiction and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Trustee, STC, the Delegate or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders (except, in the case of the Trustee and STC to the extent already provided for in Condition 12).

The Master Declaration of Trust contains provisions for the indemnification of each of the Trustee and the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving the Delegate from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction as well as provisions entitling the Delegate to be paid its costs and expenses in priority to the claims of the Certificateholders.

21. **FURTHER ISSUES**

In respect of any Series, the Trustee may from time to time (but subject always to the provisions of the Master Declaration of Trust) without the consent of the Certificateholders create and issue additional Certificates ("**Additional Certificates**") having the same terms and conditions as the outstanding Certificates of such Series or terms and conditions which are the same in all respects save for the date and amount of the first payment of the Periodic Distribution Amount and the date from which Periodic Distribution Amounts start to accrue, and so that the same shall be consolidated and form a single Series, with the outstanding Certificates of such Series. Any Additional Certificates which are to form a single Series with the outstanding Certificates of a particular Series shall be constituted by a deed supplemental to the Master Declaration of Trust as supplemented by the relevant Supplemental Declaration of Trust and containing such other provisions as are necessary (including making such consequential modifications to the Master Declaration of Trust) in order to give effect to the issue of such additional Certificates. The Trustee shall also enter into a Declaration of Commingling of Assets declaring that the Additional Mudaraba Assets (as defined in such Declaration of Commingling of Assets) and the Mudaraba Assets in respect of the relevant Series as in existence immediately prior to the creation and issue of the Additional Certificates and each Commodity Murabaha Transaction made pursuant to the Master Murabaha Agreement (and all rights arising under or with respect thereto) in relation to the relevant Series shall be commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such Additional Certificates. References in these Conditions to the Certificates include (unless the context requires otherwise) any other Certificates issued pursuant to this Condition and forming a single Series with such Certificates. If any Additional Certificates are not fungible with the outstanding Certificates for United States federal income tax purposes, the Additional Certificates shall have a CUSIP, ISIN or other identifying number that is different from that of the relevant outstanding Certificates.

22. **GOVERNING LAW AND DISPUTE RESOLUTION**

(a) **Governing Law**

The Declaration of Trust (including these Conditions) and the Certificates, and any non-contractual obligations arising out of or in connection with them, shall be governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**

Any dispute, claim, difference or controversy arising out of, relating to, or having any connection with the Declaration of Trust (including these Conditions) and/or the Certificates (including any dispute regarding their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the "**Rules**"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 22(b). For these purposes:

- (i) the seat of arbitration shall be London, England;
- (ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party to the Dispute and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(iii) the language of the arbitration shall be English.

(c) **Waiver of Immunity**

STC has in the Declaration of Trust irrevocably agreed that no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) in relation to any proceedings relating to a Dispute and instituted pursuant to Condition 22(b) ("**Proceedings**") shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. STC has in the Master Declaration of Trust irrevocably agreed that it and its assets are, and shall be, subject to such Proceedings in respect of its obligations under the Declaration of Trust.

23. **SHARI'A COMPLIANCE**

Each of the Trustee and STC have agreed that, to the extent permitted by law:

- (a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*; and
- (b) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party.

24. **WAIVER OF INTEREST**

(a) **Waiver**

STC has in the Declaration of Trust agreed that, if any Proceedings are brought by or on behalf of a party under the Declaration of Trust, each party agrees it will:

- (i) not claim interest under, or in connection with, such Proceedings; and
- (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by any arbitral tribunal as a result of such Proceedings.

(b) **Waiver Not Applicable**

For the avoidance of doubt, nothing in Condition 24(b) shall be construed as a waiver of rights in respect of any Periodic Distribution Amounts, Partial Dissolution Amounts, Dissolution Amounts, Mudaraba Income, Rab Al Maal Profit, Initial Rental, Periodic Rental, Supplementary Rental, Further Rental, Deferred Sale Price or profit or principal of any kind howsoever described or any other amounts payable by the Trustee (in any capacity) or STC (in any capacity) pursuant to the Transaction Documents and/or the Conditions or any other document or agreement, howsoever such amounts may be described or re-characterised by any arbitral tribunal.

### **USE OF PROCEEDS**

The net proceeds of each Tranche of Certificates issued under the Programme will be applied by the Trustee in the following manner: (i) the Mudaraba Capital shall be provided by the Trustee (as Rab Al Maal) to STC (as Mudareb) in accordance with the Restricted Mudaraba Agreement; and (ii) the Cost Price shall be applied by the Trustee towards the purchase of the Commodities which the Trustee (as Seller) will sell to STC (as Buyer) on a deferred payment basis in accordance with the Murabaha Contract.

The amounts so received by STC will be applied by STC for general corporate purposes.

## DESCRIPTION OF THE TRUSTEE

### General

STC Sukuk Company Limited, a Cayman Islands exempted company with limited liability, was incorporated on 21 March 2019 under the Companies Law (2018 Revision) of the Cayman Islands with company registration number 349592. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands and its telephone number is +1 345 945 7099.

The authorised share capital of the Trustee is U.S.\$50,000 divided into 50,000 ordinary shares of U.S.\$1.00 par value each, 250 of which have been issued. All of the issued shares (the "**Shares**") are fully-paid and are held by MaplesFS Limited as share trustee (the "**Share Trustee**") under the terms of a declaration of trust dated 23 April 2019 (the "**Share Declaration of Trust**") under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Declaration of Trust). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from, its holding of the Shares.

### Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Certificates to be issued under the Programme. The Certificates are the obligations of the Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 21 March 2019.

### Financial Statements

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

### Directors of the Trustee

The directors of the Trustee are as follows:

<u>Name</u>	<u>Principal Occupation outside of the Trustee</u>
John Curran .....	Vice President at Maples Fund Service (Middle East) Limited
Linval Stewart .....	Vice President at MaplesFS Limited

The business address of John Curran is c/o Maples Fund Services (Middle East) Limited, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The business address of Linval Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no conflicts of interest between the private interests or other duties of the directors listed above and their duties to the Trustee.

### The Administrator

MaplesFS Limited also acts as the administrator of the Trustee (in such capacity, the "**Administrator**"). The office of the Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Administrator performs in the Cayman Islands, the UAE and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement.

The Administrator will also provide registered office services to the Trustee in accordance with its standard terms and conditions for the provision of registered office services as published at <http://www.maples.com/terms> (the "**Registered Office Terms**"). In consideration of the foregoing, the Administrator receives various fees payable by the Trustee at rates agreed upon from time to time, plus expenses. The terms of the Corporate Services Agreement and the Registered Office Terms provide that either the Trustee or the Administrator may terminate such appointments upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Terms provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Administrator is subject to the overview of the Trustee's board of directors.

The Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

The directors of the Trustee are all employees or officers of the Administrator or an affiliate thereof. The Trustee has no employees and is not expected to have any employees in the future.

## CAPITALISATION AND FINANCIAL INDEBTEDNESS

The capitalisation information has been extracted without material adjustment from the Group's financial information included in the 2019 Unaudited Interim Condensed Consolidated Financial Statements.

	<b>As at 31 March 2019</b> <i>(Unaudited)</i> <i>(SAR '000)</i>
<b>Equity</b>	
Issued capital .....	20,000,000
Statutory reserves .....	10,000,000
Other reserves .....	(2,229,455)
Retained earnings .....	40,593,271
Non-controlling interests .....	1,085,311
<b>Total equity</b> .....	<b>69,449,127</b>
Total long term debt borrowings .....	3,937,536
<b>Capitalisation<sup>(1)</sup></b> .....	<b><u>73,386,663</u></b>

<sup>(1)</sup> Capitalisation represents total equity plus total long term borrowings.

There has been no material change in the Group's capitalisation since 31 March 2019.

The following table sets out the Group's net financial indebtedness as at 31 March 2019.

	<b>As at 31 March 2019</b> <i>(Unaudited)</i> <i>(SAR '000)</i>
Cash and cash equivalents .....	(6,180,154)
Short term borrowings .....	282,292
Long term borrowings .....	3,937,536
<b>Net financial indebtedness</b> .....	<b><u>(1,960,326)</u></b>

Other than as set out in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources*", the Group has no indirect and contingent indebtedness.

## SELECTED FINANCIAL INFORMATION

Set forth below is selected financial information for the Group for the periods indicated. The consolidated financial information for the Group as at and for the three months period ended 31 March 2019 and 2018 have been extracted without material adjustment from the 2019 Unaudited Interim Condensed Consolidated Financial Statements. The consolidated financial information for the Group as at and for the year ended 31 December 2018, and the year ended 31 December 2017 (Restated) has been extracted without material adjustment from the 2018 Audited Financial Statements. The consolidated financial information for the Group as at and for the years ended 31 December 2017 and 2016 has been extracted without material adjustment from the 2017 Audited Financial Statements. See "*Presentation of Certain Financial and Other Information—New Accounting Standards Adopted in 2018*" for more information on the restatement as at and for the year ended 31 December 2017.

### Consolidated statement of profit or loss data

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
	(SAR '000)					
Revenues .....	13,385,753	12,349,080	51,963,243	50,661,335	50,746,675	52,673,659
Cost of revenues .....	(5,482,277)	(5,414,229)	(21,416,928)	(22,105,926)	(21,255,477)	(23,985,878)
<b>GROSS PROFIT</b> .....	<b>7,903,476</b>	<b>6,934,851</b>	<b>30,546,315</b>	<b>28,555,409</b>	<b>29,491,198</b>	<b>28,687,781</b>
<b>OPERATING EXPENSES</b>						
Selling and marketing .....	(1,115,657)	(1,250,911)	(5,463,212)	(5,608,634)	(5,726,280)	(6,327,144)
General and administration .....	(1,402,316)	(1,156,882)	(5,247,348)	(4,516,029)	(4,471,573)	(4,331,428)
Depreciation and amortisation .....	(2,110,299)	(1,894,704)	(7,590,530)	(7,444,735)	(8,208,360)	(8,078,118)
<b>TOTAL OPERATING EXPENSES</b> .....	<b>(4,628,272)</b>	<b>(4,302,497)</b>	<b>(18,301,090)</b>	<b>(17,569,398)</b>	<b>(18,406,213)</b>	<b>(18,736,690)</b>
<b>OPERATING PROFIT</b> .....	<b>3,275,204</b>	<b>2,632,354</b>	<b>12,245,225</b>	<b>10,986,011</b>	<b>11,084,985</b>	<b>9,951,091</b>
<b>OTHER INCOME AND EXPENSES</b>						
Cost of early retirement .....	(150,000)	-	(450,000)	(600,000)	(600,000)	(401,703)
Finance income .....	181,120	149,668	554,909	584,682	584,681	722,732
Finance cost .....	(164,176)	(97,379)	(398,814)	(353,542)	(354,199)	(379,062)
Other income/(expenses), net .....	(126,314)	94,395	102,943	85,036	85,075	(62,565)
Share of results of investments in associates and joint ventures, net <sup>(1)</sup> .....	(35,538)	36,025	(10,605)	305,591	308,384	116,246
Other gains / (losses), net .....	7,427	40,967	(215,493)	(18,405)	(18,091)	(70,110)
<b>TOTAL OTHER INCOME AND EXPENSES</b> .....	<b>(287,481)</b>	<b>223,676</b>	<b>(417,060)</b>	<b>3,362</b>	<b>5,850</b>	<b>(74,462)</b>
<b>NET PROFIT BEFORE ZAKAT AND TAX</b> .....	<b>2,987,723</b>	<b>2,856,030</b>	<b>11,828,165</b>	<b>10,989,373</b>	<b>11,090,835</b>	<b>9,876,629</b>
Zakat and income tax .....	(180,553)	(198,639)	(747,667)	(720,700)	(720,700)	(750,797)
<b>NET PROFIT</b> .....	<b>2,807,170</b>	<b>2,657,391</b>	<b>11,080,498</b>	<b>10,268,673</b>	<b>10,370,135</b>	<b>9,125,832</b>
<i>Net profit attributable to:</i>						
Equity holders .....	2,749,735	2,587,530	10,779,771	10,015,576	10,133,224	8,898,857
Non-controlling interests .....	57,435	69,861	300,727	253,097	236,911	226,975
	<b>2,807,170</b>	<b>2,657,391</b>	<b>11,080,498</b>	<b>10,268,673</b>	<b>10,370,135</b>	<b>9,125,832</b>
Basic and diluted earnings per share (in Saudi Riyals) .....	<b>1.37</b>	<b>1.29</b>	<b>5.39</b>	<b>5.01</b>	<b>5.07</b>	<b>4.45</b>

<sup>(1)</sup> Labelled as "(Loss)/gain from investments in associates and joint ventures, net" in 2017 Audited Financial Statements.



## Consolidated statement of financial position data

	As at 31 March		As at 31 December		
	2019	2018	2017 (Restated) (SAR '000)	2017	2016
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	41,243,110	41,920,409	39,940,616	39,940,616	39,418,554
Intangible assets and goodwill	9,342,212	9,560,119	7,174,575	7,773,839	7,840,443
Investments in associates and joint ventures	6,385,146	6,581,733	6,908,653	6,927,303	6,301,641
Right of use assets	2,468,609	-	-	-	-
Contract costs <sup>(1)</sup>	966,687	1,030,129	1,091,254	n/a	n/a
Contract assets <sup>(1)</sup>	602,376	504,042	276,842	n/a	n/a
Financial assets <sup>(2)</sup>	-	3,373,016	7,793,291	n/a	n/a
Other non-current assets <sup>(3)</sup>	7,820,418	371,621	860,851	8,657,822	7,652,195
<b>TOTAL NON-CURRENT ASSETS</b>	<b>68,828,558</b>	<b>63,341,069</b>	<b>64,046,082</b>	<b>63,299,580</b>	<b>61,212,833</b>
<b>Current Assets</b>					
Inventories	829,873	787,456	482,281	460,431	466,766
Trade and other receivables	15,559,908	14,422,178	20,368,531	25,549,424	19,768,149
Short term murabahas	6,087,181	9,685,491	14,465,364	14,465,364	15,004,490
Contract assets <sup>(1)</sup>	5,750,202	8,117,463	5,211,211	n/a	n/a
Financial assets <sup>(2)</sup>	-	5,488,245	335,487	n/a	n/a
Other current assets <sup>(3)</sup>	5,978,083	1,952,878	1,006,073	1,770,961	1,693,448
Cash and cash equivalents	6,180,154	8,153,865	2,567,044	2,567,044	3,631,202
Assets held for sale	267,728	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>40,653,129</b>	<b>48,607,576</b>	<b>44,435,991</b>	<b>44,813,224</b>	<b>40,564,055</b>
<b>TOTAL ASSETS</b>	<b>109,481,687</b>	<b>111,948,645</b>	<b>108,482,073</b>	<b>108,112,804</b>	<b>101,776,888</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Issued capital	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Statutory reserves	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Other reserves	(2,229,455)	(1,903,878)	(1,775,390)	(1,769,028)	(1,935,833)
Retained earnings	40,593,271	37,417,562	34,637,791	34,010,412	31,877,188
<b>Equity attributable to the holders of the Parent Company<sup>(4)</sup></b>	<b>68,363,816</b>	<b>65,513,684</b>	<b>62,862,401</b>	<b>62,241,384</b>	<b>59,941,355</b>
Non-controlling interests	1,085,311	1,147,914	939,180	1,003,289	1,336,976
<b>TOTAL EQUITY</b>	<b>69,449,127</b>	<b>66,661,598</b>	<b>63,801,581</b>	<b>63,244,673</b>	<b>61,278,331</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Long term borrowings	3,937,536	3,965,479	4,005,980	4,005,980	4,017,231
Provisions	1,019,639	891,910	1,203,152	1,202,448	1,158,654
Provision for end of service benefits	3,937,717	3,919,362	3,922,065	3,922,769	3,775,668
Deferred income <sup>(5)</sup>	2,352,191	2,144,290	990,275	1,763,440	1,445,777
Lease liabilities	1,593,893	-	-	-	-
Contract liabilities <sup>(1)</sup>	771,915	771,915	773,165	n/a	n/a
Other financial liabilities <sup>(2)</sup>	-	1,526,259	59,755	n/a	n/a
Other non-current liabilities <sup>(6)</sup>	1,572,548	32,726	87,227	145,543	292,530
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>15,185,439</b>	<b>13,251,941</b>	<b>11,041,619</b>	<b>11,040,180</b>	<b>10,689,860</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	11,596,131	16,670,958	13,155,927	13,827,806	13,885,561
Short term borrowings	282,292	320,533	647,763	647,763	1,867,220
Provisions	6,506,482	6,829,451	7,633,280	7,633,984	5,682,808
Zakat and income tax liabilities <sup>(7)</sup>	1,645,272	1,465,775	1,507,881	1,623,423	1,460,129
Lease liabilities	734,208	-	-	-	-
Deferred income <sup>(5)</sup>	46,381	41,141	96,431	2,872,083	2,816,841
Contract liabilities <sup>(1)</sup>	2,247,115	2,538,940	3,261,695	n/a	n/a
Other financial liabilities <sup>(1)</sup>	-	90,731	54,640	n/a	n/a
Other current liabilities <sup>(6)</sup>	1,789,240	4,077,577	7,281,256	7,222,892	4,096,138
<b>TOTAL CURRENT LIABILITIES</b>	<b>24,847,121</b>	<b>32,035,106</b>	<b>33,638,873</b>	<b>33,827,951</b>	<b>29,808,697</b>
<b>TOTAL LIABILITIES</b>	<b>40,032,560</b>	<b>45,287,047</b>	<b>44,680,492</b>	<b>44,868,131</b>	<b>40,498,557</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>109,481,687</b>	<b>111,948,645</b>	<b>108,482,073</b>	<b>108,112,804</b>	<b>101,776,888</b>

(1) Contract assets were part of trade receivables until the date of IFRS 15 implementation. Under IFRS 15, if an entity has transferred goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In relation to contract costs, under IAS 18, contract costs related to commission (cost to obtain) and installation service (cost to fulfil) were expensed as incurred as it was not qualified to be recognised as an asset under any other accounting standards. Under IFRS 15, these will now be capitalised as contract costs and included as assets in the consolidated statement of financial position. Contract liabilities were part of deferred revenues until the date of IFRS 15 implementation. Under IFRS 15, prepaid amounts received from customers against telecom services are classified as contract liabilities. Also, performance obligations related to customer loyalty programs are classified as contract liabilities.

(2) Not separately disclosed in 2019 Unaudited Interim Condensed Consolidated Financial Statements.

(3) Includes Financial Assets as at 31 March 2019, 31 December 2017 and 31 December 2016.

(4) Labelled as 'Equity attributable to owners of the Parent Company' in 2017 Audited Financial Statements.

(5) Labelled as 'Deferred revenues' in 2017 Audited Financial Statements.

- <sup>(6)</sup> Includes Financial Liabilities as at 31 March 2019, 31 December 2017 and 31 December 2016.
- <sup>(7)</sup> Labelled as "Tax and zakat liabilities" in 2017 Audited Financial Statements.

## Consolidated statement of cash flow data

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
	<i>(SAR '000)</i>					
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net profit before zakat and tax <sup>(1)</sup>	2,987,723	2,856,030	11,828,165	10,989,373	11,090,835	9,876,629
Adjustments for:						
Depreciation and amortisation	2,110,299	1,894,704	7,590,530	7,444,735	8,208,360	8,078,118
Amortisation and impairment of contract costs and assets <sup>(2)</sup>	148,782	182,708	623,136	579,468	n/a	n/a
Impairment loss on trade receivables	82,009	158,181	741,583	848,495	870,614	775,050
Write-down of inventory	19,339	64,532	31,863	124,487	n/a	n/a
Finance income	(181,120)	(149,668)	(554,909)	(584,682)	(584,681)	(722,732)
Finance costs	164,176	97,379	398,814	353,542	354,199	379,062
Provision for employee end of service benefits and other provisions	249,739	772,160	1,293,581	2,806,935	2,808,241	4,954,866
Share of results from investments in associates and joint ventures, net <sup>(3)</sup>	35,538	(36,025)	10,605	(305,591)	(308,384)	(116,246)
Other (gains)/losses, net	(7,427)	(40,967)	215,493	18,405	18,091	70,110
<b>Operating profit before working capital adjustments</b>	<b>5,609,058</b>	<b>5,799,034</b>	<b>22,178,861</b>	<b>22,275,167</b>	<b>22,457,275</b>	<b>23,294,857</b>
<b>Movements in working capital:</b>						
Trade and other receivables	(1,047,599)	(2,189,023)	5,274,505	(8,298,267)	(6,772,947)	(7,460,010)
Inventories	(61,756)	33,898	(337,038)	(132,252)	6,334	456,449
Contract costs <sup>(2)</sup>	(54,631)	(485,103)	(477,758)	(404,074)	n/a	n/a
Contract assets <sup>(2)</sup>	(339,834)	(1,046,390)	(3,339,955)	1,756,702	n/a	n/a
Other assets	(328,020)	(212,647)	(1,210,921)	(702,237)	(573,167)	853,544
Trade and other payables	(3,244,956)	807,083	3,246,720	410,636	(263,130)	709,707
Deferred income	213,141	148,742	1,098,725	374,007	411,999	745,160
Contract liabilities <sup>(2)</sup>	(291,825)	(283,412)	(724,005)	(1,027,978)	n/a	n/a
Other liabilities	(3,162,788)	588,728	(5,482,112)	2,813,388	2,582,832	908,210
<b>Cash (used in) generated from operations</b>	<b>(2,709,210)</b>	<b>3,160,909</b>	<b>20,227,022</b>	<b>17,065,092</b>	<b>17,849,196</b>	<b>19,507,917</b>
Less: Zakat and income taxes paid	-	(63,022)	(690,934)	(649,427)	(649,427)	(680,701)
Less: Provision for end of service benefits paid	(115,192)	(74,347)	(521,861)	(499,614)	(499,614)	(452,120)
<b>Net cash from (used in) operating activities</b>	<b>(2,824,402)</b>	<b>3,023,540</b>	<b>19,014,227</b>	<b>15,916,051</b>	<b>16,700,155</b>	<b>18,375,096</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Additions to property, plant and equipment	(171,798)	(1,349,213)	(8,406,935)	(6,576,858)	(6,576,858)	(7,607,416)
Additions to intangible assets	(214,097)	(197,160)	(1,350,151)	(1,359,313)	(2,143,417)	(2,414,905)
Proceeds from sale of property, plant and equipment	85,550	6,876	123,283	13,375	13,375	36,136
Purchase of interest in an associate	-	-	-	(375,095)	(375,095)	-
Dividends received from associates	-	-	-	41,077	41,077	26,062
Proceeds from finance income	701,595	55,586	595,731	752,261	752,261	555,023
Proceeds related to financial assets	5,997,028	6,757,553	-	-	-	-
Payments related to financial assets <sup>(4)</sup>	(5,208,888)	(6,833,728)	4,129,233	498,916	498,916	1,677,396
<b>Net cash from (used in) investing activities</b>	<b>1,189,390</b>	<b>(1,560,086)</b>	<b>(4,908,839)</b>	<b>(7,005,637)</b>	<b>(7,789,741)</b>	<b>(7,727,704)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Dividends paid	(1,528)	(1,994)	(8,054,671)	(8,019,234)	(8,019,234)	(8,031,468)
Acquisition cost of non-controlling interests in a subsidiary <sup>(5)</sup>	-	-	-	(437,382)	(437,382)	(1,619,339)
Repayment of borrowings	(131,700)	(334,021)	(635,710)	(3,298,573)	(3,298,573)	(1,711,564)
Proceeds from borrowings	50,000	-	303,936	1,924,461	1,924,461	-
Finance costs paid	(77,799)	(21,762)	(130,517)	(149,454)	(149,454)	(148,195)
Repayment of lease liabilities	(175,697)	-	-	-	-	-
<b>Net cash used in financing activities</b>	<b>(336,724)</b>	<b>(357,777)</b>	<b>(8,516,962)</b>	<b>(9,980,182)</b>	<b>(9,980,182)</b>	<b>(11,510,566)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,971,736)</b>	<b>1,105,677</b>	<b>5,588,426</b>	<b>(1,069,768)</b>	<b>(1,069,768)</b>	<b>(863,174)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR</b>	<b>8,153,865</b>	<b>2,567,044</b>	<b>2,567,044</b>	<b>3,631,202</b>	<b>3,631,202</b>	<b>4,487,827</b>
Net foreign exchange difference	(1,975)	2,873	(1,605)	5,610	5,610	6,549
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR</b>	<b>6,180,154</b>	<b>3,675,594</b>	<b>8,153,865</b>	<b>2,567,044</b>	<b>2,567,044</b>	<b>3,631,202</b>

(1) Labelled as "Net profit before zakat, tax and non-controlling interests" in 2017 Audited Financial Statements.

(2) Contract assets were part of trade receivables until the date of IFRS 15 implementation. Under IFRS 15, if an entity has transferred goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. In relation to contract costs, under IAS 18, contract costs related to commission (cost to obtain) and installation service (cost to fulfil) were expensed as incurred as it was not qualified to be recognised as an asset under any other accounting standards. Under IFRS 15, these will now be capitalised as contract costs and included as assets in the consolidated statement of financial position. Contract liabilities were part of deferred revenues until the date of IFRS 15 implementation. Under IFRS 15, prepaid amounts received from customers against telecom services are classified as contract liabilities. Also, performance obligations related to customer loyalty programs are classified as contract liabilities.

(3) Labelled as "(Loss)/gain from investments in associates and joint ventures, net" in 2018 Audited Financial Statements.

(4) Labelled as "Proceeds and payments related to financial assets, net" in the 2018 Audited Financial Statements and the 2017 Audited Financial Statements.

<sup>(5)</sup> Labelled as "Acquisition of non-controlling interests in a subsidiary" in 2017 Audited Financial Statements.

## Other Financial Information – Alternative Performance Measures

Set forth below are certain Alternative Performance Measures used by the Group's management to assess the performance of its business. The Alternative Performance Measures are unaudited and have not been prepared in accordance with IFRS-KSA or any other generally accepted accounting standards. For more information regarding these Alternative Performance Measures, see "Presentation of Certain Financial and Other Information—Presentation of Historic Financial Information—Alternative Performance Measures".

	As at and for the three months period ended 31 March		As at and for the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
			(SAR '000, except otherwise indicated)			
Adjusted EBITDA <sup>(1)</sup> .....	5,385,503	4,527,058	19,835,755	18,430,746	19,293,345	18,029,209
Adjusted EBITDA margin (%) <sup>(2)</sup> .....	40.2	36.7	38.2	36.4	38.0	34.2
Capex <sup>(3)</sup> .....	834,428	1,342,337	8,283,652	6,563,483	6,563,483	7,571,280
Free Cash Flow <sup>(4)</sup> .....	(3,658,830)	1,681,203	10,730,575	9,352,568	10,136,672	10,803,816
Interest Coverage Ratio <sup>(5)</sup> .....	32.8	46.5	49.7	52.1	54.5	47.6
Total Debt <sup>(6)</sup> .....	4,219,828	n/a	4,286,012	4,653,743	4,653,743	5,884,451
Total Debt to Adjusted EBITDA <sup>(7)</sup> .....	n/a	n/a	0.22	0.25	0.24	0.33
Total Debt to Equity <sup>(8)</sup> .....	0.06	n/a	0.06	0.07	0.07	0.10

<sup>(1)</sup> Adjusted EBITDA is a non-IFRS-KSA performance measure. The Group views Adjusted EBITDA as a useful measure because it is used to analyse the Group's operating profitability and provides an indication of results before non-cash charges. Set forth below is information regarding the calculation of Adjusted EBITDA for each period:

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2018	2017 (Restated)	2017	2016
			(SAR '000)			
<b>Net Profit</b> .....	<b>2,807,170</b>	<b>2,657,391</b>	<b>11,080,498</b>	<b>10,268,673</b>	<b>10,370,135</b>	<b>9,125,832</b>
Adjusted for:						
Zakat and income tax .....	180,553	198,639	747,667	720,700	720,700	750,797
Other (gains)/ losses, net .....	(7,427)	(40,967)	215,493	18,405	18,091	70,110
(Loss)/gain from investments in associates and joint ventures, net .....	35,538	(36,025)	10,605	(305,591)	(308,384)	(116,246)
Other income, net .....	126,314	(94,395)	(102,943)	(85,036)	(85,075)	62,565
Finance cost .....	164,176	97,379	398,814	353,542	354,199	379,062
Finance income .....	(181,120)	(149,668)	(554,909)	(584,682)	(584,681)	(722,732)
Cost of early retirement .....	150,000	-	450,000	600,000	600,000	401,703
Depreciation and amortisation .....	2,110,299	1,894,704	7,590,530	7,444,735	8,208,360	8,078,118
<b>Adjusted EBITDA</b> .....	<b>5,385,503</b>	<b>4,527,058</b>	<b>19,835,755</b>	<b>18,430,746</b>	<b>19,293,345</b>	<b>18,029,209</b>

<sup>(2)</sup> Adjusted EBITDA margin is a non-IFRS-KSA performance measure and is calculated as Adjusted EBITDA divided by revenue.

<sup>(3)</sup> Capex is the cost of the purchase of property, plant and equipment for the period less the proceeds from the sale of property, plant and equipment.

<sup>(4)</sup> Free Cash Flow is a non-IFRS-KSA performance measure and is defined as net cash from operating activities less Capex.

<sup>(5)</sup> Interest Coverage Ratio is Adjusted EBITDA divided by finance costs.

<sup>(6)</sup> Total Debt is the sum of long term borrowings and short term borrowings.

<sup>(7)</sup> Total Debt divided by Adjusted EBITDA.

<sup>(8)</sup> Total Debt divided by total equity.

## Other Operating Information

Set forth below is certain operating information used by the Group's management to assess the performance of its business. See "*Presentation of Certain Financial and Other Information—Presentation of Historic Financial Information—Subscriber Data*".

	<b>For the year ended 31 December</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<i>(in millions, except per cent. or otherwise indicated)</i>		
<b>Market share by revenue (%)</b>			
KSA .....	73	73	72
Bahrain .....	39	35	37
Kuwait .....	31	32	31
<b>KSA Subscribers<sup>(1)</sup></b>			
<b>Mobile</b>			
Post-paid .....	4.74	4.73	3.40
Market share by subscribers (%).....	38.8	46.8	43.3
Pre-paid .....	15.23	16.60	18.30
Market share by subscribers (%).....	53.6	55.0	51.1
Fixed Line.....	2.69	3.12	n/a
Market share by subscribers (%).....	86.0	86.0	n/a
FTTH subscribers ('000s).....	563.9	473.4	n/a
Broadband.....	1.59	1.88	n/a
Market share by subscribers (%).....	83.0	75.0	n/a
<b>Total Bahrain Subscribers<sup>(1)</sup></b> .....	0.99	1.04	1.23
<b>Total Kuwait Subscribers<sup>(1)</sup></b> .....	2.15	2.28	2.37

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the information set out in "Presentation of Financial and Other Information", "Selected Financial Information" and the Financial Statements.*

*In its 2018 Audited Financial Statements the Group adopted the new accounting standards IFRS 9 and IFRS 15 and elected to restate and apply the new standards to the comparable 2017 financial information presented within the 2018 Audited Financial Statements. Thus, the 2017 financial information from the 2018 Audited Financial Statements have been restated and, accordingly, the 2017 amounts in the 2018 Audited Financial Statements are different to 2017 financial information from the 2017 Audited Financial Statements. For more information see Note 3 to the 2018 Audited Financial Statements.*

*The discussion below regarding the Group's result of operations and cash flows compares the years ended 31 December 2018 and 2017 using financial data extracted from the 2018 Audited Financial Statements, which were prepared in accordance with IFRS-KSA after adopting IFRS 9 and 15 and includes restated 2017 financial information. By contrast, the discussion below regarding the Group's result of operations and cash flows compares the years ended 31 December 2017 and 2016 using financial data extracted from the 2017 Audited Financial Statements.*

*The discussion of the Group's financial condition and results of operations is based upon the 2018 Audited Financial Statements and the 2017 Audited Financial Statements, which have been prepared in accordance with IFRS-KSA, and the 2019 Unaudited Interim Condensed Consolidated Financial Statements, which have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting as endorsed in Saudi Arabia.*

*This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Forward-Looking Statements" and "Risk Factors".*

*See "Presentation of Financial and Other Information" for a discussion of the source of the subscriber data presented in this section.*

### OVERVIEW

The Group is the leading telecommunications operator in Saudi Arabia with a 73 per cent. share of the aggregate revenue of telecommunications providers in Saudi Arabia in 2018. Within Saudi Arabia, the Group provides a wide variety of telecommunications services, including mobile, fixed line and broadband access products, wholesale, data centre hosting, solutions for office and home environments, cybersecurity and other ICT and related solutions. The Group had 24.3 million mobile, fixed line and broadband subscribers in total as at 31 December 2018 in Saudi Arabia. The Group also provides mobile telecommunications services in Bahrain and Kuwait through subsidiaries.

The Government is STC's major shareholder and at 31 March 2019 directly owned 70.0 per cent. of STC's share capital through the Public Investment Fund and indirectly owned 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. The remaining 16.2 per cent. of STC's share capital at 31 March 2019 was publicly held and listed on the Tadawul. As a provider of key communications infrastructure in Saudi Arabia, STC is a flagship national company and an important strategic investment of the Government. Six of the nine members of STC's Board of Directors are nominated by, and represent, the three key Government shareholders.

As at 31 December 2018, STC was the second largest listed company in the Kingdom in terms of market capitalisation. The Group's STC brand in Saudi Arabia was classified as the highest value telecom brand in the Middle East for 2018 and it was also the only Saudi Arabian brand within the world's top 500 brands, in each case according to Brand Finance 2018. The Group had consolidated revenues of SAR 52.0 billion and net profit (attributable to the equity holders) of SAR 10.8 billion for the year ended 31 December 2018. The Group's total assets were SAR 111.9 billion as at 31 December 2018 and the Group's market capitalisation was SAR 216 billion as at 31 March 2019.

## **PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS**

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

Saudi Arabia remains the Group's principal operating market in terms of revenue, cash flows from operations and profitability. Strong revenue generation and a strong cash flow position in its Saudi Arabian operations has allowed the Group to pursue expansion opportunities in other markets. In 2018, 91.1 per cent. of the Group's revenue was derived from its Saudi Arabian businesses compared to 90.9 per cent. in 2017.

Within Saudi Arabia, the Group principally derives revenue from the provision of mobile, data services, fixed landline and broadband, ICT and managed services. It also derives revenue from the provision of mobile services in Bahrain and Kuwait.

### ***Factors affecting telecommunication revenues and costs***

Revenue from telecommunications services is primarily affected by: (i) the number of the Group's active customers and customer mix in Saudi Arabia; and (ii) the amount spent by those customers.

Historically, the Group divided its business between mobile, data and fixed line (landline) operations. However, with developments in mobile phone usage, VoIP services and related ICT services the distinction between these categories is less clear. In the Group's 2017 Audited Financial Statements management presented its revenue by financial segment divided by products and services as mobile, data, landline and managed services. As a result of these developments in telecommunications services, in the Group's 2018 Annual Report management no longer presented these products and services as a financial segment. Further, the specific operational segments of the Group are identified based on internal reports, which are regularly reviewed by the Group's main decision makers for the purposes of resource allocation among segments and performance assessment.

Customer growth depends on a number of factors, including competition, pricing, quality of service, availability of new services, population growth, regulatory environment and general economic conditions. ARPU is driven primarily by traffic volume, data services utilisation, interconnection rates and tariffs. Tariffs in turn are mainly driven by the competitive and the regulatory environments. The Group believes that future revenue growth will be primarily driven by growth in data traffic, ICT and creative value-added services utilisation and will be offset by declining tariffs and interconnection rates. In addition, as markets mature and penetration increases, the incremental revenue expected from marginal customers tends to be lower, and so ARPU in maturing markets tends to fall. During the periods under review the Group's number of pre-paid mobile subscribers has declined from 18.3 million as at 31 December 2016 to 15.2 million as at 31 December 2018, although the Group has increased its number of post-paid mobile subscribers, which typically have a higher ARPU than prepaid subscribers, from 3.4 million as at 31 December 2016 to 4.7 million as at 31 December 2018. The Group believes reduction in subscriber numbers resulted principally from certain Government initiatives which have led to a decrease in Saudi immigrants and a reduction in the number of mobile subscriber identification modules ("SIMs"), and thereby subscribers (described in more detail below).

### ***Demographic, political and economic trends***

The Group's revenues are driven by overall market demand for mobile telecommunications services in the markets the Group serves, which is in turn directly affected by a number of macroeconomic and other trends. In particular, demand for the Group's services depends primarily on a number of demographic, political and economic factors, all of which are outside of its control, in particular population growth and GDP.

The demographic, political and economic dynamics affecting the Group's business vary between Saudi Arabia, Kuwait and Bahrain. In addition, a number of these dynamics, such as population growth and GDP per capita, can differ significantly between individual countries within a region and this can impact upon the number of customers as well as ARPU that the Group can attain in a particular market. According to the General Authority for Statistics in Saudi Arabia, in 2018 Saudi Arabia's population was over 33 million, with 31.5 per cent. of the population under the age of 20. Management believes that the large percentage of younger inhabitants will help drive growth in subscribers in the future.



The significant declines in the price of oil since the second half of 2014 have negatively affected the economies of Saudi Arabia, Kuwait and Bahrain and have therefore caused a decline in government expenditures in certain areas and the disposable income of many residents of those countries, which has had an adverse impact on the Group's operations in those countries. These factors can vary significantly from period to period and do vary significantly from country to country and region to region and have historically impacted the Group's results of operations. Future changes in these demographic and economic factors could have a material effect on the Group's business, financial condition, results of operations and prospects. See "*Risk Factors—Risks Relating to the Group—Declines in international crude oil prices and natural gas could materially and adversely affect oil revenue dependent economies*".

Additionally, as a result of various Government initiatives in Saudi Arabia focusing on increasing employment of Saudi nationals, a significant number of immigrants to Saudi Arabia left in 2017 and 2018. Many of these workers were higher paying mobile customers. Additionally, another Government initiative in 2017 requiring all SIMs in Saudi Arabia to be matched with a fingerprint has reduced the amount of SIMs in use resulting in a decrease in the Group's subscribers and revenues in 2017 and 2018.

### ***Competition in the markets in which the Group operates***

The Group faces increased competition in the markets in which it operates, both from existing competitors and new telecommunications services providers. Competition has also led, in certain markets, including Saudi Arabia, to declines in the prices the Group is able to charge for its services and may lead to further price declines in the future. Competition from companies has historically resulted in a reduction in the Group's tariffs in those markets due to increased promotional offers and the incurrence of additional marketing costs by the Group to maintain its customer base in and to maintain revenues from those markets. See "*Risk Factors—Risks Relating to the Group—The Group may face increased competition from new entrants or established telecommunications operators in the markets in which it operates*".

### ***Network development and maintenance***

Growth in the Group's revenue has been partially driven by expansion of capacity in its existing networks and the increase in data capacity across Saudi Arabia, in addition to improvements in network quality. In particular, the Group has significant capital expenditure plans in 2019, 2020 and 2021 relating to the build out of its fibre to the home network and the rollout of 5G services in Saudi Arabia, Kuwait and Bahrain. Reflecting these plans, the Group expects to increase capital expenditure for 2019, 2020 and 2021, ultimately reaching up to a 20 per cent. increase by 2021 compared to 2018. Subsequently, the Group expects capital expenditure to return to historic levels. This increase will be driven by (i) the continued build out of the Group's FTTH network in Saudi Arabia where the Group has committed to roll out approximately 1.2 million lines and since November 2017 has rolled out approximately 700,000 as at 31 March 2019; (ii) enhancing average mobile throughput speeds to reach around a target of 55Mbps over the next four years and to be at the forefront of network buildout of 5G services in Saudi Arabia, Kuwait and Bahrain; and (iii) introducing public WiFi by implementing more than 36,000 access points in Saudi Arabia. When the Group makes decisions with respect to capacity development it also considers whether the expansion in areas for which coverage is provided will have a significant impact on its ability to attract new customers and retain existing customers. For a discussion of the Group's capital expenditures, see "*—Capital Expenditures*".

### ***Business Efficiency Program***

The Group commenced a business efficiency program in 2016 ("**Business Efficiency Program**") focused on increasing efficiency and reducing costs. The program included the restructuring of the business units as well as initiatives to optimise the Group's processes and structures. As part of this programme the Group launched a review of its processes and identified over 40 strategic initiatives. The Business Efficiency Program primarily focused on reducing the structural costs of the Group by consolidating functions, optimising processes, and creating a leaner and more flexible workforce through flexible work programmes and staff reductions. As a result of the Business Efficiency Program, the Group has been able to keep overall Group costs relatively stable, while investing significantly in its ICT service offering through STC Solutions and STC Channels. For example, the Group's operating profit margin (operating profit divided by revenues) has improved from 18.9 per cent for the year ended 31 December 2016 to 23.6 per cent. for the year ended 31 December 2018, partly driven by the results of the Business Efficiency Program. Due to the success of achieving the first three years targets of the Business

Efficiency Program, in 2019 the Group launched a new business efficiency program, which aims to increase the number of targeted areas to drive further business efficiencies.

### ***Change in Government charges***

The Group's telecommunication costs in 2018 benefited from a change in the structure of the fees imposed by the Government on telecommunication services. Council of Ministers' resolution No. (196) dated 11 December 2018 (the "**Unified Fee Resolution**") amended the percentage of fees collected by the Government for providing telecommunications services commercially to become a uniform annual fee of 10 per cent. of net telecommunications revenues effective 1 January 2018 instead of the previously applicable fees which were 15 per cent. for net mobile service revenues, 10 per cent. for net fixed line revenues and 8 per cent. for net revenues from data services.

While the "government charges" line item in cost of revenues increased in 2018 compared to 2017, this primarily reflected the inclusion of government charges in relation to internet services which had previously been included in the "other" line item of cost of revenues. However, the net effect of changes in fees reduced the Group's average fees paid per revenue recognized.

In 2017, the Group included provisions for an expected fee to become payable on internet services in the "other" line item of cost of revenues. However, the Unified Fee Resolution applied the fee to internet services effective 1 January 2018. As a result, the Group reversed the provisions in the "other" line item in 2018.

### **Description of Principal Line Items**

#### ***Revenue***

Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer and is measured based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The Group recognises 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, the Group recognises the revenue of services rendered to certain customers 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.

#### ***Cost of revenue***

Cost of revenues principally comprises access charges, government charges, repair and maintenance, employees' costs, cards recharge and printing cost and cost of devices sold.

#### ***Selling and marketing***

Selling and marketing principally comprises employees' costs, impairment loss on trade receivables, advertising and publicity, sales commissions, call centres' expenses, repairs and maintenance and sport activities sponsorship cost.

#### ***General and administration***

General and administration principally comprises employees' cost, repair and maintenance and operating lease costs.

#### ***Depreciation and amortisation***

Depreciation and amortisation principally represents systematic allocation of the depreciable/amortisable amount of an asset over its useful life and is calculated using the straight-line method, over the asset's estimated useful life.

### ***Cost of early retirement***

Cost of early retirement principally represents the amount recognised as a provision to be the best estimate of the expenditure required to settle the early retirement obligation at the balance sheet date.

### ***Finance income***

Finance income principally comprises income accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life or shorter period, where appropriate, of the financial asset to that asset's net carrying amount on initial recognition.

### ***Finance cost***

Finance cost principally comprises profit payment and other costs that are incurred in connection with the borrowing of funds including the unwinding of discounts on provisions and financial liabilities.

### ***Other income/(expenses), net***

Other income/(expenses), net principally comprises the income/expense that do not relate to normal business operations such as rental income, supplier penalties and net of sundry expenses.

### ***Share of profit from investments in associates and joint ventures, net***

Share of profit from investments in associates and joint ventures, net principally comprises the Group's share of the profit and loss of the associate or joint venture which are accounted for using the equity method.

### ***Other losses, net***

Other losses, net principally comprises losses/gains that are not part of usual business operations, such as gains from financial assets and foreign exchange differences, net of losses on disposal of property, plant and equipment.

### ***Zakat and income tax***

Zakat expense is levied at the higher of adjusted income subject to zakat or the zakat base in accordance with the Regulations of the General Authority of Zakat and Tax in Saudi Arabia. The Group calculates and records its zakat by using the zakat base, which makes this a levy not based on income subject to zakat. The zakat provision is charged to the consolidated statement of profit or loss. Adjustments arising from final zakat assessment are recorded in the period in which such assessment is approved by the General Authority of Zakat and Tax ("GAZT").

Income tax expense relates to the tax charges recognised by investee companies outside the Kingdom of Saudi Arabia subject to income tax inside and outside Saudi Arabia.

## **RESULTS OF OPERATIONS**

### **Results of operations for the three months period ended 31 March 2019 and 31 March 2018**

The Group adopted IFRS 16 effective 1 January 2019 but did not apply IFRS 16 retrospectively to the corresponding period in 2018, which affects the comparability of the two periods. See "*Presentation of Financial and Other Information—New Accounting Standards Adopted in 2018 and 2019*". The table below sets out a comparison of the Group's results of operations for the three month period ended 31 March 2019 and 2018.

	For the three months period ended 31 March		
	2019	2018	% change
	<i>(SAR '000)</i>		
Revenues .....	13,385,753	12,349,080	8.4
Cost of revenues .....	(5,482,277)	(5,414,229)	1.3
<b>GROSS PROFIT</b> .....	<b>7,903,476</b>	<b>6,934,851</b>	<b>14.0</b>
<b>OPERATING EXPENSES</b>			
Selling and marketing .....	(1,115,657)	(1,250,911)	(10.8)
General and administration	(1,402,316)	(1,156,882)	21.2

	For the three months period ended 31 March		
	2019	2018	% change
	(SAR '000)		
Depreciation and amortisation .....	(2,110,299)	(1,894,704)	11.4
<b>TOTAL OPERATING EXPENSES</b> .....	<b>(4,628,272)</b>	<b>(4,302,497)</b>	<b>7.6</b>
<b>OPERATING PROFIT</b> .....	<b>3,275,204</b>	<b>2,632,354</b>	<b>24.4</b>
<b>OTHER INCOME AND EXPENSES</b>			
Cost of early retirement.....	(150,000)	-	
Finance income .....	181,120	149,668	21.0
Finance cost.....	(164,176)	(97,379)	68.6
Other income/(expenses), net.....	(126,314)	94,395	-
Share of results of investments in associates and joint ventures, net.....	(35,538)	36,025	-
Other gains, net .....	7,427	40,967	(81.9)
<b>TOTAL OTHER INCOME AND EXPENSES</b> .....	<b>(287,481)</b>	<b>223,676</b>	<b>(225.2)</b>
<b>NET PROFIT BEFORE ZAKAT AND TAX</b> .....	<b>2,987,723</b>	<b>2,856,030</b>	<b>4.6</b>
Zakat and income tax .....	(180,553)	(198,639)	(9.1)
<b>NET PROFIT</b> .....	<b>2,807,170</b>	<b>2,657,391</b>	<b>5.6</b>
<i>Net profit attributable to:</i>			
Equity holders of the parent .....	2,749,735	2,587,530	6.6
Non-controlling interests.....	57,435	69,861	(17.8)
	<b>2,807,170</b>	<b>2,657,391</b>	<b>5.6</b>

### Revenues

The Group is engaged mainly in providing telecommunication services and related products. The vast majority of the Group's revenues and assets relate to its operations in Saudi Arabia (STC KSA and STC Channels). Outside of Saudi Arabia, the Group operates through its subsidiaries and associates, primarily in Kuwait and Bahrain.

The Group's revenues for the three months period ended 31 March 2019 were SAR13,385.8 million, an increase of SAR1,036.7 million, or 8.4 per cent., compared to SAR12,349.1 million in the three months period ended 31 March 2018. This increase was principally as a result of revenue growth from STC Solutions across all business segments particularly in digital services, outsourcing and cybersecurity and an increase in sales of high margin products from STC Channels as compared to conventional telecom products, such as devices, FTTH and DSL. This was offset by a slight decline in the Group's revenue from its core operations in Saudi Arabia from its enterprise business unit.

### Cost of revenues

The Group's cost of revenues for the three months period ended 31 March 2019 were SAR5,482.3 million, an increase of SAR68.0 million, or 1.3 per cent., compared to SAR5,414.2 million in the three months period ended 31 March 2018. This was principally as a result of the increase in cost of revenues from STC Solutions and STC Channels which were in line with their respective growth in revenues. Further, cost reductions resulting from the Group's Business Efficiency Program were partially able to offset the increase in overall cost of revenues.

### Gross profit

The Group's gross profit for the three months period ended 31 March 2019 were SAR7,903.5 million, an increase of SAR968.6 million, or 14.0 per cent., compared to SAR6,934.9 million in the three months period ended 31 March 2018. This was principally as a result of the reasons set forth above. Additionally, the Group benefitted from the optimisation of access charges and the positive impact of a settlement with Mobily in relation to interconnection charges which resulted in these components of cost of revenues increasing at a lower rate than their corresponding revenue increased in 2019 compared to 2018.

The Group's gross profit margin for the three months period ended 31 March 2019 was 59.0 per cent. compared to 56.2 per cent. in the three months period ended 31 March 2018.

### Selling and marketing expenses

The Group's selling and marketing expenses for the three months period ended 31 March 2019 were SAR1,115.7 million, a decrease of SAR135.3 million, or 10.8 per cent., compared to SAR1,250.9 million in the three months period ended 31 March 2018. This was principally as a result of the Group focusing

on digital marketing and targeted marketing initiatives rather than broader marketing campaigns and its Business Efficiency Program.

#### *General and administration expenses*

The Group's general and administration expenses for the three months period ended 31 March 2019 were SAR1,402.3 million, an increase of SAR245.4 million, or 21.2 per cent., compared to SAR1,156.9 million in the three months period ended 31 March 2018. This was principally as a result of the cost of growing new business areas, including an increase in employee costs from STC Solutions and STC Channels, which was partially offset by cost reductions resulting from the Group's Business Efficiency Program.

#### *Depreciation and amortisation*

The Group's depreciation and amortisation expenses for the three months period ended 31 March 2019 were SAR2,110.3 million, an increase of SAR215.6 million, or 11.4 per cent., compared to SAR1,894.7 million in the three months period ended 31 March 2018. This was principally as a result of an increase in property, plant and equipment and intangible assets, as well as the impact of IFRS 16.

#### *Operating profit*

The Group's operating profit for the three months period ended 31 March 2019 were SAR3,275.2 million, an increase of SAR642.9 million, or 24.4 per cent., compared to SAR2,632.4 million in the three months period ended 31 March 2018. This was principally as a result of the reasons set forth above.

#### *Cost of early retirement*

The Group's cost of early retirement for the three months period ended 31 March 2019 was SAR150.0 million compared to nil in three months period ended 31 March 2018. This was principally as a result of an increase in the number of new participants in the Group's voluntary retirement scheme.

#### *Finance income*

The Group's finance income for the three months period ended 31 March 2019 was SAR181.1 million, an increase of SAR31.5 million, or 21.0 per cent., compared to SAR149.7 million in the three months period ended 31 March 2018. The Group's finance income depends on the market condition and liquidity situation. The increase was mainly due to higher average cash balances and returns on the Government Sukuk investment in 2019.

#### *Finance costs*

The Group's finance costs for the three months period ended 31 March 2019 were SAR164.2 million, an increase of SAR66.8 million, or 68.6 per cent., compared to SAR97.4 million in the three months period ended 31 March 2018. This was principally as a result of the IFRS 16 implementation whereby the Group recorded additional interest on its lease liability in its finance cost, higher financing costs on its borrowings and a present value calculation impact due to end of service benefit provisions and a financial obligation provision.

#### *Share of results of investments in associates and joint ventures, net*

The Group's loss from investments in associates and joint ventures, net, for the three months period ended 31 March 2019 was SAR35.5 million compared to a gain from investments in associates and joint ventures, net, of SAR36.0 million in the three months period ended 31 March 2018. The change was primarily due to a lower share of profit from investments in associates and joint ventures as well as losses of SAR64.7 million from Group's investment in Binariang in 2019.

#### *Zakat and income tax*

The Group's zakat expense for the three months period ended 31 March 2019 was SAR180.6 million, a decrease of SAR18.1 million, or 9.1 per cent., compared to SAR198.6 million in the three months period ended 31 March 2018 due to a reduction in overall Zakat base primarily as a result of less assets in 31 March 2019 compared to 31 March 2018.

## Net profit

The Group's net profit for the three months period ended 31 March 2019 were SAR2,807.2 million, an increase of SAR149.8 million, or 5.6 per cent., compared to SAR2,657.4 million in the three months period ended 31 March 2018. This was principally as a result of the reasons set forth above.

## Results of operations for the year ended 31 December 2018 and 31 December 2017

The table below sets out a comparison of the Group's results of operations for the years ended 31 December 2018 and 2017.

	For the year ended 31 December		
	2018	2017 (Restated)	% change
	(SAR '000)		
Revenues .....	51,963,243	50,661,335	2.6
Cost of revenues .....	(21,416,928)	(22,105,926)	(3.1)
<b>GROSS PROFIT</b> .....	<b>30,546,315</b>	<b>28,555,409</b>	<b>7.0</b>
<b>OPERATING EXPENSES</b>			
Selling and marketing .....	(5,463,212)	(5,608,634)	(2.6)
General and administration .....	(5,247,348)	(4,516,029)	16.2
Depreciation and amortisation .....	(7,590,530)	(7,444,735)	2.0
<b>TOTAL OPERATING EXPENSES</b> .....	<b>(18,301,090)</b>	<b>(17,569,398)</b>	<b>4.2</b>
<b>OPERATING PROFIT</b> .....	<b>12,245,225</b>	<b>10,986,011</b>	<b>11.5</b>
<b>OTHER INCOME AND EXPENSES</b>			
Cost of early retirement .....	(450,000)	(600,000)	(25.0)
Finance income .....	554,909	584,682	(5.1)
Finance cost .....	(398,814)	(353,542)	12.8
Other income/(expenses), net .....	102,943	85,036	21.1
(Loss)/gain from investments in associates and joint ventures, net .....	(10,605)	305,591	-
Other losses, net .....	(215,493)	(18,405)	1,070.8
<b>TOTAL OTHER INCOME AND EXPENSES</b> .....	<b>(417,060)</b>	<b>3,362</b>	<b>-</b>
<b>NET PROFIT BEFORE ZAKAT AND TAX</b> .....	<b>11,828,165</b>	<b>10,989,373</b>	<b>7.6</b>
Zakat and income tax .....	(747,667)	(720,700)	3.7
<b>NET PROFIT</b> .....	<b>11,080,498</b>	<b>10,268,673</b>	<b>7.9</b>
<i>Net profit attributable to:</i>			
Equity holders of the parent .....	10,779,771	10,015,576	7.6
Non-controlling interests .....	300,727	253,097	18.8
	<b>11,080,498</b>	<b>10,268,673</b>	<b>7.9</b>

## Revenues

The Group's revenues for the year ended 31 December 2018 were SAR51,963.2 million, an increase of SAR1,301.9 million, or 2.6 per cent., compared to SAR50,661.3 million in the year ended 31 December 2017 (Restated). This increase was principally as a result of the growth of the Group's ICT services, in particular STC Solutions, which was partially offset by a decrease in revenue from the Group's mobile operations due to a decline in the number of mobile subscribers in the consumer market, principally pre-paid which decreased by 8.3 per cent. from 16.60 million in the year ended 31 December 2017 to 15.23 million in the year ended 31 December 2017 in Saudi Arabia. For the year ended 31 December 2018, 91.1 per cent. of the Group's revenues were from Saudi Arabia compared with 91.0 per cent. for the year ended 31 December 2017.

Revenues in STC Solutions were higher in 2018 compared to 2017 primarily as a result of the increase in revenues from digital, Internet of Things ("IoT"), ICT, cloud, and Cyber Security services segments in the enterprise business segment.

Revenues in STC Channels were marginally higher in 2018 compared with 2017 as a result of a positive contribution by the sale of higher margin devices business segment which more than offset a decline in revenues from traditional telecommunications products.

Revenues in VIVA Kuwait decreased in 2018 compared to 2017 due to aggressive price competition in postpaid bundles plans among the key telecommunications players, in addition to cannibalisation of mobile broadband products in Kuwait.

Revenues in VIVA Bahrain in 2018 were higher than in 2017 primarily due to an increased product offering through bundled packages in the consumer segment, growth in the wholesale segment and enterprise business segments due to a strategy to promote more ICT services.

#### *Cost of revenues*

The table below shows a breakdown of the Group's cost of revenues for each of the years ended 31 December 2018 and 31 December 2017.

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017 (Restated)</b>
	<i>(SAR '000)</i>	
Access charges .....	4,998,609	5,830,410
Government charges .....	4,482,144	3,973,084
Cost of devices sold .....	4,386,167	2,337,133
Employees' costs .....	2,968,010	2,134,816
Repair and maintenance.....	2,275,012	2,493,319
Cards recharge and printing cost .....	1,532,359	1,702,615
Amortisation and impairment of contract costs.....	373,644	388,470
Others <sup>(1)</sup> .....	400,983	3,246,079
<b>Cost of revenues .....</b>	<b><u>21,416,928</u></b>	<b><u>22,105,926</u></b>

<sup>(1)</sup>"Others" mainly comprise expenses related to rent of property, equipment and vehicles, telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

The Group's cost of revenues for the year ended 31 December 2018 were SAR21,416.9 million, a decrease of SAR689.0 million, or 3.1 per cent., compared to SAR22,105.9 million in the year ended 31 December 2017 (Restated). The decrease principally reflected decreases in access charges, repair and maintenance expense and card recharge and printing cost as well as a significant decrease in "other" costs. The decrease in access charges reflected a decline in international voice calls. The decreases in repair and maintenance expense and card recharge and printing cost principally reflected the benefit of the Business Efficiency Program. The significant decrease in "other" expense reflected a provision reversal of SAR939.0 million with respect to the calculation of a commercial services fee which began on 1 January 2018. Certain provisions related to expected government charges on internet services which had historically accrued in "other" were also reversed in 2018 following clarification that the uniformed fee became payable on net revenues from 1 January 2018 as discussed above. The above stated decreases were partially offset by an increase in government charges (reflecting the inclusion of fees for internet services from 1 January 2018 in accordance with the Unified Fee Resolution) and in the cost of devices sold (as a result of the increase in mobile devices sales during the year primarily due to bundling of devices with plans).

#### *Gross profit*

The Group's gross profit for the year ended 31 December 2018 were SAR30,546.3 million, an increase of SAR1,990.9 million, or 7.0 per cent., compared to SAR28,555.4 million in the year ended 31 December 2017 (Restated). This was principally as a result of the reasons set forth above.

The Group's gross profit margin for the year ended 31 December 2018 was 58.8 per cent. compared to 56.4 per cent. in the year ended 31 December 2017 (Restated).

#### *Selling and marketing expenses*

The table below shows a breakdown of the Group's selling and marketing expenses for each of the years ended 31 December 2018 and 31 December 2017.

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017 (Restated)</b>
	<i>(SAR '000)</i>	
Employees' costs .....	2,312,609	2,267,221
Impairment loss on trade receivables .....	741,583	848,495
Advertising and publicity.....	560,114	666,535

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017 (Restated)</b>
	<i>(SAR '000)</i>	
Sales commissions .....	490,623	438,682
Call centre expenses.....	268,534	327,281
Impairment on contract assets.....	206,503	135,562
Repairs and maintenance .....	195,201	197,266
Sport activities sponsorship cost.....	142,414	117,480
Printing of telephone cards and office supplies.....	44,856	79,834
Consultancy, legal and professional fees.....	20,304	32,957
Postage and courier .....	57,998	20,780
Amortisation and impairment of contract costs.....	42,989	55,436
Others <sup>(1)</sup> .....	379,484	421,105
<b>Selling and marketing expenses.....</b>	<b>5,463,212</b>	<b>5,608,634</b>

<sup>(1)</sup>"Others" comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

The Group's selling and marketing expenses for the year ended 31 December 2018 were SAR5,463.2 million, a decrease of SAR145.4 million, or 2.6 per cent., compared to SAR5,608.6 million in the year ended 31 December 2017 (Restated). This was principally as a result of the Group's Business Efficiency Program.

#### *General and administration expenses*

The table below shows a breakdown of the Group's general and administration expenses for each of the years ended 31 December 2018 and 31 December 2017.

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017 (Restated)</b>
	<i>(SAR '000)</i>	
Employees' costs .....	2,620,501	2,291,117
Repair and maintenance.....	986,591	855,596
Operating lease costs.....	359,351	279,216
Consultancy, legal and professional fees.....	247,202	221,527
Utilities expenses .....	179,683	133,998
Security and safety expenses .....	140,311	120,091
Others <sup>(1)</sup> .....	713,709	614,484
<b>General and administration expenses.....</b>	<b>5,247,348</b>	<b>4,516,029</b>

<sup>(1)</sup> Others comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

The Group's general and administration expenses for the year ended 31 December 2018 were SAR5,247.3 million, an increase of SAR731.3 million, or 16.2 per cent., compared to SAR4,516.0 million in the year ended 31 December 2017 (Restated). This was principally as a result of the growth in the size of STC Solutions and STC Channels, which was partially offset by cost reductions resulting from the Group's Business Efficiency Program.

#### *Depreciation and amortisation*

The Group's depreciation and amortisation expenses for the year ended 31 December 2018 were SAR7,590.5 million, an increase of SAR145.8 million, or 2 per cent., compared to SAR7,444.7 million in the year ended 31 December 2017 (Restated). This was principally as a result of an increase in property, plant and equipment and intangible assets.

#### *Operating profit*

The Group's operating profit for the year ended 31 December 2018 were SAR12,245.2 million, an increase of SAR1,259.2 million, or 11.5 per cent., compared to SAR10,986.0 million in the year ended 31 December 2017 (Restated). This was principally as a result of the reasons set forth above.



### *Cost of early retirement*

The Group's cost of early retirement for the year ended 31 December 2018 were SAR450.0 million, a decrease of SAR150.0 million, or 25.0 per cent., compared to SAR600.0 million in the year ended 31 December 2017 (Restated). This was principally as a result of a decrease in the number of new participants in the Group's voluntary retirement scheme.

### *Finance income*

The Group's finance income for the year ended 31 December 2018 were SAR554.9 million, a decrease of SAR29.8 million, or 5.1 per cent., compared to SAR584.7 million in the year ended 31 December 2017 (Restated). The Group's finance income depends on the market condition and liquidity situation. During 2018 the rates offered by banks to the Group on its short term investments were low due to availability of ample liquidity in the bank market. Further, a decrease in the Group's short term murabahas deposit and average cash balance also impacted its finance income.

### *Finance costs*

The Group's finance costs for the year ended 31 December 2018 were SAR398.8 million, an increase of SAR45.3 million, or 12.8 per cent., compared to SAR353.5 million in the year ended 31 December 2017 (Restated). This was principally as a result of an increase in the present value calculation impact which was due to (i) the decommissioning cost related capitalized property, plant and equipment, (ii) financial obligations; (iii) provisions for legal claims, and (iv) profit rates on the Group's Islamic borrowings in 2018 compared to 2017, partially offset by a decrease in borrowings.

### *(Loss)/gain from investments in associates and joint ventures, net*

The Group's loss from investments in associates and joint ventures, net, for the year ended 31 December 2018 was SAR10.6 million compared to a gain from investments in associates and joint ventures, net, of SAR305.6 million in the year ended 31 December 2017 (Restated). The change was primarily due to lower share of profit from investments in associates and joint ventures coupled with an impairment loss of SAR168 million in relation to the Group's investment in Binariang in 2018.

### *Zakat and income tax*

The Group's zakat expense for the year ended 31 December 2018 was SAR747.7 million, an increase of SAR27.0 million, or 3.7 per cent., compared to SAR720.7 million in the year ended 31 December 2017 (Restated) due to the overall increase of the zakat base as a result of the increase in one of the factors (net income) used to calculate zakat base.

### *Net profit*

The Group's net profit for the year ended 31 December 2018 were SAR11,080.5 million, an increase of SAR811.8 million, or 7.9 per cent., compared to SAR10,268.7 million in the year ended 31 December 2017 (Restated). This was principally as a result of the reasons set forth above.

## **Results of operations for the year ended 31 December 2017 and 31 December 2016**

The table below sets out the Group's results of operations for the years ended 31 December 2017 and 2016.

	For the year ended 31 December		
	2017	2016	% change
	(SAR '000)		
Revenues	50,746,675	52,673,659	(3.7)
Cost of revenues	(21,255,477)	(23,985,878)	(11.4)
<b>GROSS PROFIT</b>	<b>29,491,198</b>	<b>28,687,781</b>	2.8
<b>OPERATING EXPENSES</b>			
Selling and marketing	(5,726,280)	(6,327,144)	(9.5)
General and administration	(4,471,573)	(4,331,428)	3.2
Depreciation and amortisation	(8,208,360)	(8,078,118)	1.6
<b>TOTAL OPERATING EXPENSES</b>	<b>(18,406,213)</b>	<b>(18,736,690)</b>	(1.8)
<b>OPERATING PROFIT</b>	<b>11,084,985</b>	<b>9,951,091</b>	11.4
<b>OTHER INCOME AND EXPENSES</b>			

Cost of early retirement	(600,000)	(401,703)	49.4
Finance income	584,681	722,732	(19.1)
Finance cost	(354,199)	(379,062)	(6.6)
Other income/(expenses), net	85,075	(62,565)	-
Share of profit from investments in associates and joint ventures, net	308,384	116,246	165.3
Other losses, net	(18,091)	(70,110)	(74.2)
<b>TOTAL OTHER INCOME AND EXPENSES</b>	<b>5,850</b>	<b>(74,462)</b>	<b>-</b>
<b>NET PROFIT BEFORE ZAKAT, TAX AND NON- CONTROLLING INTEREST</b>	<b>11,090,835</b>	<b>9,876,629</b>	<b>12.3</b>
Zakat and income tax	(720,700)	(750,797)	(4.0)
<b>NET PROFIT</b>	<b>10,370,135</b>	<b>9,125,832</b>	<b>13.9</b>
<i>Net profit attributable to:</i>			
Equity holders of the parent	10,133,224	8,898,857	13.9
Non-controlling interests	236,911	226,975	4.4
	<b>10,370,135</b>	<b>9,125,832</b>	<b>13.6</b>

## Revenues

The Group's revenues for the year ended 31 December 2017 were SAR50,746.7 million, a decrease of SAR1,927 million, or 3.7 per cent., compared to SAR52,673.7 million in the year ended 31 December 2016. This was principally as a result of a decrease in revenue from mobile due to a decrease in the number of mobile subscribers as a result of immigrants leaving the country and the regulatory change requiring SIMs to be matched with fingerprints. For the year ended 31 December 2017, 91.1 per cent. of the Group's revenues were from Saudi Arabia compared with 90.9 per cent. for the year ended 31 December 2016.

Revenues in STC Solutions were higher in 2017 compared to 2016 primarily as a result of an increase in digital, IoT, ICT and cloud services in the enterprise business segment.

Revenues in STC Channels were lower in 2017 compared to 2016 primarily as a result of the overall reduction in telecom consumer market of Saudi Arabia, as a result of a significant number of immigrants to Saudi Arabia leaving in 2017 and 2018 and government initiative to implement biometric SIM registration, as discussed above.

Revenues in VIVA Kuwait were higher in 2017 compared to 2016 primarily reflecting enhanced product offerings, bundling of services, improved customer experience and improved network quality.

Revenues in VIVA Bahrain in 2018 were lower in 2017 compared to 2016 primarily as a result of increased competition based on price.

## Cost of revenues

The table below shows a breakdown of the Group's cost of revenues for each of the years ended 31 December 2017 and 31 December 2016.

	For the year ended	
	31 December	
	2017	2016
	(SAR '000)	
Access charges	5,843,390	8,602,847
Government charges	3,973,084	4,476,745
Repair and maintenance	2,637,255	2,723,091
Employees' costs	2,108,163	2,323,726
Cards recharge and printing cost	1,702,615	1,767,886
Cost of devices sold	1,746,755	982,605
Rents of equipment, property and vehicles	750,524	948,171
Others <sup>(1)</sup>	2,493,691	2,160,807
<b>Cost of revenues</b>	<b>21,255,477</b>	<b>23,985,878</b>

<sup>(1)</sup> Others mainly comprise expenses related to telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

The Group's cost of revenues for the year ended 31 December 2017 were SAR21,255.5 million, a decrease of SAR2,730.4 million, or 11.4 per cent., as compared to SAR23,985.9 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in access charges correlated with the decline in revenues from local and international calls, roaming costs, a positive change in regulations for

interconnection charges between KSA operators and the reversal of withholding tax provisions related to interconnection payments to international operators. Government charges also decreased reflecting a decrease in revenue. Further, the Business Efficiency Program also contributed towards the reduction in repair and maintenance expense, employee costs and card recharge and printing costs. The decrease was partially offset by an increase in cost of devices sold due to an increase in bundled packages being offered to customers.

#### *Gross Profit*

The Group's gross profit for the year ended 31 December 2017 were SAR29,491.2 million, an increase of SAR803.4 million, or 2.8 per cent., compared to SAR28,687.8 million in the year ended 31 December 2016. This was principally as a result of the reasons set forth above.

The Group's gross profit margin for the year ended 31 December 2017 was 58.1 per cent. compared to 54.5 per cent. in the year ended 31 December 2016.

#### *Selling and marketing expenses*

The table below shows a breakdown of the Group's selling and marketing expenses for each of the years ended 31 December 2017 and 31 December 2016.

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<i>(SAR '000)</i>	
Employees' costs .....	2,357,039	2,451,962
Doubtful debts allowance .....	870,614	775,050
Advertising and publicity.....	665,728	777,636
Sales commissions .....	634,851	883,606
Call centres' expenses .....	327,281	364,195
Repairs and maintenance .....	197,266	249,209
Sport activities sponsorship cost.....	117,480	126,171
Printing of telephone cards and office supplies.....	79,834	128,712
Consultancy, legal and professional fees.....	32,957	52,410
Postage and courier .....	20,780	79,905
Others <sup>(1)</sup> .....	422,450	438,288
<b>Selling and marketing expenses.....</b>	<b>5,726,280</b>	<b>6,327,144</b>

<sup>(1)</sup> Others comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

The Group's selling and marketing expenses for the year ended 31 December 2017 were SAR5,726.3 million, a decrease of SAR600.8 million, or 9.5 per cent., as compared to SAR6,327.1 million in the year ended 31 December 2016. The decrease was primarily due to the Group's Business Efficiency Program.

#### *General and administration expenses*

The table below shows a breakdown of the Group's general and administration expenses for each of the years ended 31 December 2017 and 31 December 2016.

	<b>For the year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<i>(SAR '000)</i>	
Employees' costs .....	2,237,733	2,061,513
Repair and maintenance.....	857,232	953,071
Operating lease costs.....	279,488	343,960
Consultancy, legal and professional fees.....	223,510	307,538
Utilities expenses .....	133,998	111,893
Security and safety expenses .....	120,091	93,022
Others <sup>(1)</sup> .....	619,521	460,431
<b>General and administration expenses.....</b>	<b>4,471,573</b>	<b>4,331,428</b>

<sup>(1)</sup> Others comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

The Group's general and administration expenses for the year ended 31 December 2017 were SAR4,471.6 million, a SAR140.2 million, or 3.2 per cent. increase, as compared to SAR4,331.4 million in the year ended 31 December 2016. The increase was primarily due to an increase in employees' costs as a result of the growth of STC Solutions and STC Channels, partially offset by a decrease in costs as a result of the Group's Business Efficiency Program.

#### *Depreciation and amortisation*

The Group's depreciation and amortisation for the year ended 31 December 2017 was SAR8,208.4 million, a SAR130.3 million, or 1.6 per cent. increase, as compared to SAR8,078.1 million in the year ended 31 December 2016. The increase was primarily due to an increase in property, plant and equipment.

#### *Operating profit*

The Group's operating profit for the year ended 31 December 2017 was SAR11,085.0 million, an increase of SAR1,133.9 million, or 11.4 per cent., compared to SAR9,951.1 million in the year ended 31 December 2016. This was principally as a result of the reasons set forth above.

#### *Cost of early retirement*

The Group's cost of early retirement for the year ended 31 December 2017 were SAR600.0 million, a SAR198.3 million, or 49.4 per cent. increase, as compared to SAR401.7 million in the year ended 31 December 2016. The increase was primarily due to an increase in the number of new participants in the Group's voluntary retirement scheme.

#### *Finance income*

The Group's finance income for the year ended 31 December 2017 was SAR584.7 million, a decrease of SAR138.0 million, or 19.1 per cent., compared to SAR722.7 million in the year ended 31 December 2016. The decline principally reflected low rates on the Group's deposits in 2017 as compared to 2016. In 2016, a decrease in liquidity in 2016 due to the fall in oil prices increased rates for deposits with banks, which then declined in 2017. In addition, decreases in the Group's short term murabahas deposits and in the Group's average cash balances from 2016 to 2017 also negatively impacted its finance income.

#### *Finance cost*

The Group's finance cost for the year ended 31 December 2017 was SAR354.2 million, a decrease of SAR24.9 million, or 6.6 per cent., as compared to SAR379.1 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in the Group's outstanding borrowings.

#### *Share of profit from investments in associates and joint ventures, net*

The Group's share of profit from investments in associates and joint ventures, net, for the year ended 31 December 2017 was SAR308.4 million, an increase of SAR192.2 million, or 165.3 per cent., compared to SAR116.2 million in the year ended 31 December 2016. This was primarily due to the improved performance of joint ventures.

#### *Zakat and income tax*

The Group's Zakat and income tax for the year ended 31 December 2017 was SAR720.7 million, a decrease of SAR30.1 million, or 4 per cent., compared to SAR750.8 million in the year ended 31 December 2016. The decrease was primarily due to changes to its zakat base used to calculate zakat as a result of changes to the ownership percentages of certain subsidiaries which affected the type, amount and timing of zakat applied to those subsidiaries profit.

#### *Net profit*

The Group's net profit for the year ended 31 December 2017 were SAR10,370.1 million, an increase of SAR1,244.3 million, or 13.6 per cent., compared to SAR9,125.8 million in the year ended 31 December 2016. This was principally as a result of the reasons set forth above.

## LIQUIDITY AND CAPITAL RESOURCES

### Overview

The Group's principal source of funding for each of the years under review has been cash flow from operations and borrowings.

### Cash flow

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for the three months period ended 31 March 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016.

	For the three months period ended 31 March		For the year ended 31 December			
	2019	2018	2017			
			2018	(Restated)	2017	2016
			(SAR '000)			
Net cash (used in) from operating activities .....	(2,824,402)	3,023,540	19,014,227	15,916,051	16,700,155	18,375,096
Net cash from (used in) investing activities.....	1,189,390	(1,560,086)	(4,908,839)	(7,005,637)	(7,789,741)	(7,727,704)
Net cash used in financing activities.....	(336,724)	(357,777)	(8,516,962)	(9,980,182)	(9,980,182)	(11,510,566)
Cash and cash equivalents at period/year end.....	6,180,154	3,675,594	8,153,865	2,567,044	2,567,044	3,631,202

#### *Net cash (used in)/from operating activities*

The Group's net cash used in operating activities for the three months period ended 31 March 2019 was SAR 2,824.4 million compared to net cash from operating activities of SAR3,023.5 million in the three months period ended 31 March 2018. The negative cash flow movement in operating activities was the result of an increase in working capital requirements, due to: (i) an increase in the net payment of cumulative government charges of SAR 2.6 billion, (ii) an increase in the payment of trade payables by SAR 2.5 billion and (iii) an increase in receivables by SAR 1.0 billion during the period under review.

The Group's net cash from operating activities for the year ended 31 December 2018 was SAR19,014.2 million, an increase of SAR3,098.1 million, or 19.5 per cent., compared to SAR15,916.1 million in the year ended 31 December 2017 (Restated). This was principally as a result of changes in working capital as the Government repaid a significant amount of receivables from prior periods in late 2018.

The Group's net cash from operating activities for the year ended 31 December 2017 was SAR16,700.2 million, a decrease of SAR1,674.9 million, or 9.1 per cent. compared to SAR18,375.1 million in the year ended 31 December 2016. This was principally as a result of an increase in receivables owed by the Government in 2017.

#### *Net cash from (used in) investing activities*

Net cash from investing activities for the three months period ended 31 March 2019 was SAR1,189.4 million, which consisted primarily of proceeds from finance income, which was partially offset by investments of SAR171.8 million in property, plant and equipment.

Net cash used in investing activities in 2018 was SAR 4,908.8 million, which consisted primarily of investments of SAR 8,406.9 million in property, plant and equipment, partially offset by proceeds and payments related to financial assets, net of SAR 4,129.2 million.

Net cash used in investing activities in 2017 (Restated) was SAR 7,005.6 million, which principally consisted of investments of SAR 6,576.9 million in property, plant and equipment and SAR 375.1 million in relation to the Group's purchase of minority interest in an associate.

Net cash used in investing activities in 2016 was SAR 7,727.7 million, which consisted primarily of investments of SAR 7,607.4 million in property, plant and equipment.

### Net cash used in financing activities

Net cash used in financing activities for the three months period ended 31 March 2019 was SAR336.7 million. In 2019, the Group repaid lease liabilities of SAR175.7 million and repaid SAR131.7 million in borrowings.

Net cash used in financing activities in 2018 was SAR 8,517.0 million. In 2018, the Group paid dividends of SAR 8,054.7 million and repaid SAR 635.7 million in borrowings.

Net cash used in financing activities in 2017 (Restated) was SAR 9,980.2 million. In 2017, the Group paid dividends of SAR 8,019.2 million, repaid SAR 3,298.6 million in borrowings and received SAR 1,924.5 million in proceeds from new borrowings by STC Malaysia, VIVA Bahrain and VIVA Kuwait.

Net cash used in financing activities in 2016 was SAR 11,510.6 million. In 2016, the Group paid dividends of SAR 8,031.5 million and repaid SAR 1,711.6 million in borrowings.

### Borrowings

As at 31 March 2019, the Group's borrowings were SAR 4,219.8 million. The table below shows a breakdown of the Group's borrowings as at 31 December 2018.

Nature of borrowing	Date of borrowing	Date of final instalment	Currency	Profit rate	Current portion	Outstanding balance
					31 December 2018	Non-current portion
						31 December 2018
						(SAR '000)
Sukuk <sup>(1)</sup> .....	9 Jan 2014	9 Jun 2024	SAR	3 months SAIBOR + 0.70%	-	2,000,000
Murabaha <sup>(2)</sup> .....	1 May 2009	1 Mar 2021	BHD	1 month BIBOR + 0.25%	26,891	53,781
Murabaha <sup>(2)</sup> .....	1 Jul 2017	1 May 2022	BHD	1 month BIBOR + 1.60%	58,280	521,281
Murabaha <sup>(2)</sup> .....	31 Dec 2018	30 Nov 2025	BHD	2.10%	2,863	21,786
Murabaha.....	21 Dec 2018	22 Jan 2019	SAR	1 month LIBOR + 0.55%	232,499	-
Murabaha <sup>(3)</sup> .....	Dec 2017	Dec 2022	MYR	6 months KLIBOR + 0.65%	-	1,368,631
<b>Total</b> .....					<b>320,533</b>	<b>3,965,479</b>

(1) The Company has issued Sukuk Program up to a maximum of SR 5 billion. Sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of ten years.

(2) VIVA Bahrain has murabaha facilities secured by a land and a building. A substantial portion of these Murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are: 1) restriction of financial indebtedness 2) limitation on disposal of assets; and 3) limitations on granting of loans and guarantees. Additional undertakings under these loans relate to certain specific financial ratios and satisfaction of financial position tests. The carrying values of the Murabaha facilities are not materially different from their fair values as the impact of discounting, credit risk and other market risk is not considered significant by management.

(3) This facility is secured by a letter of guarantee provided by the Company.

### Maturity profile of the Group's financing

Of the Group's SAR 4,286 million borrowings outstanding as at 31 December 2018, 7.5 per cent. was scheduled to mature within 12 months. The table below summarises the maturity profile of the Group's financing at 31 December 2018.

	As at 31 December 2018	
	(SAR million)	(per cent.)
Repayable within 12 months.....	320.5	7.5
Repayable between 1 and 5 years.....	1,943.7	45.3
Repayable after 5 years.....	2,021.8	47.2
<b>Total</b> .....	<b>4,286.0</b>	<b>100.0</b>

### ***Receivables/Payables from the Government***

As at 31 March 2019, the Group's trade and other receivables were SAR 15,559.9 million (31 December 2018: SAR 14,422.2 million; 31 December 2017 (Restated): SAR 20,368.5 million) and as at 31 March 2019, trade and other payables were SAR 11,596.1 million (31 December 2018: SAR 16,671.0 million; 31 December 2017 (Restated): SAR 13,156.0 million). A substantial portion of the Group's trade receivables relate to trade payables from Government entities, which have typically been settled in full, but have been subject to extended payment delays of one year or longer. As at 31 March 2019, trade and other receivables from Government entities totalled SAR 12,760 million (31 December 2018: SAR 12,343 million; 31 December 2017 (Restated): SAR 18,920 million), or 82.0 per cent. of total trade and other receivables, and as at 31 March 2019, trade payable to Government entities totalled SAR 1,039 million (31 December 2018: SAR 3,706 million; 31 December 2017 (Restated): SAR 6,872 million). The substantial reduction in trade receivables and trade payable in 2018 reflected Government's agreement with the Group to pay all of its outstanding receivables as at 31 December 2016 amounting to SAR 12,532 million by offsetting the Group's trade payables balance as at 31 December 2016 and the payment of the balance in cash. As part of that arrangement, the Group subscribed to an amount of SAR 3.9 billion in sukuk that was issued by the Ministry of Finance during the first quarter of 2019.

### **Capital expenditure**

In 2018, the Group's Capex was SAR 8,283.7 million compared to SAR 6,563.5 million in 2017 (Restated). The Group's Capex principally relates to the expansion of the coverage, capacity and network quality in the Group's mobile network and the deployment of new technology in Saudi Arabia. In particular, the Group has significant capital expenditure plans in 2019, 2020 and 2021 relating to the build out of its fibre to the home network and the rollout of 5G services in Saudi Arabia, Kuwait and Bahrain. Reflecting these plans, the Group expects to increase capital expenditure for 2019, 2020 and 2021, ultimately reaching up to a 20 per cent. increase by 2021 compared to 2018. Subsequently, the Group expects capital expenditure to return to historic levels. This increase will be driven by (i) the continued build out of the Group's FTTH network in Saudi Arabia where the Group has committed to roll out approximately 1.2 million lines and since November 2017 has rolled out approximately 700,000 as at 31 March 2019; (ii) enhancing average mobile throughput speeds to reach around a target of 55Mbps over the next four years and to be at the forefront of network buildout of 5G services in Saudi Arabia, Kuwait and Bahrain; and (iii) introducing public WiFi by implementing more than 36,000 access points.

### ***Capital Commitments***

The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs.

During the year 2018, the Company signed an agreement with the Ministry of Finance, the MCIT and the CITC for a comprehensive and final settlement of the outstanding dispute related to commercial services provisioning fees provided by the company and the licences fees granted to the company for the period from 1 January 2008 to 31 December 2017. In return, the Company is committed to provide capital investments in its infrastructure which is in line with the Kingdom's vision to develop the telecommunications infrastructure within a period of three years from 1 January 2018.

One of the Group's subsidiaries has an agreement to invest USD 300 million (equivalent to SAR 1,125 billion) in a venture capital fund with an aim to make capital investments in global and regional technology companies across various stages and subsectors.

### **Contingent Liabilities**

The Group has outstanding letters of guarantee amounting to SAR 6,597 million as at 31 December 2018 (31 December 2017: SAR 3,712 million) and outstanding letters of credit as at 31 December 2018 amounting to SAR 655 million (31 December 2017: SAR 420 million).

The Group has submitted an objection to the General Secretariat of Tax Committees with respect to a Saudi Arabian withholding tax assessment on its international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SAR 2.9 billion. The Group believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside

Saudi Arabia. Based on the opinions of tax specialists, the management believes that the Group has established sufficient provisions in place to cover any potential losses resulting from this assessment.

### **Off-balance sheet arrangements**

The Group did not have any material off-balance sheet arrangements as at 31 March 2019.

### ***Retirement benefit schemes***

The Group offers various post-employment schemes, including both defined contribution and defined benefit plans, and post-employment medical. Additionally, end of service benefits are mandatory for all Saudi Arabia based employees, which is where a majority of the Group's employees are based. This is an unfunded benefit. However, as at 31 March 2019, all funded plans are funded in accordance with regulatory requirements.

### ***Dividend***

During the year of 2018, the Company distributed cash dividends to its shareholders for the fourth quarter of 2017 and for the first, second and third quarters of 2018 in an amount of SAR 2,000 million for each quarter representing SAR 1 per share which is in line with the company's previous dividends policy for the three-year period starting from the fourth quarter of 2015, approved by the Company's Board of Directors on 10 November 2015 and approved by the General Assembly on 4 April 2016. The total dividends distributed during 2018 were SAR 4 per share.

On 16 December 2018 the Board of Directors approved the Company's dividend policy for the next three years starting from the fourth quarter of 2018, which was approved by the General Assembly on 24 April 2019. The objective of the dividend policy is to maintain a minimum level of dividend of SAR 1 per share on a quarterly basis. The Company will consider and pay additional dividends subject to Board approval after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. Additional dividends are likely to vary on a quarterly basis depending on the company's performance. The dividends policy will remain subject to:

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

In line with the above policy, the Company's Board of Directors recommended a distribution of cash dividends to the shareholders of the Company for the fourth quarter of 2018, amounting to SAR 2,000 million, at a rate of SAR 1 per share. Furthermore, after evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended the distribution of an amount of SAR 4,000 million at a rate of SAR 2 per share as an additional one-time special dividend for year of 2018. These dividends are expected to be paid in the second quarter of 2019.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### ***Profit rate risk***

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

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

If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SAR 4.5 million. This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.



The sensitivity analyses below have been determined based on the exposure to profit rates for non-derivative instruments at the end of the reporting period. These show the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the reporting period 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.

#### ***Foreign currency risk***

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

#### ***Credit risk***

The Group has approved guidelines from its Board of Directors that allows it to only deal with creditworthy counter parties and limits counter party exposure. The Board's guidelines allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limits the exposure to a single counter party by stipulation that the exposure should not exceed 30 per cent. of the counterparty's shareholders' equity. Further, the Group exposure to an investment/issue should not exceed 20 per cent. of the total outstanding investment issued by that counter party. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk with the Government, 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. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables.

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

#### ***Liquidity risk***

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 on a monthly basis for the Group and stress tested using various assumptions relating to capital expenditure, dividends, trade receivable collections and repayment of loans without refinancing.

### **CRITICAL ACCOUNTING POLICIES**

The Group Consolidated Financial Statements have been prepared in accordance with IFRS-KSA. For a discussion of the significant accounting policies applied by the Group generally, see note 4 to the 2018 Audited Financial Statements.

## RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over it in making financial and operating decisions, or *vice versa*, or where the Group and the party are subject to common control or significant influence.

Related parties represent associated companies, shareholders, directors and key management personnel of the Group and entities jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. The terms and conditions of the related party transactions were made on an arm's length basis.

Transactions with related parties included in the consolidated financial statements are as follows:

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

	For the year ended 31 December			
	2017			
	2018	(Restated)	2017	2016
<b>Telecommunication services provided</b>	<i>SAR ('000)</i>			
Associates.....	492,013	457,382	457,382	267,802
Joint Ventures .....	10,995	17,347	17,347	15,344
	<b>503,008</b>	<b>474,729</b>	<b>474,729</b>	<b>283,146</b>

	For the year ended 31 December			
	2017			
	2018	(Restated)	2017	2016
<b>Telecommunication services received</b>	<i>SAR ('000)</i>			
Associates.....	17,188	6,067	6,067	16,042
Joint Ventures .....	-	18,927	18,927	66,968
	<b>17,188</b>	<b>24,994</b>	<b>24,994</b>	<b>83,010</b>

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			
	For the year ended 31 December				For the year ended 31 December			
	2017				2017			
	2018	(Restated)	2017	2016	2018	(Restated)	2017	2016
	<i>SAR ('000)</i>				<i>SAR ('000)</i>			
Associates.....	338,652	325,069	325,069	158,902	23,184	29,283	29,283	32,702
Joint ventures .....	5,444	19,100	19,100	6,458	112,801	89,415	89,415	81,911
	<b>344,096</b>	<b>344,169</b>	<b>344,169</b>	<b>165,360</b>	<b>135,985</b>	<b>118,698</b>	<b>118,698</b>	<b>114,613</b>

Revenues related to transactions with governmental parties for the year ended 31 December 2018 amounted to SAR 5,938 million (31 December 2017 (Restated): SAR 5,355 million) and expenses related to transactions with governmental parties for the year ended 31 December 2018 (including government charges) amounted to SAR 4,139 million (31 December 2017 (Restated): SAR 3,662 million). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Receivables from the Government" for more information on trade receivables and trade payables with government entities.

***Loans to Related Parties***

	<b>For the year ended</b>			
	<b>2018</b>	<b>2017 (Restated)</b>	<b>2017</b>	<b>2016</b>
	<i>SAR ('000)</i>			
Loans to key management personnel.....	<b>1,507</b>	<b>2,093</b>	<b>2,093</b>	<b>9,903</b>

	<b>2018</b>	<b>2017 (Restated)</b>
	<i>SAR ('000)</i>	<i>SAR ('000)</i>
Short-term benefits and remunerations.....	107,049	103,948
Provision for leave and end of service benefits.....	36,550	33,000

## DESCRIPTION OF THE GROUP

### OVERVIEW

The Group is the leading telecommunications operator in Saudi Arabia with a 73 per cent. share of the aggregate revenue of telecommunications providers in Saudi Arabia in 2018. Within Saudi Arabia, the Group provides a wide variety of telecommunications services, including mobile, fixed line and broadband access products, wholesale, data centre hosting, solutions for office and home environments, cybersecurity and other ICT and related solutions. The Group had 24.3 million mobile, fixed line and broadband subscribers in total as at 31 December 2018 in Saudi Arabia. The Group also provides mobile telecommunications services in Bahrain and Kuwait through subsidiaries.

The Government is STC's major shareholder and at 31 March 2019 directly owned 70.0 per cent. of STC's share capital through the Public Investment Fund and indirectly owned 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. The remaining 16.2 per cent. of STC's share capital at 31 March 2019 was publicly held and listed on the Tadawul. As a provider of key communications infrastructure in Saudi Arabia, STC is a flagship national company and an important strategic investment of the Government. Six of the nine members of STC's Board of Directors are nominated by, and represent, the three key Government shareholders.

As at 31 December 2018, STC was the second largest listed company in the Kingdom in terms of market capitalisation. The Group's STC brand in Saudi Arabia was classified as the highest value telecom brand in the Middle East for 2018 and it was also the only Saudi Arabian brand within the world's top 500 brands, in each case according to Brand Finance 2018. The Group had consolidated revenues of SAR 52 billion and net profit (attributable to the equity holders) of SAR 10.8 billion for the year ended 31 December 2018. The Group's total assets were SAR 111.9 billion as at 31 December 2018 and the Group's market capitalisation was SAR 216 billion as at 31 March 2019.

STC's commercial registration number is 1010150269. Its registered office is King Abdulaziz Complex, Imam bin Saudi Street, Al Murasalat Area, Riyadh, Kingdom of Saudi Arabia and its telephone number is +966 11 452 7000.

### HISTORY

STC 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). This decree authorised the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone to STC, which was then wholly owned by the Government.

In 2002, the Government sold 30 per cent. of its shareholding in STC, part of which was sold by way of an initial public offering and a listing on the Tadawul.

The Group's international expansion commenced in 2007 when the Group acquired 26 per cent. of Kuwait Telecom Company, ("**VIVA Kuwait**") which had been awarded the third Kuwaiti mobile licence in the same year. In 2016, the Group increased its stake to 51.8 per cent. and since has fully consolidated VIVA Kuwait as a subsidiary of the Group.

In 2009, the Group established VIVA Bahrain ("**VIVA Bahrain**") which acquired the third Bahraini mobile licence in a competitive auction and commenced operations in March 2010. In June 2009, the Group also part founded Intigral Holding Company (BSCC) ("**Intigral**"), previously known as Gulf Digital Media Holding Company, which provides content and digital media services in Gulf countries and in April 2017, the Group purchased the remaining 29 per cent. of Intigral.

In January 2014, the Group acquired 100 per cent. of STC Specialised, formerly known as Public Telecommunications Company "Bravo" ("**STC Specialized**"), which operates in the electrical and communication networks industries and provides wholesale and retail trade of fixed telecommunications equipment, electrical appliances and installation and maintenance of fixed and mobile telecommunications and information technology devices.

STC Channels ("**STC Channels**") was established in Saudi Arabia in January 2008 and operates the Group's retail outlets in Saudi Arabia providing wholesale and retail trade of recharge card services,

telecommunication equipment and devices, computer services, sale and re-sale of the Group's fixed and mobile telecommunication services, and commercial centres' maintenance and operation. It operates primarily in the Saudi Market with subsidiary companies in Bahrain and Oman which are working in the same field. The Group acquired 60 per cent. of STC Channels in December 2011. In 2017 the Group acquired the remaining 40 per cent. of STC Channels making it a wholly-owned subsidiary of the Company.

Arabian Internet and Communication Services Company Limited ("**STC Solutions**") was established in Saudi Arabia in April 2002 and is engaged in providing internet services, operation of communication projects and transmission and processing of information in the Saudi market. The Group acquired 100 per cent. of the share capital of STC Solutions in December 2007.

In 2017, the Group established Saudi Digital Payments Company ("**STC Pay**"). In 2017 it also established STC Ventures Fund ("**STV**") to invest through equity investments in emerging markets and SME's and focused on the creation and development of leading information technology, telecommunications, and digital media and entertainment companies.

## **STRATEGY**

The Group's vision is to be a world-class digital leader in telecommunications providing innovative services and platforms to its customers and enabling the digital transformation of the Middle East and North Africa ("**MENA**") region. The Group's four-point DARE strategy to achieve its vision, which applies for the period 2018 through 2022, is to:

- **Digitise STC**: The Group plans to digitally transform its operational capabilities. Part of this drive is to digitise STC's internal processes to improve customer experience, enhance performance and drive efficiencies. To demonstrate its digital capabilities the Group ran a "Digital Day" in 2018 in which all of its physical locations were closed and all sales and customer requirements were serviced digitally. Further, the Group is seeking to leverage the customer data that it holds to enhance the customer experience as well as anticipate customer needs for both retail and enterprise customers.
- **Accelerate performance of core assets**: The Group plans to extract more value from its core assets and traditional segments. As the leading telecommunications company in Saudi Arabia, the Group already has a strong existing network, which it can leverage as it seeks to lead the MENA telecommunications market in digital services. By continuing to grow its existing customer base, the Group will gain even more market knowledge on its customers which will allow it to increase its service offering as it seeks to grow its business-to-government ("**BTG**"), business-to-business ("**BTB**") and small to medium enterprise ("**SME**") segments. The Group is also looking at ways to extract value from its underutilised assets, including its telecommunication assets (e.g., international cables and mobile towers) and real estate assets.
- **Reinvent customer experience to achieve world-class standards**: The Group aims to redefine its customer experience through personalisation of every customer interaction so that the Group can lead in network quality of experience. The Group believes that offering best in class customer service reduces churn, which allows the Group to expand its service offering to its existing customers. The Group aims to achieve this by simplifying customer interactions through the use of new technology and personalising the customer relationship through utilising the Group's access to customer data.
- **Expand aggressively scale and scope**: The Group intends to pursue concrete opportunities for growth in three key areas: adjacent services and applications, platforms and connectivity and infrastructure. The growth in these three areas is expected to come through a combination of internal development and acquisitions of new services in both Saudi Arabia and MENA as well as the acquisition of other telecom operators in MENA. Growth opportunities in adjacent services and applications include OTT media, digital financial services and IT services, such as STC Pay and the Group's cybersecurity offering. The Group aims to become the provider of choice for strategic platforms and services, such as cloud services and data analytics. Lastly, the Group intends to build out its connectivity and infrastructure by building leading pan-Arab connectivity, becoming the reference tower company in the region and being the premier regional hub for global carrier services. For example, the Group plans to launch a new wholly owned subsidiary

dedicated to its wireless towers called Communications Towers Co. Ltd. ("CTC"). Although the full utilisation of this subsidiary is still currently in the planning phase, it is expected CTC will eventually become an independent specialised telecom infrastructure company. In addition, the Group will continue to develop and expand its telecommunications network in Saudi Arabia, Kuwait and Bahrain. This will include the build out of the Group's FTTH network in Saudi Arabia where the Group has committed to roll out approximately 1.2 million lines and since November 2017 has rolled out approximately 700,000 as at 31 March 2019. The Group also intends to be at the forefront of network buildout of 5G services in Saudi Arabia, Kuwait and Bahrain although the timing and extent of the network deployment is still under review.

## **STRENGTHS**

The Group believes that it has a number of key strengths, including:

### **Leading position in Saudi Arabia**

STC was the former incumbent operator in Saudi Arabia and, despite liberalisation, it retains clear leading positions in the fixed, mobile and broadband services markets. For example, at 31 December 2018, STC had 73 per cent. of the estimated market share by aggregate revenue of telecommunications providers in Saudi Arabia.

The Group is also the only integrated telecommunications operator in Saudi Arabia and it retains a high market share for fixed line voice services. The Group also has the most extensive fibre optic network in Saudi Arabia and continues to invest significantly in next generation network ("NGN") infrastructure.

### **Favourable domestic macroeconomic environment**

The Group is a significant contributor to the Saudi Arabian economy in terms of its position as the leading telecommunications company in the country. According to the IMF World Economic Outlook database for October 2018, real GDP growth in Saudi Arabia was 2.2 per cent. in 2018 and GDP is expected to grow by 2.4 per cent. in 2019. According to the General Authority for Statistics in Saudi Arabia, Saudi Arabia's population was over 33 million, with 31.5 per cent. of the population under the age of 20. The Group believes that population increases and economic growth will lead to an increase in demand for telecommunications services by residential and business users. Management believes that the Group's position as the Kingdom's leading telecommunications provider positions it to capitalise on this growth in demand.

### **Strong Government links**

As the largest telecommunications operator in the Kingdom, management believes that the Group is considered by the Government to be a flagship national company. The Group's role is also instrumental in the rollout of the telecommunications technologies necessary for further industrialisation and technological development of Saudi Arabia's economy. The Group also plays a role in less privileged areas through its contributions to the universal service fund. See "*—Regulation*".

The Government continues to be a supportive shareholder and this support has been a significant contributing factor in the successful implementation of the Group's strategy. The Government directly owns 70 per cent of the Group's share capital through the Public Investment Fund and indirectly owns 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. While the Group operates independently and exercises control over its operations, the Government nominates six members out of STC's nine-member Board and oversees the Group's decision making, particularly in relation to its international investments. The Group is also a significant employer in Saudi Arabia, with a workforce of approximately 19,000 people, and is a significant contributor to Saudi Arabia's non-oil GDP.

Further, in the Vision 2030 plan the Government indicated that it will partner with the private sector to develop telecommunications and information technology infrastructure, especially high-speed broadband, expanding its coverage and capacity within and around cities and improving its quality, with a specific goal to exceed 90 per cent. housing coverage in densely populated cities and 66 per cent. in other urban zones. The Group has committed to connect 1.2 million homes as part of this initiative.

## **Strong financial fundamentals**

In each of the years ending 31 December 2016, 2017 (Restated) and 2018, the Group generated net profit attributable to equity holders of SAR 8.9 billion, SAR 10.0 billion and SAR 10.8 billion, respectively. In addition, the Group has strong cash flow generation and low levels of debt. Its net cash from operating activities in each of 2016, 2017 (Restated) and 2018 was SAR 18.4 billion, SAR 15.9 billion and SAR 19.0 billion, respectively, and its outstanding borrowings as at 31 December 2018 were SAR 4.3 billion, which was 6.4 per cent. of its equity and 9.5 per cent. of its total liabilities at that date. As at the same date, the Group's cash and cash equivalents were SAR 8.2 billion. The Group's Free Cash Flow was SAR 10,803.8 million, SAR 9,352.6 million and SAR 10,730.6 million in 2016, 2017 (Restated) and 2018, respectively. Also, its Adjusted EBITDA was SAR 18,029.2 million, SAR 18,430.7 million and SAR 19,835.8 million in 2016, 2017 (Restated) and 2018, respectively.

## **Higher capital expenditures investment than competitors**

The Group has invested significant amounts in capital expenditures to maintain and improve its network. In 2016, 2017 (Restated) and 2018 the Group's Capex were SAR 7,571.3 million, SAR 6,563.5 million and SAR 8,283.7 million. The Group believes that this is significantly more than its competitors have spent over a similar period. Management believes that these capital expenditures help position the Group to deliver a strong product offering to its customers.

## **RELATIONSHIP WITH THE GOVERNMENT**

### **Government as shareholder**

As at the date of this Base Prospectus, the Government directly owns 70.0 per cent. of STC's shares through the Public Investment Fund and has the ability to nominate six out of the nine members of the Board. The Government indirectly owns 7.0 per cent and 6.8 per cent. through two Government-related entities: the General Organisation for Social Insurance and the Public Pension Agency, respectively. See further "*—Strengths—Strong Government links*" above.

### **Government as customer**

The Group provides a range of telecommunications services to the Government and Government-related entities, including voice, data transfer and other services. The Group's revenues from these entities amounted to SAR 5,938 million in 2018, equal to 11.4 per cent. of its total revenue in that year. As at 31 December 2018, the Group had SAR 12,343 million in accounts receivable from Government related entities.

### **Government as regulator**

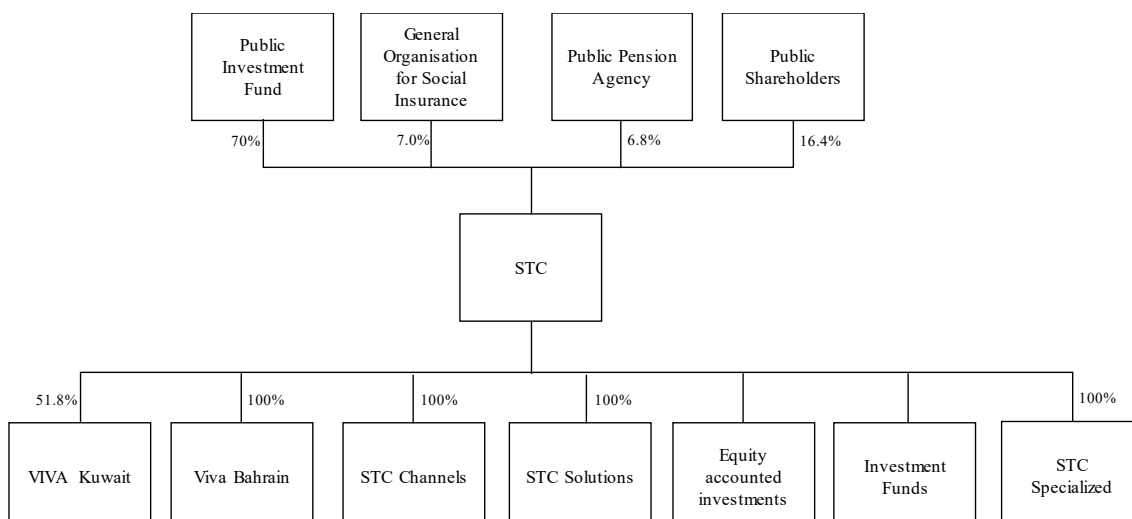
The Government, through CITC and the Ministry of Communications and Information Technology (the **MCIT**), also acts as the Group's regulator in Saudi Arabia, see "*Saudi Arabian business operations—Regulation*" below.

### **No Government guarantee**

The Certificates issued under the Programme are not guaranteed by the Government and there can be no assurance that the Government would provide support to the Group should any such support be required in the future.

## **GROUP STRUCTURE**

The chart below sets out a simplified Group structure chart at 31 March 2019:



The bulk of the Group's revenues and profits are generated KSA operations which provides ICT and telecommunication services in Saudi Arabia. STC Channels, the Group's distribution subsidiary had over 46,000 traditional trade and mobile shops in Saudi Arabia, Bahrain and Oman and focus on sales and marketing of the Group's products to retail and SME customers.

When the Group holds less than a controlling stake, the Group's investments are equity accounted, which means that the Group's share of their profits or losses is recorded in its statement of comprehensive income as "Losses/Gains from investments accounted for under the equity method". The Group's equity accounted investees do not include certain domestic companies such as STC Channels or STC Solutions, both of which are fully consolidated.

The Group also has investments in STV and other investment funds which are focused on investing in the telecommunications and digital technology industry.

## SAUDI ARABIAN BUSINESS OPERATIONS

### Business segments

The Group divides its business operations in Saudi Arabia across three different business units which are focused on the Group's principal customer segment, consumer business unit ("**CBU**"), the enterprise business unit ("**EBU**"), and the wholesale business unit ("**WBU**"). Within the Group, the Group has certain shared services that work across some or all of the business units such as IT, finance, legal and regulatory. Further, the Group also has certain businesses as standalone subsidiaries which work across the business units. This allows the subsidiaries to focus on their service offering while allowing the Group to take a more holistic approach across its telecommunications business. For example, STC Channels acts as the Group's distribution subsidiary delivering services to both the CBU and EBU customers (SMEs only). STC Solutions acts as the Group's ICT subsidiary delivering services to business and Government customers including a combination of network, hardware and software solutions together with support services to help customers achieve specific business objectives.

### **CBU**

The CBU is the Group's retail facing business unit. It focuses on delivering telecommunication products and services to all retail consumers.

### **EBU**

The EBU is focused on delivering telecommunication products and services to businesses. This includes government, large corporates and SMEs. The EBU includes business development, sales and marketing teams.



## **WBU**

The WBU is focussed on providing wholesale telecommunications services to other telecommunications operators.

### **Products and services**

#### ***Overview***

The Group is the leading telecommunications services provider in Saudi Arabia, serving both the corporate and consumer markets primarily through the delivery of mobile, fixed line (landline), internet/broadband, ICT and data services. The Group offers end-to-end telecommunications solutions for its residential, business and government customers in Saudi Arabia on next generation network, all IP fixed and 3G, 3.5G and 4G wireless networks, MPLS-based regional data solutions and global system for mobile communications ("GSM") mobile and broadband services.

#### ***Mobile***

The Group's mobile revenues in Saudi Arabia are derived principally from service package rentals, data plans, voice services (including local, national, international and roaming), sale of devices and mobile value-added services ("VAS") (being content rather than voice-based services such as mobile broadband, short message service ("SMS"), multimedia messaging service ("MMS"), general packet radio service ("GPRS"), premium SMS and other data-related services that are provided over the mobile network).

The Group offers a wide range of packages for both its postpaid and prepaid customers, depending on their needs. Most packages include voice minutes, SMS, MMS and data thresholds. The Group's main postpaid mobile plans are as follows:

- Bundled packages, which are targeted to smart phone users from both the consumer and enterprise segments and include VAS services. Handsets are only provided for certain segments of the market;
- Flexible packages, which allow customers to shape their packages according to their requirements; and
- Data only packages, which complement customers' bundled packages by offering a range of data packages for their devices. The Group offers usage-based, pay as you go, time-based and unlimited data packages.

The Group also provides prepaid packages, ranging from starter packs to customised packages according to the customer segment.

#### ***Fixed line (landline)***

The Group's fixed line services encompass the provision of national and international calling services using international direct dial, carrier pre-selection or prepaid calling cards. The Group offers a range of VAS services such as conference calls, voicemail and caller identification in addition to bundled packages of inclusive on-net minutes for a fixed monthly fee.

The Group's fixed line revenues in Saudi Arabia have decreased in recent years, and the Group expects them to decrease further before stabilising. This trend is principally due to declining tariffs, lower fixed line usage as a result of the shift to mobile and VoIP competition, and a trend for customers to move to bundled packages.

#### ***Internet/broadband***

The Group was the first operator to introduce internet services in Saudi Arabia (in 2000) and was the first mobile operator in the MENA region to adopt both 4G technology (in 2010) and the more advanced 4G LTE technology (in 2011). The Group also expects to be the first in Saudi Arabia to introduce 5G services during 2019. The Group provides internet/broadband services through ADSL, leased lines, 3G, 3.5G and 4G/LTE services. The Group believes that it is well- positioned in both the fixed and mobile broadband markets through its leading technology platforms and extensive geographic coverage.

The Group believes that the fixed broadband market in Saudi Arabia is under-penetrated and has begun to take advantage of this through deployment of NGN infrastructure using GPON technology (which is an enhanced standard for data transmission over fibre optic networks) and its FTTH network to provide higher broadband speeds and high definition video. GPON technology also enables the Group to offer a wider range of adjacent services such as internet protocol television ("**IPTV**") through which digital television services can be delivered through the same network infrastructure as that used for internet access. In addition to increasing penetration rates, the Group also expects services such as IPTV to increase revenue generated per subscriber and reduce churn in its fixed line and internet subscriber base.

Further, in 2017, the Group announced an agreement with the Ministry of Communications and Information Technology (the "**MCIT**") to deploy fibre optic broadband services in urban areas. The aim of this large project is to enable the Group to continue to provide the best services to its customers by providing services with high speeds and reliability. The Group has committed to roll out approximately 1.2 million lines and since November 2017 has rolled out approximately 700,000 as at 31 March 2019. See "*—Network infrastructure—Fixed*".

#### ***Data services***

The Group's data services include all data communications services, including SMS, MMS, 3G and 4G data packages and other value-added services for mobile customers including, among others, call barring, voicemail, conference calls, call forwarding and push to talk and ISDN PRI/BRI services for fixed line subscribers. In addition, the Group provides ICT services to business customers.

The Group's data services offerings in Saudi Arabia focus on mobile broadband offerings over its 3G, 4G and 4G LTE networks. The customer can use mobile broadband either on a prepaid basis or under a mobile data postpaid subscription package. The Group also provides a range of WiFi product offerings, on either a prepaid or a postpaid subscription basis.

The Group provides ICT services to business and Government customers. ICT services involve the combination of network, hardware, software and service solutions together with support functions to achieve a customer's business objectives or provide a particular business solution. These services include project management, hosting of internet service providers, training, technical documentation, support organisations and consultancy in the areas of networks, systems, security and compliance. ICT services also include product offerings designed to address customer concerns regarding cyber security, big data, data warehousing and the Cloud.

#### ***Other non-core services***

The Group's non-core telecommunications services include leasing submarine cables, call centre services and directory enquiries services and satellite services through its interest in other subsidiaries.

STC Channels is one of the largest ICT distribution companies in the middle east operating in Saudi Arabia, Bahrain, and Oman. STC Channels was established to be the partner of choice for ICT companies enabling them to connect with their customers anywhere and anytime.

STC Specialised was established to provide necessary services relating to telecommunications equipment, electrical appliances and installation and maintenance of fixed and mobile telecommunications and information technology devices.

STC Pay is a digital secure wallet that empowers individuals to take full control of their finances at their fingertips- anytime, anywhere. Enabling them to send, receive, spend, and manage money simply through their phone.

#### **Marketing and distribution**

A key element of the Group's DARE strategy is to reinvent the customer experience to achieve world class standards, which the Group seeks to achieve by focusing on the needs of each specific customer segment. The Group has three main customer segments, (1) retail/consumer customers are covered by the CBU, (2) commercial/enterprise customers are covered by the EBU, and (3) carriers and other licenced operators are covered by the WBU. The CBU and the EBU account for the significant majority of the Group's focus and operating revenues. The Group seeks to achieve its DARE strategy through undertaking various marketing and distribution activities which include amongst others (1) adopting a

digital focus on marketing and communications, (2) personalising the customer relationship and (3) reinventing the sales channels.

### ***Marketing***

To adopt a digital focus on marketing and communications, the Group uses a combination of traditional above-the-line channels (such as television commercials, print, radio and other outdoor media) and below-the-line channels (such as flyers, direct mailers and targeted messages and emails) coupled with an increased focus on digital channels (such as digital platforms, social media networks, influencers and viral marketing) to reach retail customers. The Group's retail customers are managed by the CBU which aims to deliver a bolder data-driven approach aimed at improving the effectiveness of its marketing and communication campaigns. Based on customer feedback and subscription levels, the Group believes that its in-house promotional activities and campaigns, segment-specific direct marketing events and roadshows, have been successful in promoting its products and services in Saudi Arabia and intends to continue to use them to shape its marketing strategy. For example, the Group's 2018 "Dare to be Bold" marketing campaign was aimed at reaching a wider audience through bold innovative digital marketing efforts, covering campaigns which included re-opening of cinemas, introduction of women driving, and do-it-yourself self-serve campaigns. The Group has also launched its digital first product, Jawwy, aimed at the Saudi youth segment, whereby customers are able to use the Group's services through a dedicated application which allows them to purchase and design their own plans and purchase additional digital services (such as social media, transportation, gaming and music) to meet not only their communication needs but also their broader information and technology requirements.

The Group has also implemented multi-dimensional segmentation of its enterprise market, in which consideration is given to high-value customers as well as large, medium and small business customers. The Group's approach towards this segment is to develop new products and services to help enhance the ICT services it offers to its enterprise customers. The Group's business customers are managed by a team of dedicated account managers in its EBU, which enables the Group to identify customer requirements and develop tailored solutions to meet such requirements. The Group has also established a network of business centres across Saudi Arabia which provides a direct sales channel for the provision of a full range of products and services to business customers.

On personalising the customer interactions, the Group has also implemented loyalty programmes providing differentiated services and rewards to its customers such as the "Tamayouz" retail and business loyalty programmes and the "Qitaf" rewards programme. The "Tamayouz" retail and business loyalty programmes are designed to offer enhanced services to customers (including a dedicated concierge service) and valuable benefits in the form of free mobile and internet services. Through the "Qitaf" rewards programme, which customers can subscribe to free of charge, participating customers can collect points through their usage of STC services. The points collected under the "Qitaf" rewards programme can then be redeemed by customers to purchase STC's mobile and internet services or vouchers that offer customers the chance to win prizes and receive discounts on STC's services. In addition, points earned through the rewards programme can be used by the Group's customers at a wide variety of retail outlets with which the Group has partnered. The Group has also expanded its loyalty scheme to enable partners to purchase loyalty points directly through the Group and in turn offer them directly to their customers. Further, the Group adopts a number of customer value management ("CVM") activities (such as analysing individual and household behaviour, life style, value and spend, and social network segmentation) to better understand customer behaviour to allow the Group to further improve the manner in which it personalises the experience when interacting with its customers. Such interactions are increasingly being conducted through digital channels (such as the mySTC application, e-Care, and self-service machines) to better reflect the individual customers' preferences and needs which subsequently enables the Group to better personalise and improve the overall service experience.

### ***Distribution***

By reinventing its sales channels, the Group is moving from primarily offering and selling its products and services through direct and indirect physical retail sales channels, to online digital channels. Sales to business customers continue to be predominantly made only through direct sales channels, whereas sales to retail consumers are progressively moving from being made through either direct (such as retail outlets (comprising of 120 stores across Saudi Arabia), outbound telesales and door-to-door activities) and indirect sales channels (such as utilising third party partners who may have presence in locations where the Group may not be present), to digital channels (such as the mySTC application and self-service

machines). The Group also owns a 100 per cent shareholding in STC Channels (formerly Sale for Distribution and Communication Co.), which provides exclusive distribution and reselling services for STC's products and services in Saudi Arabia and Bahrain.

In addition to the direct physical and digital sales channels described above, the Group uses card agents and prepaid resellers and electronic voucher distributors, through which indirect sales can be made to consumers. These indirect sales channels consist of key third-party retailers and distribution channel dealers and sub-dealers that purchase the Group's products, such as SIM cards or recharge cards, in bulk and distribute them across Saudi Arabia to small businesses such as groceries and petrol stations. The Group also has partnerships with supermarkets and bookstores to distribute the Group's products such as recharge cards, internet subscriptions and mobile devices.

Consumers subscribe for fixed line and mobile line services through direct sales channels only, whereas data services can be subscribed for through direct or indirect channels.

The Group's direct and indirect sales channels include a large number of outlets, ensuring that its products are easily and efficiently made available to its customers across Saudi Arabia.

### **Network infrastructure**

The Group aims to provide best in class services to the general public. The Group's integrated network infrastructure in Saudi Arabia provides extensive coverage throughout the country and is fundamental to its ability to provide wireless and fixed line services to its customers. The Group uses a variety of suppliers for its infrastructure throughout its operations. The Group also has a large, mobile and fixed field force of multi-skilled communications engineers experienced in the installation, commissioning and maintenance of multi-vendor assets in live networks.

Reflecting its expanding fixed and mobile networks and services, the Group plans to increase its international connectivity and expand its internet coverage. In addition, the Group started a new program of building 12 Datacentres, which is expected to enable the Group's adoption of next generation technology and the expansion of its existing services, while delivering high efficiency and performance. It also aims to help provide best-in-class services, while still allowing the Group to identify new business opportunities.

In addition, the Group is also planning the migration of service provider services onto the latest high capacity and high-power switching/routing platforms. In parallel, a state-of-the-art dense wavelength division multiplexing ("**DWDM**") transmission network is being deployed using 100G/200G & 400G infrastructure in the transport layer along with optical transport network ("**OTN**") technology where required.

The Group also has commercially launched the voiceover LTE ("**VoLTE**") in the beginning of 2017 with approximately 2.4 million subscribers as at 31 March 2019 and the Group aims to get all of its subscribers migrated by 2022.

Additionally, the Group plans to launch a new wholly owned subsidiary dedicated to its wireless towers called Communications Towers Co. Ltd. ("**CTC**"). Although the full utilisation of this subsidiary is still currently in the planning phase, it is expected CTC will eventually become an independent specialised telecom infrastructure company. This is expected to allow it to focus on the telecom infrastructure market through acquiring, constructing, upgrading, developing operational efficiencies, leasing and commercialising telecom infrastructure in the KSA market.

### **Mobile**

The Group's mobile network is designed using 2G, 3G and state of the art 4G technologies that have the ability to offer both mobile voice and data services with higher bandwidths. The Group has designed a cost-efficient radio access network which aims to minimise the impact of network infrastructure on the environment by utilising available advanced techniques such as extended cell range (which requires fewer base stations over a defined geographical area), conserving energy through automatic hardware shut down during periods of low mobile traffic and using solar power solutions where feasible.

The Group uses a single radio access network ("**SRAN**") to deploy 2G, 3G and 4G technologies with the maximum possible mixed configurations. The Group's radio resource control features enable its 2G, 3G

and 4G networks to operate as a common resource providing greater network availability with higher data rates by switching traffic between different layers seamlessly. In addition, the Group has provided Wi-Fi off load at hot spots and small cells layer technology to provide higher capacity for its mobile users.

The Group has expanded frequency spectrums in 1800MHz, 2100MHz and lower frequencies such as 700 for further 3G, LTE and LTE-Advance deployment in addition to the latest award of 3500 Mhz Band to support future 5G deployment.

The Group is engaged in a very ambitious program (Aspiration) to underscore the support and commitment of STC to the NTP 2020 and the Saudi Vision 2030 to drive Saudi Arabian digital transformation.

The Group expects to invest in the following areas over the new few years:

- Enhancing the average mobile throughput speeds to reach around 55Mbps;
- Introducing the 5G coverage to reach around 35 per cent. of population;
- Introducing public WiFi by implementing more than 36,000 access points.

A significant number of network expansion activities are required to achieve this, including new layers in LTE1800 and LTE700 and the use of advanced MIMO technologies.

### ***Fixed***

The Group is currently in the process of upgrading its fixed line network in Saudi Arabia to FTTH technology. This involves the extension of an advanced fibre optic network to homes, businesses, and mobile base stations. The new network can be shared by multiple customers with each being allocated a bandwidth based on their individual needs. The new network can also be extended directly to large customers, such as enterprises, to provide them with a high bandwidth active ethernet interface.

In 2017, the Group announced an agreement with the Ministry of Communications and Information Technology ("MCIT") to deploy fibre optic broadband services in urban areas. The agreement forms part of the MCIT's mandate to stimulate investment in broadband services to enhance the Kingdom's digital infrastructure, to provide high-speed fibre optic broadband services in line with the objectives of the National Transition 2020 Program and to contribute to achieving the Kingdom's Vision 2030. The agreement includes financial support amounting about SR 2.7 billion from the MCIT; it is paid in regular instalments according to the scope of work carried out, as well as providing some financial and regulatory exemptions. Ownership, operation, management and provision of these services will be for the company. The aim of this large project is to enable the Group to continue to provide the best services to its customers by providing services with high speeds and reliability. The Group has committed to roll out approximately 1.2 million lines and since November 2017 has rolled out approximately 700,000 as at 31 March 2019.

## **Regulation**

### ***Overview***

Driven by the Government's objectives under Vision 2030 to progress to a knowledge-based digital society, the MCIT and CITC are focused on developing regulations for the ICT sector that are policy driven, transparent, and more collaborative with stakeholders, including telecoms/ICT market players. In order to evolve to an effective digital services ecosystem, the policy and regulatory challenges are to ensure market sustainability, foster innovation and facilitate the ecosystem development, while also balancing against the requirements to promote and safeguard healthy competition and investments within the ICT sector.

As the national ICT champion, STC is well positioned in the KSA marketplace and is playing a key leadership role and is collaborating with MCIT and CITC towards enabling an effective ICT ecosystem within Saudi Arabia.

STC is subject to all laws and regulations of Saudi Arabia and, in particular, the regulations governing the ICT sector. The key legal and regulatory framework for this sector consists of:

- the Telecom Act issued by Royal Decree No. M/12 dated 12/03/1422H (corresponding to 4 June 2001) (the "**Telecom Act**") with one subsequent amendment via Prime Ministers Council Decree dated 18 January 2013, and its Executive Regulations, which were issued by Resolution No. 11 dated 17/05/1423H (corresponding to 27 July 2002) (the "**Telecom By-Laws**"). The Telecom By-laws were also amended by the Minister on 9 December 2013; and
- the ordinance of CITC issued by Council of Ministers Resolution No. 74 dated 05/03/1422H (corresponding to 27 May 2001), as amended (the "**CITC Ordinance**"), which are collectively referred to as "**Telecommunications Regulations**". In addition, there are other regulatory instruments issued by the Council of Ministers, the MCIT and the CITC.

Additionally, the National Cybersecurity Authority (the "**NCA**") was established in October 2017 and is a government security entity which focuses primarily on computer security in Saudi Arabia. On 23 July 2018 King Salman bin Abdul Aziz Al Saud issued a royal decree which stressed that all government agencies should upgrade their cyber security to protect their networks, systems and electronic data, and abide by policies, frameworks, standards and guidelines issued by NCA. In October 2018, NCA issued core cyber security controls to be applied in various national agencies to reduce the risk of cyber threats.

Further, in 2012 the General Commission for Audiovisual Media (the "**GCAM**") was created. The GCAM is an independent body chaired by the Minister of Culture and Information and includes five other members representing certain other government agencies. The purpose of the body is to oversee all aspects of traditional and new media including licensing processes, the media bandwidth spectrum, compliance with regulations and conditions of licenses, investigation of complaints, supporting research and studies related to audio-visual media, and the development of dispute resolution mechanisms.

Pursuant to the Telecom Act, the ICT sector is regulated in order to achieve the following objectives:

- providing advanced and adequate telecommunications services at affordable prices;
- ensuring the provision of access to the public telecommunications networks;
- providing equipment and services at affordable prices;
- ensuring creation of a favourable atmosphere to promote and encourage fair competition in all fields of telecommunications;
- ensuring the effective and interference-free usage of frequencies;
- ensuring effective use of the National Numbering Plan;
- ensuring clarity and transparency of procedures;
- ensuring principles of equality and non-discrimination;
- safeguarding the public interest and the users interests as well as maintaining the confidentiality and security of telecommunications information; and
- ensuring transfer and migration of telecommunications technology to keep up to date with its development.

The Telecommunications By-Laws set out many of the key rights and obligations of telecommunications service providers in Saudi Arabia. The Telecommunications By-Laws deal with various regulatory issues, including competition between service providers, interconnection, disputes between service providers, tariffs, relations between service providers and users, universal access and universal service policy, frequency, access to property by telecommunications service providers, numbering and telecommunications equipment regulation network intrusions and violations of the Telecommunications Regulations.

The CITC Ordinances establish the CITC and set out responsibilities assigned to the CITC both in the telecommunication sector and the information technology sector. They further describe the structure and financial resources of the CITC.

### *New Telecommunications Act*

There is currently a revised draft of a new telecommunications act ("**New ICT Act**") with the Government. It was mentioned in the recent draft telecom act that the by-laws shall be issued during 180 days from the date of publication of the New ICT Act. One of the provisions of the draft act would make the MCIT the telecommunications regulator and leave the CITC responsible for implementing and enforcing the regulations.

### *Regulatory authorities*

There is one regulatory authority – CITC. The MCIT has oversight of the CITC, however this may change with approval of the New ICT Act:

- **MCIT:** according to the Telecom Act, the MCIT is responsible for preparing general strategic policies, plans and development programmes for the telecommunications sector, submitting licence applications to the Council of Ministers, and coordinating with concerned parties in respect of services provided to Government agencies.
- **CITC:** CITC is responsible for the regulation of the telecommunications sector in Saudi Arabia. CITC has the responsibility and authority, among other things, to establish necessary procedures, provide protection to users and operators, regulate and manage the use of the frequency spectrum, determine the licensing procedures, issue licences, determine the fees related to number assignment, set the criteria for determining service fees, establish a regulatory framework for interconnection and resolve interconnection and access disputes. CITC is allowed to consult the public and stakeholders' opinion in its decision-making process. Since October 2006, CITC has overseen the operations of (XX.sa), Saudi Arabia's main internet domain and has been responsible for censorship of the internet content.

### *Frequencies*

The frequency spectrum is a state-owned natural resource. CITC is responsible for regulating and managing frequencies and sets Saudi Arabia's national frequency plan. CITC also ensures that frequencies are used in conformity with this plan.

Under the Telecommunications Regulations, the CITC determines the fees to be applied for using frequencies and refers the determination to the MCIT. The MCIT liaises with the Ministry of Economy & Planning and then submits the determination to the Council of Ministers for final approval. CITC may revise or adjust the fees to reflect developments in the telecommunications and frequencies markets. The use of the frequency spectrum is only permitted after obtaining relevant allocations and licences from CITC and paying fees pursuant to the Telecom Act. In the event of non-compliant use of frequencies, CITC is entitled to suspend or withdraw the relevant service operator's licence, and/or to direct the disconnection or confiscation of the equipment used in the violation.

### *Numbering and number portability*

In accordance with the Telecom Act and the Telecommunications By-Laws, CITC is required to prepare, publish and manage a national numbering plan and assign numbers, codes and number ranges to service providers in accordance with that plan. The numbering scheme in the plan may be modified by CITC, provided that operators and users are given adequate notice of any modification. Neither service providers nor end-users have property rights to numbers. The recent updates to the National Numbering Plan reflect the inclusion of new emerging technologies such as M2M and IoT.

Under the Telecom Act, operators must allow number transfer according to user needs (known as number portability). Shortly after the licensing the 2<sup>nd</sup> mobile operator in 2005, the impacted operators including STC deployed mobile number portability with the capability to deliver calls from their respective network to ported numbers in the network anywhere in Saudi Arabia. During 2018, CITC issued a public Consultation for fixed number portability, followed by CITC decree regarding applying number portability for fixed network as well.

## ***Licensing***

Subject to any related changes under the proposed New ICT Act, a telecommunications licence from CITC is required before a telecommunications service can be provided to the public or a telecommunications network used in providing telecommunications service to the public can be operated. Operators are required to adhere to the conditions of their licence.

CITC is required to obtain the approval of the Council of Ministers before issuing licences for the provision of fixed line and mobile telephone services. The term of the individual licences cannot exceed 25 years, although they may be renewed as set out below.

STC is licensed to carry out a number of telecommunications activities, including setting up fixed and mobile networks for the purpose of providing telecommunications services. Telecommunications services that STC is allowed to provide include fixed telephone services, mobile phone services, data and internet services.

The Telecommunications By-Laws allow CITC to impose terms and conditions on individual licences, including, without limitation, the scope of services to be offered, quality of service parameters, network or service roll-out requirements, additional service obligations and specific tariff conditions.

The CITC Board may renew a licence in accordance with the Telecommunications Regulations. The CITC Board has the right to deny renewal, to amend, suspend or revoke licences (subject to Ministerial approval in the case of an individual licence for fixed line or mobile telephone services). The grounds for such non-renewal, amendment, suspension or revocation include, without limitation:

- repeated violation of basic licensing conditions;
- failure to pay licensing or other fees required by CITC;
- repeated failure to comply with CITC decisions;
- carrying out activities prejudicial to the public interest; and
- bankruptcy, dissolution or liquidation of the licensee.

In 2018 the Government changed the structure of the fees imposed on telecommunication services. Council of Ministers' resolution No. (196) dated 11 December 2018 amended the percentage of fees collected by the Government for providing telecommunications services commercially to become a uniform annual fee of 10 per cent. of net telecommunications revenues effective 1 January 2018 instead of the previously applicable fees which were 15 per cent. for net mobile service revenues, 10 per cent. for net fixed line revenues and 8 per cent. for net revenues from data services.

## ***Interconnection***

According to the Telecom Act, each operator has the right to negotiate interconnection agreements with other operators for their network and services. In the event that the parties fail to reach an interconnection agreement, they have the right to submit a request for CITC to settle the dispute, with CITC's decision being binding. The Group has a CITC approved Reference Interconnection Offer ("**RIO**") on the basis of which commercial agreements are made with other operators.

## ***Fair competition and dominant service providers***

The Telecommunications Regulations make provision for fair competition in all fields of telecommunications. Under the Telecommunications Regulations, a dominant service provider is not permitted to abuse its dominant status and must provide interconnection services and access to its network if requested to do so.

For markets that it is designated as a dominant service provider, STC is subject to additional regulatory requirements, including:

- submission of related services tariffs for prior approval by CITC, applicable to all dominant operators. Subsequent to the Market Definition, Designation and Dominance ("**MDDD**") Report



in October 2017, there were further changes to the tariff approval procedures, where all operators – both dominant and non-dominant, were required to submit tariffs for CITC approval.

- offering related access and interconnection services to any licensed service provider through an interconnection agreement. STC is required to meet all reasonable requests for access and interconnection services by other service providers without discrimination.
- not carrying out any activity that would be deemed to be abusive of its dominant position. Examples of such activities include discrimination in the provision of access, interconnection or other services or facilities to other service providers and failing to comply with interconnection obligations.

#### ***Mobile virtual network operators (MVNO)***

CITC announced on 12/05/1435H (corresponding to 13 March 2014) the grant of MVNO licence to Virgin Mobile Saudi Consortium, hosted on STC's network, where the 2<sup>nd</sup> mobile operator hosting another MVNO while the 3<sup>rd</sup> mobile operator hosts none. CITC recently issued a decision to approve MVNO and IOT licenses, which also included the guidelines and conditions to provide those services. relating to the MVNOs.

#### ***Use of properties***

The Telecom Act provides that all telecommunications operators will have an equal right of access to all public and private property for the purpose of providing telecommunications services within the required and necessary limits for the purpose of constructing, operating and maintaining telecommunications networks.

Service providers with existing telecommunications facilities are required to allow other service providers to co-locate their telecommunications transmission systems at installation sites where economically feasible and no major additional construction work is needed. The party requesting co-location must, however, compensate the provider of co-location with a fee to be agreed by the two parties or, where the parties are unable to reach such agreement, to be determined by CITC. In 2016, CITC issued new regulations "Access to Physical Facilities", however STC was subsequently granted a 5-year "rolling" holiday.

#### **Universal access, universal services and universal service fund**

The Universal Access and Universal Service Policy Document dated 21/05/1427H (corresponding to 17 June 2006) sets out the basis, principles and conditions relating to the provision of universal service and access. One of the objectives set out in the policy is to achieve universal access to voice services and internet services through affordable public or community facilities within a period of no more than three years (with regard to voice) and no more than five years (with regard to internet) from the date that the Universal Service Fund (the "USF") became operational. The USF became operational in 2010.

The USF focuses exclusively on financing new networks and/or services to provide universal access or universal service to geographic areas that are in commercially unprofitable and underserved zones. Parties are invited into a competitive selection process for the award of specific universal access or universal service projects, funded by the USF. The USF was a separate division within CITC reporting to the CITC Board, however this division was subsequently dissolved and the related activities were moved to MCIT in 2017. While the Telecom Act and the USP specifies that USF is financed from one per cent. of the net revenues of CITC designated service providers, this was never applied, and funding was provided directly by Ministry of Finance.

In 2010, CITC issued a decision in relation to the USF and universal access and services namely Resolution No. 256/143, dated 6/04/1431H (corresponding to 22 March 2010), cancelling the previous designation of STC as a universal service provider. CITC has succeeded to cover most of localities with voice and internet services with 512 Kbps through 11 projects subsidized from the USF.

As part of NTP- 2020, MCIT is now responsible for the rural area's coverage through Broadband wireless services. Three projects have been awarded to Zain and STC with internet speed of 10Mbps.

### *Quality of service*

In December 2003, CITC established a set of quality of service indicators which defined the quality of service targets for end-user services provided by STC which have since been updated. The CITC then, in 2009, launched a "Quality of Service Scheme" that applies to all service providers. This scheme applies to a range of end-user services, wholesale services and interconnect services, and contains quality of service indicators (for example, installation time, fault repair time, dropped call rate, fault rate and voice quality standard) for each type of service. CITC may specify additional quality of service requirements for licence holders beyond the scope of the quality of service scheme. Such quality of service indicators are updated periodically, with the most current update being in 2018.

### *Tariffs*

Under the Telecommunications By-Laws, universal service providers and dominant service providers must file with, and obtain the approval of, CITC for the tariffs related to their universal services or telecommunications services in the market in which they are dominant, unless otherwise decided by CITC. In addition, CITC has determined that submitting tariff requests for approval is a regulatory requirement which will apply whether there is dominance or not, and whether in competitive markets or dominated markets. Currently, any tariff imposed by a service provider must be approved by CITC.

CITC may also adopt any approach to tariff regulation that is consistent with the Telecommunications Regulations, including price cap regulation.

### *Terms of service*

All mobile, fixed line, data and internet service providers are required to ensure their service contracts are in compliance with terms of service published by CITC. Such terms of service are updated periodically by the CITC.

### *Restrictions on content dissemination*

Internet users in Saudi Arabia are restricted from disseminating or using materials that, among other things, are offensive to the religion of Islam or Islamic laws (*Shari'a* law), are offensive to public morals, are in violation of Saudi Arabian law or promote destructive ideologies.

Service providers are required to maintain records of the time that a user spends on each session, the websites that such user visits or attempts to visit, and the type and size of the files that such user opens.

### *Penalties*

The Telecom Act amendment provides that certain actions or violations specified under the Telecommunications Regulations shall be subject to a penalty not exceeding twenty-five million Saudi Riyals. Penalties are imposed by the violations committee (the members of which are appointed by the CITC Board), which is required to make its decisions in accordance with the Telecommunications By-Laws. The decisions of the violations committee can be appealed before the Saudi Arabian Board of Grievances (the "**Board of Grievances**").

### **Competition**

Telecommunications markets in general are characterised by a limited number of competitors, reflecting the limited number of licences typically awarded and the need for economies of scale for network operators to be profitable.

STC is the former incumbent operator in Saudi Arabia. In 2004, the Government decided to liberalise the country's telecommunications market by granting an additional licence to a consortium led by the UAE telecommunications company, Etisalat Telecommunications Corporation PJSC, which trades in Saudi Arabia under the Mobily brand. Mobily launched operations in May 2005. In 2007, a third licence was granted to Mobile Telecommunications Company Saudi Arabia, which trades under the Zain brand.

## ***Mobile***

The mobile market in Saudi Arabia is mature, with mobile voice penetration standing at 137.5 per cent. at 31 December 2016, 126.7 per cent. as at 31 December 2017 and 126.9 per cent. at the end of 2018, according to CITC. Additionally, according to the CITC, at 31 December 2018, there were approximately 41.3 million mobile subscribers in Saudi Arabia, with prepaid subscribers accounting for 68.8 per cent. of the total. A decrease in subscription of around 3.4 million subscribers in 2017 compared to 2016 principally reflects the deactivation of a large number of unidentified SIM cards according to CITC.

The Group principally faces competition for mobile subscribers based on price. The Group's competitive strategy is to offer customer-centric (in the postpaid segment) and event-driven (in the prepaid segment) price promotions.

The Group's estimated market share by subscribers in KSA as at 31 December 2018 for mobile prepaid is 53.6 per cent. and for mobile post paid is 38.8 per cent. The Group's two principal competitors are Mobily and Zain.

Three new mobile virtual network operator ("**MVNO**") licences (for operators who do not own their own networks) were granted in Saudi Arabia in mid-2013 and one was later revoked by the CITC. The Group is in partnership with one of these licensees, Virgin Mobile Middle East & Africa, and views the MVNO business as an opportunity to diversify and grow its business.

## ***Fixed line***

Saudi Arabia's fixed voice line penetration rate was 31.8 per cent. of households at 31 December 2018 according to CITC. As at the same date, CITC recorded approximately 3.1 million fixed line voice subscribers in Saudi Arabia, down from 3.6 million at 31 December 2017.

There are two fixed line licensees in Saudi Arabia: STC and Atheeb. The Group believes that its state of the art network, significant investment in fibre optic and extensive mileage coverage, positions it well to sustain its dominant share of the Saudi Arabian fixed line market. The Group also believes that its introduction of IPTV services under the brand name of "Invision" have strengthened its position in the fixed line segment.

## ***Internet***

Broadband services have increased significantly in recent years in Saudi Arabia, driven by increased demand for high speed services throughout the Kingdom, Government high technology projects requiring strong digital infrastructure and increased Government use of electronic technology. Broadband services are provided through both fixed lines and mobile applications and there are four internet operators (including the Group) in the market.

According to CITC, there were approximately 1.9 million fixed broadband subscriptions at 31 December 2018, including digital subscriber line ("**DSL**"), WiMAX, fibre to the x (a generic term for any broadband network architecture using optical fibre to provide all or part of the local loop used for last mile, "**FTTx**"), and other fixed lines. These numbers have declined in recent years, having been 2.5 million at 31 December 2017 and 3.3 million at 31 December 2016.

There are three principal competitors in this market: the Group, Atheeb and Mobily. As the incumbent, the Group is the leader in providing DSL service. All three competitors have invested significantly in fibre optic networks and the competition in this segment is strong.

Also, according to CITC, total mobile broadband subscriptions were 29.2 million at 31 December 2018, 29.7 million at 31 December 2017 and 23.9 million at 31 December 2016.

## **INTERNATIONAL OPERATIONS**

### **Overview**

The Group has interests in companies which operate telecommunications networks in four countries in addition to Saudi Arabia. In Bahrain and Kuwait, the Group has subsidiaries engaged in the provision of mobile telecommunications services and it also has a subsidiary in Bahrain which provides content and

digital media services. In addition, the Group has investments in equity accounted investees which operate telecommunications networks in India, Jordan, Lebanon and Malaysia.

### **International Subsidiaries**

#### ***VIVA Kuwait***

The Group owns 51.8 per cent. of VIVA Kuwait and fully consolidates VIVA Kuwait as a subsidiary of the Group. VIVA Kuwait began operations in Kuwait in December 2008 as the country's third mobile licensee. Since 2008, it has increased its subscriber numbers from approximately 300,000 at 31 December 2008 to 2.15 million at 31 December 2018, giving it an estimated market share of around 31 per cent. at 31 December 2018 based on revenue.

Since its launch in 2008 and as part of its growth strategy, VIVA Kuwait has remained committed to customer satisfaction through the delivery of the latest products and services in the market. VIVA Kuwait seeks to provide high quality yet competitively priced telecommunications services such as smartphone bundling, HD voice and loyalty programmes as well as the latest technological advancements, such as LTE and M2M.

VIVA Kuwait's network provides 100 per cent. coverage in Kuwait and its services include 2G, GPRS, EDGE, 3G, HSPA+ and 4G LTE. In an increasingly competitive market, VIVA Kuwait continues to be Kuwait's fastest growing telecommunications service provider, enhancing its services with 4G LTE and achieving nationwide coverage in record time.

#### ***VIVA Bahrain***

VIVA Bahrain is 100 per cent. owned by the Group. Viva Bahrain operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on 3 March 2010. VIVA Bahrain has grown rapidly since its launch.

After achieving market leadership in both mobile voice and broadband in 2011 in terms of subscriber numbers, VIVA Bahrain has focused on consolidating and strengthening its position by bringing the latest technology to the Bahraini market while at the same time aiming to fulfil its promise of offering the best value to customers.

In terms of technology, VIVA Bahrain has completed multiple network expansions and it continues to offer high quality and reliable mobile voice and broadband services in the country which helped to earn it the Best Digital Service award in 2016 and the Best Enterprise Service award in 2018 at the Telecoms World Awards. VIVA Bahrain has rolled out LTE across its 4G network and has enhanced its distribution capabilities through expanding its retail shop network. In June 2018, VIVA Bahrain became the first operator in the Kingdom to enable 5G service and is currently planning further roll-outs across the country.

During the first quarter of 2018, Viva Bahrain fully acquired "MENA Telecom Company Limited" in the Kingdom of Bahrain (as a subsidiary). The main activity of the new subsidiary is to provide Internet services.

#### ***Intigral***

In 2009 the Group acquired a 71 per cent. stake in Intigral Holding Company ("**Intigral**"). Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. In April 2017, the Group purchased the remaining 29 per cent. stake in Intigral for SAR 37.5 million.

### **Equity accounted investments**

As at 31 December 2018, the Group had seven equity accounted investments, the most significant equity accounted investments are: Binariang and OTL (discussed below), which are holding companies with investments in companies which provide telecommunications services; Arab Submarine Cables Company Limited, which is a joint venture, 50 per cent. owned by each of STC and Sudan Telecommunications Co., which leases a submarine cable connecting Saudi Arabia, Sudan and certain countries in Europe and

Asia; Arabsat, which is a satellite services provider; and Contact Centres Company, which provides call centre and directory enquiries services in Saudi Arabia.

#### ***Binariang GSM Holdings ("Binariang")***

In September 2007, STC acquired a 25 per cent. shareholding in Binariang, which is a holding company registered in Malaysia. Binariang which holds a 65 per cent. interest in Maxis Berhad, a Malaysian company which is the only integrated communications service provider in that country.

#### ***Oger Telecom Limited***

In April 2008, the Group acquired a 35 per cent. share in Oger, which is a holding company registered in the United Arab Emirates, with telecommunications operations in Turkey.

During 2016, the share of losses in OTL exceeded the Group's remaining balance sheet value of OTL and accordingly the Group reduced the value of OTL to zero on its balance sheet and discontinued recognising its share of further losses. OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with the financial covenants agreed with lenders. In 2018, OTL started to liquidate and restructure its main subsidiaries. The Group is looking at ways to monetise its investment in OTL.

### **INVESTMENT FUNDS**

In 2011, the Group launched STC Ventures Fund with an investment commitment of U.S.\$50 million. The fund is an independently managed venture capital fund whose anchor investor is STC. The fund focuses on equity investments in emerging, small and medium-sized companies operating in the field of Communications and Information Technology in Saudi Arabia and other global markets. One of the key objectives of STC Ventures Fund is to support the development of innovative technology companies in the MENA region and Turkey, in addition to funding globally minded international companies seeking capital and access to the MENA region. The fund's investments include shares in Glambox, Careem, iKoo, Gengo and Acadox. The fund allows STC to explore new technologies, acts as a form of research and development and gives STC the opportunity to diversify its business.

In addition, during 2017, the Group established a venture capital investment fund for the purpose of investing in the digital and technology sectors with a total value of USD 500 million (equivalent to SAR 1,875 million) to be injected in the future in five equal instalments of USD 100 million (equivalent to SAR 375 million). As at 31 December 2018, this venture capital investment fund had received over USD 200 million in funding for the Group to further invest in branching out into new service offerings within the digital and technology sectors such as cyber security, financial services and television rights.

### **EMPLOYEES**

As at 31 December 2018, the Group had approximately 15,000 full-time equivalent employees. In general, the Group's employees do not participate in any collective bargaining or similar agreements.

Additionally, in February 2018 the Group opened the STC Academy with the aim of developing the next generation of digital leaders in Saudi Arabia. More than 1,000 students graduated from the academy in 2018. STC Academy currently focuses on STC's internal leadership teams and it will also be focusing on external programs for the general public.

### **INSURANCE**

The Group's operations are subject to a variety of operational and geographic risks, including accidents, natural disasters, war, terrorism, fire, weather-related perils, geo-political risk and other events beyond the Group's control. Accordingly, in order to protect against the financial impact arising from unexpected events when the amount of the potential loss would be significant enough to prevent normal business operations, the Group maintains a variety of insurance policies with reputable insurance companies at both the Group-wide and country- specific levels.

The Group has not experienced any difficulty in renewing its insurance policies in the last three years and management believes that the Group's current levels of insurance are sufficient in light of the risks faced by the Group and are consistent with industry standards based upon the regions and markets in which the

Group operates. See "*Risk Factors—Risks relating to the telecommunications industry—Telecommunications networks may be adversely affected by natural disasters or other catastrophic events beyond the control of their operators*".

## **INTELLECTUAL PROPERTY**

Apart from its brand names, the Group does not have any intellectual property rights which it believes are critical to its ability to carry on its business. The Group's STC brand in Saudi Arabia was classified as the highest value telecom brand in the Middle East for 2018 and it was also the only Saudi Arabian brand within the world's top 500 brands, in each case according to Brand Finance 2018. The Group seeks to protect this brand, as well as its VIVA Bahrain and VIVA Kuwait brands, using appropriate intellectual property registrations in its main markets. The Group has not experienced any infringement of its STC brand in the last three years.

Each of the Group's other operations manages and protects its brands in its own individual market.

## **INFORMATION TECHNOLOGY**

Each operating company of the Group maintains its own information technology ("IT") systems. The Group's IT systems are comparable to those typically used by other telecommunications service providers, and comprise operational support systems (which support the Group's telecommunications network and include processes such as maintaining network inventory, provisioning services, configuring network components and managing faults) and business support systems (which support processes related to the Group's customers, such as taking customer management, order management, processing bills and revenue management, collecting payments, customer relationship management, mobile apps and hardware and software operation support).

In addition, as part of the Group's strategy to digitise its business, the Group implemented AGILITY to help make the IT systems fit for purpose with this digital expansion. In 2018 the Group rolled out the underlying hardware transformation and BSS transformation project that is intended to help the Group rolling out additional software enhancement capabilities over the next three years. As at 31 March 2019, the Group has continued to implement the approximately 40 planned IT projects and enhancing capabilities. The Group believes that its existing IT systems are adequate for the purposes of its existing and future expansion business.

Each operating company of the Group maintains its own disaster recovery systems in order to ensure the recovery and continuation of its technology infrastructure following potential disruptive events, such as natural disaster or terrorism. Each operating company has policies & procedures in place to either back up critical data on-site or automatically copy this backed-up data to off-site storage, or to back-up and replicate critical data directly to off-site storage.

## **LITIGATION, ARBITRATION AND DISPUTES**

The Group is, from time to time, party to various legal actions arising in the ordinary course of its business. The Group does not believe that the resolution of these legal actions will, individually or in the aggregate, have a material adverse effect on its financial condition or results of operations.

The Group has submitted an objection to the appeal committee with respect to the Saudi Arabian withholding tax assessment on its international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SAR 2.9 billion. The Group believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the management believes that the Group has established sufficient provisions in place to cover any potential losses resulting from this assessment.

## **ENVIRONMENT**

The Group is subject to a wide range of environmental laws and regulations. The general trend in the majority of the countries in which the Group operates is to impose increasingly stringent environmental obligations in relation to, among other things, radiation emissions, zoning and the protection of employees' health and safety. The Group could therefore be exposed to environmental costs and liabilities, which could be significant. The Group is also required to obtain various environmental permits,

licences and/or authorisations from, and to provide certain prior notifications to, the appropriate authorities in its jurisdictions of operation. See *"Risk Factors—Risks relating to the telecommunications industry—Telecommunications networks may be adversely affected by natural disasters or other catastrophic events beyond the control of their operators"* and *"Risk Factors—Risks relating to the telecommunications industry—The telecommunications industry is heavily regulated and new, or changes in existing, laws, regulations or governmental policy could adversely affect industry participants"*.

In Saudi Arabia, the Group is required to comply with the Telecommunications Regulations and similar regulations apply in other jurisdictions in which Group companies operate. The Group aims to comply in all material respects with applicable environmental and health control laws, as well as all related permit requirements.

The Group believes that the principal environmental risk arising from its operations relates to the potential for electromagnetic pollution. The Group constantly strives to ensure that its radiation emission ranges are lower than the maximum levels permitted by applicable regulation. See *"Risk Factors—Risks relating to the telecommunications industry—Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage"*.

## **CORPORATE SOCIAL RESPONSIBILITY**

The Group's social responsibility strategy is based on the concept of sustainable development for all its businesses, in addition to committing to the highest professional and competitive standards in CIT sector. Further, it seeks digital solutions in partnership with the public and private sectors to comply with the objectives of National Transformation Plan 2020 ("**NTP 2020**") and Saudi Vision 2030, as well as reinforcing the Group's position as a pioneer company in the Middle East. The Group's corporate social responsibility ("**CSR**") strategy concentrates on:

- contributing to the adoption of initiatives and programs that support social responsibility in sustainable development and the achievement of development goals. For example, the Group supported Young Female Investor event, which was affiliated with the Ministry of Labor and Social Development, in order to empower families and children and youth to produce, invest, and display their products.
- the empowerment of the voluntary and community organisations through social investment in partnership with donor establishments. This includes the National Entrepreneurship Institute which is a non-profit national centre specialises in helping people interested in self-employment and owners of small and medium enterprises (SMEs) of both sexes. The Group has also cooperated with the Ministry of Health, establishing 22 medical centres across the Kingdom. In addition, the Group has supported the "King Salman Science Oasis" project with SAR 50 Million. The project aims to provide scientific programs to the youth and children and empower them to take interest in the sciences and technical applications. The Group has also contributed SAR 6 Million to establish "Saafah Foundation for Transparency and Integrity" that aims at spreading and enhancing the values of transparency, integrity and justice.

The Group believes that social responsibility is more than charitable work; it is a moral commitment, values and goals, and an integral part of the Group's core business strategy.

## MANAGEMENT

### The Board of Directors

The Group is managed by its Board, which has the final responsibility for the overall conduct of the Group's business. The Board is accountable to the Company's shareholders for the proper conduct of the business and also for ensuring the effectiveness of and reporting on STC's corporate governance framework. The Board is comprised of nine directors as required by the Company's By-Laws, which includes the Chairman and the Vice-Chairman of the Board. The Board comprises no executive directors and nine non-executive directors. Of the non-executive directors, three are independent. The Government nominates six of STC's nine-member Board and oversees STC's decision making, particularly in relation to its international investments. During the period from 1 January 2018 to 31 December 2018, the Board met eight times.

The resolutions made by the Board are enforced by the Chief Executive Officer, who also conducts the daily activities of the Group. Nasser Sulaiman Alnasser has been serving in that role since June 2018.

The business address of each of the members of the Board is King Abdulaziz Complex Imam Mohammed Bin Saud Street, Al Mursalat District, P.O. Box 87912, Riyadh 11652, Saudi Arabia. New members of the Board are appointed by the Company's shareholders from among candidates proposed by the existing Board on the recommendation of the Nomination and Remuneration Committee (as described in more detail below). Directorships are terminated upon the expiry of a three-year term, at which time the relevant director becomes subject to re-election. There is no limit to the number of times a member of the Board may be re-elected.

Termination of directorship can also take effect if any director is in breach of applicable laws and/or the requirements of STC's By-Laws.

The Company's current Board members were appointed and elected at the STC shareholders' General Assembly on 28 April 2018 for a three-year term. His Excellency Mohammed Talal Al-Nahas and Professor Kadi were existing members of the Board and were re-elected for a further three-year term. The other members of the Board, also elected at the STC shareholders' General Assembly are new members, appointed to the Board on 28 April 2018.

The directorships of the members of the current Board are due to expire on 28 April 2021.

As at the date of this Base Prospectus, the members of the Board are as follows:

Name	Position	Date of Initial Appointment	Committee Memberships	Status
His Highness Royal Prince Mohammed K. Al-Faisal	Chairman of the Board	April 2018	Member of the Executive committee Member of the Investment committee	Independent
His Excellency Dr. Khaled H. Biyari	Board Vice Chairman	April 2018	Member of the Executive Committee	Non-executive Dependent
His Excellency Mohammed Talal Al-Nahas	Board Member	February 2017	Member of the Investment Committee	Non-executive Dependent
Mr. Rashed Ibrahim Sharif	Board Member	April 2018	Member of the Investment Committee	Non-executive Dependent
Mr. Sanjay Kapoor	Board Member	April 2018	Member of the Executive Committee	Non-executive Dependent
Mr. Roy Chestnutt	Board Member	April 2018	Member of the Investment	Non-executive



<b>Name</b>	<b>Position</b>	<b>Date of Initial Appointment</b>	<b>Committee Memberships</b>	<b>Status</b>
			Committee	Dependent
Prof. Ibrahim A. Kadi	Board Member	April 2015	Chairman of the Audit Committee	Independent
			Member of the Executive Committee	
Mr. Osama Alkhiary	Board Member	April 2018	Chairman of the Nominations and Remunerations Committee	Independent
Mr. Ahmed Mohammed Alomran	Board Member	April 2018	Member of the Nominations and Remunerations Committee	Non-executive Dependent

Brief biographies of each of the directors are set out below.

***His Royal Highness Prince Mohammed K.A. Al-Faisal (Chairman)***

His Royal Highness Prince Mohammed K.A. Al-Faisal was appointed as Chairman of the Board in 2018. He also serves as President of Al Faisaliah Group Holding, a leading Saudi based investment company. Additionally, His Royal Highness Prince Mohammed K.A. Al-Faisal currently serves as Chairman of the Board of JP Morgan, Saudi Arabia and on the board of Al Khozama Management Company. In the past, Mr. Al-Faisal worked as an Assistant General Manager and Manager at the Saudi American Bank and earlier at Citibank in New York and in Geneva. Mr. Al-Faisal received his bachelor's degree from the King Fahd University of Petroleum and Minerals and his master's from Harvard Business School.

***His Excellency Dr. Khaled H. Biyari (Vice Chairman)***

His Excellency Dr. Biyari was elected as Vice Chairman and Director of the Board in 2018. Dr. Biyari previously served as CEO of STC from 27 April 2015 to 26 February 2018; Senior Vice President of Technology and Operations of STC Group from May 2013 to 27 April 2015; and as COO from January 2015 to 27 April 2015. He also served as the Chairman of STC Advanced Solutions and as Vice Chairman of STC VIVA Kuwait and OTL, as a board member of both Turk Telecom and Avea and as Director of Türk Telekomünikasyon A.S. until 2015. In 2016, Dr. Biyari was elected as Chairman of the SAMENA telecom Council. On 26 February 2018, Dr. Biyari was appointed to the position of Assistant Minister of Defense for Executive Affairs of the Kingdom of Saudi Arabia through royal Decree. Prior to joining STC, he served as Senior Vice President and General Manager of Advanced Electronics Company. In 2009, Dr. Biyari was elected by the Council of Ministers to the Board of the Electricity and Cogeneration Regulatory Authority in Saudi Arabia. From 1990 to 1995, he served as Professor of Communication Systems at the Electrical Engineering Department at King Fahd University of Petroleum and Minerals. He earned his Ph.D. in Electrical Engineering (Communication Systems) from the University of Southern California, Los Angeles in 1990 and his master's and bachelor's in electrical engineering from King Fahd University of Petroleum and Minerals in 1985 and 1983, respectively.

***His Excellency Mohammed Talal Al-Nahas (Board Member)***

His Excellency Mohammed Talal Al-Nahas was appointed to the Board in 2017. He also serves on the Boards of Saudi Basic Industries Corporation, Riyadh Bank, International Company for Water and Power Projects, General Organization for Social Insurance, National Center for Privatization, ASMA Capital, Taiba Holding Company, AIRaidah Investment Company, and was appointed as Chairman of the Board of AIRaidah Investment Company through a decision of the Board of Directors of the Public Pension Agency. After working with the SAMBA Group as a Production Officer from 1984 until 2008, he joined Alinma Bank and held the position of General Manager for Branch Banking until 2016, at which time he was appointed as Governor of the Public Pension Agency by royal decree. He earned his bachelor's degree in science from King Saud University, Riyadh, Saudi Arabia in 1984 and attended the Michigan Business School where he completed the Executive Program in 1998.

***Mr. Rashed Ibrahim Sharif (Board Member)***

Mr. Rashed Ibrahim Sharif was appointed to the Board in 2018. In 2017, Mr. Sharif joined the Public Investment Fund as Head of the Local Holdings Investments Division. Previously, he served as CEO of Riyadh Capital, a company fully owned by Riyad Bank. He has also served as Head of the Securities Listing Department at the Capital Market Authority. He was also a member of the team that successfully led the Capital Market Authority's effort to join the International Organization of Securities Commission in 2010 and worked as a member of the committee representing the Capital Market Authority in the capital market regulatory unification and standardisation effort. After spending six years at the Saudi Industrial Development Fund, Mr. Sharif served as Consumer Finance Relationship Manager at Bank Al-Bilad. He earned his MBA from Prince Sultan University in Riyadh and bachelor's degree in finance from King Fahd University in Dammam. Additionally, he completed the Chase Manhattan Bank Credit Program in New York, the Corporate Finance Modular Programme at the London Business School and in 2010 he attended the High Performance Leadership program delivered by the International Institute for Management Development.

***Mr. Sanjay Kapoor (Board Member)***

Mr. Sanjay Kapoor was appointed to the Board in 2018. He is also a board member of VLCC, iBus Networks and Infrastructure Pvt Ltd, Tech-Connect Retail Pvt. Ltd. and OnMobile Global Ltd. In the past, he served on the boards of GSMA (a global forum bringing together nearly 800 global mobile operators), Indus Towers, Bennet, Coleman and Co. Ltd, and PVR Limited. Mr. Kapoor is a senior advisor for Boston Consulting Group and Circles.life. He serves as a mentor to Tanla Solutions Ltd and was declared as "Telecom Person of the Year" at the Voice and Data Telecom Leadership Awards 2012. Mr. Kapoor was the CEO of Airtel, India's largest telecom company and in 2014 began serving as Chairman of the promoter group of Micromax Informatics Limited. He served as Director of Operations Support for Xerox India for fourteen years. Mr. Kapoor earned his bachelor's degree in commerce from Delhi University and his MBA from Cranfield School of Management. He is also a graduate of the Wharton Advanced Management Program.

***Mr. Roy Chestnutt (Board Member)***

Mr. Roy Chestnutt was appointed to the Board in 2018. He also joined Delta Partners in May 2018 as a non-executive partner based in New York. He has more than 30 years of experience advising and leading corporate strategies and operations for telecommunication companies globally. He spent seven years in various leadership positions in Verizon, including Executive Vice President, Chief Strategy Officer. He has held operational roles with Motorola Networks, Grande Communications and Sprint-Nextel. Roy sits on the board of Saudi Telecom, Telstra and Digital Turbine. He also was the former chair of the Chief Strategy Officers Group at the GSMA and sat on the board of directors. Roy has a Master of Business Administration from the University of San Francisco, with a focus on general management and international business. He also has a B.S. in Business Administration from San Jose State University.

***Prof. Ibrahim A. Kadi (Board Member)***

Professor Kadi was appointed to the Board in 2015 and continues to serve as an independent board member and as Chairman of the Audit Committee and as a member of the Executive Committee. He has previously served as Chairman of the Nomination and Remuneration Committee as well as the Governance, Risk and Compliance Committee. Professor Kadi also currently serves as a member of the Risk Management Committee at the Saudi Stock Exchange Co. Prior to joining the STC Board, Professor Kadi was an independent director of Oger Telecom Limited in Dubai and served on the boards of Maxis Berhad and MCB in Malaysia. For twenty years he worked as a professor of Communication Engineering at King Saud University until 2004 when he began work as a senior advisor at the CITC. Professor Kadi served as the International Telecommunications Union Representative to the Arab States, head of the ITU Arab Regional Office and Vice President for Engineering and Research and Development at Advanced Electronics Company. He earned his bachelor's degree in electrical engineering from Riyadh University and his master's from the University of Michigan. Professor Kadi holds a PhD from Stanford University and has published roughly 150 research papers and literary works.

***Mr. Osama Alkhiary (Board Member)***

Mr. Alkhiary was appointed to the Board in 2018. He currently serves as Chairman of the Nominations and Remunerations Committee of STC and is a member of the board of Namaa Almunawarah. Previously, Mr. Alkhiary was the Managing Director for Accenture in Saudi Arabia and General Manager for Alfaisaliah Business and Technology Company. He earned his bachelor's degree in operations research from King Saud University and completed the executive program from IMD. He is currently completing an EMBA from Hult International Business School.

***Mr. Ahmed Mohammed Alomran (Board Member)***

Mr. Alomran was appointed to the Board in 2018. He also serves as Vice Chairman for ISSA Technology Committee, and sits on the boards of Saudi Cement Company and TAKAMOL Holdings. He currently serves as Assistant Governor for Information Technology and previously as the General Manager for Infrastructure. Mr. Alomran earned a bachelor's in Information Systems from King Saud University and a master's in computer science from the Florida Institute of Technology.

**Committees of the Board of Directors**

In order to assist the Board in discharging its duties effectively and efficiently, the Board has established the following committees:

***Executive Committee***

The Executive Committee's primary duties and responsibilities are to review the strategies, as well as domestic and global activities, of the Group in all areas, and grant approval for such strategies and activities in accordance with the authority delegated to them by the Board. The Executive Committee held two meetings in 2018.

***Audit Committee***

The Group's internal audit function reports to the Audit Committee. The Audit Committee's primary duties and responsibilities are to review the Group's financial and administrative policies and procedures and to compile financial reports. The Audit Committee also reviews the reports and observations of the Group's internal audit function on a regular basis and refers recommendations to the Board to appoint, and if necessary terminate the appointment of, the Group's auditors, determine their fees and verify their independence.

The Audit Committee also reviews the Group's financial statements before presenting them to the Board. The Audit Committee also reviews the reports produced by the Group's auditors on the Group's financial statements and audit plan and provides relevant feedback. The Audit Committee held six meetings in 2018.

***Nomination and Remuneration Committee***

The Nomination and Remuneration Committee's primary duties and responsibilities are, firstly, to recommend new members and, secondly, to approve and endorse salaries by reviewing and approving the indemnity and remuneration policy before referring it to the Board. The Nomination and Remuneration Committee is also entitled to review the structure of the Board, refer recommendations with respect to required changes, verify the independence of independent members of the Board on an annual basis and ensure that no conflicts of interest arise in relation to Board members. The Nomination and Remuneration Committee held five meetings in 2018.

***Investment Committee***

The Investment Committee's primary duty and responsibility is to review any strategic investments made by the Group in accordance with the Group's overall strategy. The Investment Committee also reviews and considers any strategic investment opportunities and makes recommendations on suitable investments to the Board. The Investment Committee held two meetings in 2018.

## **Executive Management**

The Board is supported by the Group's senior management team. The business address of each of the senior management team is King Abdulaziz Complex Imam Mohammed Bin Saud Street, Al Mursalat District, P.O. Box 87912, Riyadh 11652, Saudi Arabia.

Brief biographies of each of the members of senior management, and their titles, are set out below.

### ***Nasser Sulaiman Alnasser (STC Group CEO)***

Mr. Alnasser was appointed as STC Group Chief Executive Officer in June 2018. Prior to his appointment, Mr. Alnasser served as COO, Senior Vice President of Technologies and Operations, GSM Network Operation and Maintenance Director, GSM Network Design Director, GSM Network Optimization Manager, Design and Optimization Regional Manager and Technical Coordination Engineer at STC. He has also held the positions of COO, Chief Technology Officer, Mobile Networks Director, Deputy Chief Technology Officer and Core Mobily Director at Mobily. Additionally, Mr. Alnasser held managerial and directorial positions at CITC. He earned a bachelor's degree in electrical engineering.

### ***Amin Fahad Alshiddi (CFO)***

Mr. Alshiddi was appointed as the Chief Financial Officer in June 2016. He previously held the positions of Finance Vice President, Head of Accounting and Director of General Accounting and Reporting at STC. He has also worked as a consultant and auditor with Al Rashed Certified Public Accountants. Mr. Alshiddi is a member of the board and Audit Committee of VIVA Kuwait, a member of the board and Audit Committee Chairman of Deutsche Gulf Finance, a member of the board of STC Channels, OTAS, OTL, Group Co., STC Solutions, Arab Submarine Cables Co., and board member and Audit Committee Chairman of STC VIVA Bahrain. He obtained a master's degree in accounting from Southwest Missouri State University in May 1998, a bachelor's degree in accounting, and qualified as a Certified Public Accountant, Certified Management Accountant, Certified Financial Manager.

### ***Jeremy Sell (Chief Strategy Officer)***

Mr. Sell was appointed as Chief Strategy Officer in August 2018. He has previously served as CFO, CSO, CEO, Head of Business Development, Director of Finance and Chartered Accountant at different companies and organisations including Mountain Partners AG, Ooredoo Group, Virgin Group, Orange PLC, Quest, Hackett Group Ltd, VPI Group PLC and Arthur Andersen. Mr. Sell holds a master's degree from the Arts University of Cambridge.

### ***Haithem Mohammed Alfaraj (Senior VP of Technology and Operations)***

Mr. Alfaraj was appointed as Senior Vice President of Technology and Operations in December 2018. He has previously served STC as Operations VP, Field Operations and Technical Customer Care Sector VP and VP of IT Operations. At Mobily, Mr. Alfaraj acted as VP of Hosting and Managed Services, Chief Technology Officer and Data Center Director. He also acted as Project Engineer at Lucent Tech and Systems Analyst at Saudi Aramco. Mr. Alfaraj is currently a member of the boards of STC Specialized and STC Pay. He is also a member of the Steering Committee at TowerCo. He holds a bachelor's degree in computer engineering.

### ***Riyadh Saeed Muawad (SVP of EBU)***

Mr. Muawad was appointed as Senior Vice President of Enterprise Business Unit in April 2019. He previously served as Vice President of Key Accounts at STC and held the positions of Senior Regional Manager, Defense and Aviation Sales Manager and Account Manager for Public Sector (Defense, Computer Associates and Director) at CISCO. He is currently a board member of VIVA Kuwait. Mr. Muawad holds a bachelor's degree in computer engineering.

### ***Eng. Ulaiyan Mohammed Alwetaid (Consumer Senior VP)***

Mr. Alwetaid was appointed as the Senior Vice President of Consumer Business Unit in January 2019. He has previously served in the roles of VIVA Bahrain CEO, International Operations Team Leader, Manpower Planning and Leadership Development Director, Head of HR Systems Support and

Telecommunication Engineer at STC. He held several positions at Saudi Aramco between October 2001 and October 2005. Mr. Alwetaid is currently the Chairman of Mena Telecom, Chairman of Intigral, a board member of STC Channels and member of the Executive Committee and a board member of Jawwy and their Executive Committee and Audit Committee. He holds a bachelor's degree in electrical engineering.

***Ali Abdullah Alharbi (Corporate Finance VP)***

Mr. Alharbi was appointed as Vice President of Corporate Finance in July 2018. At STC Mr. Alharbi has also worked as the financial controller. He has also served as Chief Financial Officer and acting Chief Executive Officer of the National Shipping Company of Saudi Arabia, Finance Manager at Obeikan Investment Group, Senior Accountant at El Seif Development Company and as Faculty Staff Member at the Institute of Public Administration. Mr. Alharbi is currently a member of multiple boards and audit committees and holds a master's degree in accounting from University of Colorado as well as a bachelor's degree in accounting with honours from King Saud University. He is also a certified public accountant, certified financial manager and certified internal auditor.

***Muhammad Noman Ansari (Treasurer, Head of Capital Management, (acting) Senior Financial Advisor)***

Mr. Ansari was appointed as Treasurer in 2013. Since joining STC in 2007, his work has involved investor relations affairs, domestic and international treasury matters, financial risk management and mergers and acquisitions. He has previously held positions on the executive boards and committees for other companies within the Group and sat on STC Solutions' Audit Committee. He is currently a member of the board of directors of Aqalat. Prior to joining STC, Mr. Ansari worked in senior management roles at Toyota Motors Corporation, Deloitte and Touche and Citibank. Mr. Ansari is a CFA charter holder from the CFA Institute, a member of the Institute of Chartered Accountants of Pakistan as well as the Information Systems Audit and Controls Association (ISACA) of the United States.

**Corporate Governance**

The Group is committed to high standards of corporate governance which are critical to its business integrity and to maintaining investors' trust in the Group.

The Group endorsed and began implementation of the Corporate Governance Regulations in February 2005. These regulations are made up of 31 principles relating to the articles issued by the Authority in 2006 and conforming to the statutes and rules issued by relevant bodies in Saudi Arabia. The Group also updated its bylaws, internal corporate governance policies, and board's and board committees' charters to comply with the new companies law issued on 28/1/1437H and the corporate governance regulations issued by the CMA in February 2017.

The policies and practices set out in the Corporate Governance Guidelines are intended to provide a framework for the efficient corporate governance of the Group. The policies are implemented by the internal audit function of the Group under the supervision of the Audit Committee. The internal audit function is also responsible for developing and executing the annual audit plan which is reviewed and approved by the Audit Committee.

**Compensation of Directors and Senior Management**

The remuneration for the members of the Board is based on the amount approved at the Company's shareholder's General Assembly, as recommended by the Board. Any subsequent revisions to the remuneration of members of the Board requires approval from the shareholders of the Company in the next General Assembly.

The Nomination and Remuneration Committee is responsible for devising the remuneration policy for the Group's executive management, with the objective of offering market competitive remuneration with the aim of retaining talent within the Group.

**Conflicts of Interest**

At all times, the members of the Board have a duty to avoid circumstances which may result in interests that conflict with those of the Group, unless that conflict is duly approved by the Board.

This includes potential conflicts that may arise when a director takes up a position with another company or when the Group enters into transactions or agreements in respect of which a director has a material interest. Each external appointment of a Board member is considered by the Board on a case-by-case basis, taking into account the expected time commitment and any relationships.

There are no conflicts of interest between the duties that the members of the Board owe to the Board, and the duties of executive management (named above) owe to the Board, and any of their respective private interests.

## OVERVIEW OF THE KINGDOM OF SAUDI ARABIA

*Unless otherwise specified or the context otherwise requires, information in this section has been derived from the KSA Prospectus.*

### Geography

Saudi Arabia comprises a land area of approximately 2,150,000 square km. and is located in the Arabian Peninsula, a peninsula of south-west Asia situated north-east of Africa. Saudi Arabia has coastlines on the Red Sea to the west and the Arabian Gulf to the east. It is bordered in the north and north-east by the Hashemite Kingdom of Jordan and the Republic of Iraq, in the east by Kuwait, Qatar and the UAE, in the south-east by Oman, in the south by the Republic of Yemen, and is connected to Bahrain by the King Fahd Causeway. Saudi Arabia is the largest country in the GCC.

The capital city of Saudi Arabia is Riyadh. Saudi Arabia has undergone rapid urbanisation in recent decades, and over 80 per cent. of the population of Saudi Arabia currently lives in cities, with approximately half the population of Saudi Arabia being concentrated in the six largest cities of Riyadh, Jeddah, Makkah, Medina, Ta'if and Damman. Makkah, the birthplace of the Prophet Muhammad (peace be upon him ("**PBUH**")), is home to the Grand Mosque (*al-masjid al-haram*), which surrounds Islam's holiest site (*al-ka'bah*), which is the direction of Muslim prayer. Medina, the burial place of the Prophet Muhammad (PBUH), is home to the Prophet's Mosque (*al-masjid an-nabawi*) and is Islam's second holiest city after Makkah.

In the west of Saudi Arabia, a geological exposure known as the Arabian-Nubian Shield contains various precious and basic metals such as gold, silver, copper, zinc, lead, tin, aluminium and iron and, mainly in the east of Saudi Arabia, extensive sedimentary formations containing various industrial minerals. Saudi Arabia's deeper sedimentary formations in the eastern part of the country contain most of its proven and recoverable oil reserves.

### Population and Demographics

The population of Saudi Arabia was estimated to be 33.4 million as at 31 July 2018, representing growth of 2.5 per cent. as compared to 32.6 million as at 31 July 2017. Saudi nationals were estimated to comprise 20.8 million, or 62.1 per cent. of the total population, and non-Saudi nationals comprised 12.6 million, or 37.8 per cent. of the total population as at 31 July 2018. Saudi Arabia has a young population, with just over half of Saudi nationals being under the age of 30 and 24.9 per cent. under the age of 15.

The non-Saudi portion of Saudi Arabia's total population comprises expatriates from neighbouring states as well as significant numbers of expatriates from Asia (mostly from India, Pakistan, Bangladesh, Indonesia and the Philippines), Europe, the Americas and other countries around the world. The official language of Saudi Arabia is Arabic, although English is widely spoken.

### Government and Political System

Saudi Arabia is a monarchy with a political system rooted in the traditions and culture of Islam. The Custodian of the Two Holy Mosques, the King of Saudi Arabia (the "**King**"), is both the head of state and the head of the Government. Royal Decree No. A/90 dated 1 March 1992 (the "**Basic Law of Governance**") provides that the Holy Quran and Sunnah (the teachings of the Prophet Muhammad (PBUH)) form the primary sources of law in Saudi Arabia. The Basic Law of Governance specifies that the King must be chosen from among the sons of the founding King, the Late King Abdulaziz bin Abdul Rahman Al Saud ("**King Abdulaziz**"), and their male descendants. In 2006, the Allegiance Council (*hay'at al-bay'ah*) was established, comprising: (i) the surviving sons of King Abdulaziz; (ii) one son of each deceased/incapacitated son of King Abdulaziz; and (iii) one son of the incumbent King and one son of the incumbent Crown Prince, both appointed by the incumbent King, to determine which member of the royal family will be the next King and the next Crown Prince. The current King, Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud, acceded to the throne on 23 January 2015. The current Crown Prince is His Royal Highness Prince Mohammed bin Salman bin Abdulaziz Al Saud, who also holds the positions of Deputy Prime Minister, Minister of Defence, Chairman of the Council for Economic and Development Affairs and Chairman of the Council for Political and Security Affairs.

Saudi Arabia is divided into 13 provinces, each of which has a governor and a provincial council. The provincial councils are empowered to determine the development needs of their respective provinces,

make recommendations and request appropriations in the annual budget. Saudi Arabia's 13 provinces comprise Riyadh, Makkah, Medina, the Eastern Province, Asir, Al Baha, Tabuk, Al Qassim, Ha'il, Al Jouf, the Northern Borders, Jizan and Najran. These provinces are further divided into 118 governorates, which are in turn sub-divided into municipalities. Pursuant to the Law of Regulation of Municipalities and Rural Areas, issued by Royal Decree No. 5/M in 2003, the term of each municipal council is two years and half of the members of any municipal council must be chosen by elections, while the other half are appointed by the Minister of Municipal and Rural Affairs. In 2015, women were allowed to stand for election to, and vote for the members of, the municipal councils.

### **Council of Ministers (*majlis al-wuzara*)**

The King also holds the position of Prime Minister and presides over the Council of Ministers (*majlis al-wuzara*), which was established by Royal Decree in 1953, and currently comprises the First Deputy Prime Minister, the Second Deputy Prime Minister, 19 Ministers with portfolios and eight Ministers of State. The Council of Ministers is selected by the King and is responsible for, among other things, executive and administrative matters such as foreign and domestic policy, defence, finance, health and education. The King and executive officials at the national, provincial and local levels also hold regular meetings, which are open to members of the public and where members of the public may discuss issues and raise grievances.

In 1974, in accordance with the Law of the Council of Ministers, the Bureau of Experts (formerly known as the Department of Experts) was established to assist the Council of Ministers. The Bureau of Experts is responsible for, among other things, reviewing and studying cases referred to it by the Council of Ministers and its sub-committees, drafting new laws, proposing amendments to existing laws and drafting forms for High Orders, Royal Decrees and Council of Ministers Resolutions, which are then presented to the Council of Ministers for approval.

### **Consultative Council (*majlis al-shura*)**

In 1992, in conjunction with the promulgation of the Basic Law of Governance, the Law of Provinces (addressing the designation and administration of Saudi Arabia's provinces) and the Law of the Consultative Council (*majlis al-shura*) were introduced. The Consultative Council comprises 150 members, of which at least 20 per cent. must be females. The Chairman, Vice Chairman and General Secretary of the Consultative Council are appointed or removed by the King. The Consultative Council has the authority to draft, review and debate legislation, which is then presented to the Council of Ministers for approval. Legislation approved by the Council of Ministers only acquires the force of law once the King has issued his approval by way of a Royal Decree. However, the Council of Ministers or the relevant government ministry or authority may be delegated the power to enact further executive regulations that govern the implementation of such legislation.

### ***Council for Political and Security Affairs and Council for Economic and Development Affairs***

In January 2015, a Royal Order was issued consolidating 12 existing Government councils and commissions under two new councils: (i) the Council for Political and Security Affairs (the "CPSA"); and (ii) the Council for Economic and Development Affairs (the "CEDA"). The formation of the CPSA and the CEDA was intended to promote greater efficiency and productivity in the various branches of the Government and enhance coordination between Government entities, thereby leading to swift decision-making and execution of proposals.

### **Recent restructuring of the Government**

As part of the Government's continuing efforts to effect structural reforms in Saudi Arabia's economy and society as envisaged by Vision 2030 (as defined below), and in furtherance of the Government's stated aims of streamlining the functioning of the public sector and aligning its operations more closely with the Government's strategic aims and objectives, the King, through a number of Royal Orders issued in May 2016, implemented numerous changes in the structure of the Government and the allocation of roles and responsibilities between the various Government ministries and departments. Some of the significant reforms included: (i) the creation of the new Ministry of Energy, Industry and Mineral Resources, which effectively replaces the former Ministry of Petroleum and Mineral Resources but is also responsible for all matters relating to energy as well as the industrial development of Saudi Arabia as contemplated by Vision 2030; (ii) the creation of the new Ministry of Environment, Water and Agriculture, which



effectively replaces both the former Ministry of Water and Electricity, with electricity now being part of the newly created Ministry of Energy, Industry and Mineral Resources mentioned above, as well as the Ministry of Agriculture; (iii) the creation of the new Ministry of Commerce and Investment, which effectively replaces the former Ministry of Commerce and Industry, with industry now being part of the Ministry of Energy, Industry and Mineral Resources mentioned above; (iv) the combination of the former Ministry of Labour and Ministry of Social Affairs into a single Ministry of Labour and Social Development; (v) the creation of two new bodies, the General Authority for Culture and the General Authority for Entertainment, which shall respectively be responsible for promoting the cultural and entertainment related goals set out in Vision 2030; and (vi) the former Ministry of Hajj has now been renamed as the Ministry of Hajj and Umrah, while the former Ministry of Islamic Affairs, Endowments, Call and Guidance has been renamed as the Ministry of Islamic Affairs, Call and Guidance.

In addition to the changes described above, a number of other Government institutions, including those related to education and sporting activities, have been created or restructured.

In April 2017, the National Security Centre was established pursuant to Royal Decree. The National Security Centre is headed by the Counsel of National Security and reports directly to the Royal Court.

In July 2017, a restructuring of the Ministry of the Interior, through a number of Royal Orders, was announced. The restructuring resulted in the establishment of a new government body named the Presidency of National Security that reports directly to the President of the Council of Ministers and to which all departments relevant to national security have been transferred.

In June 2018, pursuant to a number of Royal Orders, the Ministry of Culture, which is responsible for Saudi Arabia's cultural activities, was established and the name of the former Ministry of Culture and Information was amended to the Ministry of Media. These Royal Orders also established the Royal Commission for Makkah City and Holy Sites and the Council of Royal Reserves.

### **Vision 2030**

In April 2016, the Government announced its new strategy, known as "**Vision 2030**", which sets forth a comprehensive agenda of socio-economic reforms with the aim of achieving fundamental economic, social and structural changes in Saudi Arabia by the year 2030. Vision 2030 is based upon three fundamental existing strengths of Saudi Arabia: (i) its importance in the Arab and Islamic world; (ii) its leading investment capabilities; and (iii) its unique strategic geographical location with the ability to connect the three continents of Asia, Europe and Africa.

The key objectives of Vision 2030 include the diversification of Saudi Arabia's economy and decreased reliance upon oil-related revenues through, among other measures, the transformation of Saudi Aramco from an oil-producing company into a global industrial conglomerate and the transformation of the Public Investment Fund into a sovereign wealth fund. The Public Investment Fund intends to continue to assist the private sector with the establishment of capital intensive projects. In addition, Vision 2030 aims to reform Government services to increase transparency and accountability, as well as to expand the variety and scope of digital services offered by the Government in order to improve efficiency and reduce bureaucracy.

Vision 2030 focuses on three broad themes, each of which aims to capitalise on Saudi Arabia's existing strengths in its society, culture, heritage and economy. The three themes highlighted in Vision 2030 are societal development, economic reform and effective governance.

The Council of Ministers has delegated to the CEDA the overall responsibility for establishing and monitoring the measures required for the effective implementation of Vision 2030, and the CEDA has in turn established an integrated governance model to implement detailed programmes to attain the desired results.

### ***National Transformation Programme 2020***

This programme ("**NTP 2020**") was launched by the Government in June 2016 and establishes strategic objectives that are based on Vision 2030 and addresses various challenges involved in the implementation of Vision 2030 in accordance with the specified methodology and targets. The NTP 2020 was launched across 24 governmental bodies operating in the economic and development sectors. At the time of its

launch, the NTP 2020 included 16 ministries (including all the ministries represented in the CEDA) as well as eight governmental organisations closely connected with the overall objectives of Vision 2030.

The NTP 2020 seeks to identify both the strategic objectives, as well as the challenges, involved in the implementation of Vision 2030, followed by the launch of specific initiatives and the attainment of well-defined goals to be achieved by the year 2020 by each Government entity covered by the NTP 2020. At the time of its commencement, a total of 543 initiatives (with 346 targets to be achieved) were approved for launch during 2016, and the NTP 2020 estimates that the Government would spend approximately SAR268.4 billion (U.S.\$71.6 billion) on these initiatives through to the year 2020. As a result of the launch of the Vision 2030 realisation programmes, the Government is re-examining the scope of the NTP 2020 in order to eliminate overlaps between the NTP 2020 and other programmes and ensure that the NTP 2020 continues to meet the overall objectives of Vision 2030.

One of the key features of the NTP 2020 is maximising the private sector's participation in attaining the goals of the NTP 2020, thereby reducing the costs to be borne by the Government and enhancing the financial and developmental returns from the NTP 2020.

The CEDA has established procedures and processes for the transparent and effective implementation of the initiatives contained in the NTP 2020, including comprehensive and ongoing performance measurement mechanisms to enable the supporting agencies, such as the establishment of the National Centre for Performance Measurement and the Delivery Unit, to evaluate performance and recommend adjustments and corrective action where required.

### **Legal and Judicial System**

Saudi law is derived from the Basic Law of Governance and legislation enacted in various forms, the most common of which are Royal Orders, Royal Decrees, High Orders, Council of Ministers resolutions, ministerial resolutions and ministerial circulars having the force of law.

Saudi Arabia follows a civil law system. Saudi Arabia's judicial system comprises the general courts, which have general jurisdiction over most civil and criminal cases, and specialised courts covering certain specific areas of law, including a system of administrative courts known as the Board of Grievances, a Specialised Criminal Court, and various adjudicatory or quasi-judicial committees with special jurisdiction over such matters as banking transactions, securities regulation, intellectual property, labour disputes, tax, electricity industry disputes and medical malpractice.

In 2007, the Government announced a restructuring of the judicial system, including the establishment of courts of appeal and a supreme court, as well as the merger of most special adjudicatory committees into the general courts, though exceptions were made for certain adjudicatory committees. The committees that are exempted from the 2007 reforms include the Banking Disputes Committee, the Committee for the Enforcement of the Banking Control Law and the Committee for Resolution of Insurance Disputes and Violations, each of which operates under the aegis of the Saudi Arabian Monetary Authority; the Committee for the Resolution of Securities Disputes, which operates under the aegis of the Saudi Capital Markets Authority; and the Committee for Resolution of Custom Duties Disputes. The 2007 reforms also proposed the transfer of jurisdiction over commercial disputes from the Board of Grievances to the commercial courts which have started to hear disputes of a commercial nature as of 22 September 2017 pursuant to the Circular of the Supreme Court of Justice No. T/967 dated 01/01/1439H (corresponding to 22 September 2017). As part of the ongoing restructuring of the judicial system, personal status courts, courts of appeal and a supreme court have already been established.

The Board of Grievances has exclusive jurisdiction to hear claims against Government bodies. Before March 2012, the Board of Grievances had exclusive jurisdiction to consider the enforcement of foreign judgments and arbitral awards; however, with the enactment of the Enforcement Law in March 2012, this jurisdiction was transferred to newly-created "Enforcement Departments" staffed by specialised "enforcement judges". The Enforcement Departments may, at their discretion, enforce all or any part of a foreign judgment or arbitral award, subject to certain conditions, which include compliance of such judgment or award with public policy in Saudi Arabia. The Board of Grievances also has exclusive jurisdiction to supervise insolvency and bankruptcy proceedings relating to commercial entities; however, this supervisory role will be transferred to the Commercial Court, pursuant to the Bankruptcy Law issued pursuant to Royal Decree No. M/50 dated 28/05/1439H (corresponding to 14 February 2018) and its implementing regulations issued pursuant to the Council of Ministers Resolution No. 622 dated

24/12/1439H (corresponding to 4 September 2018) and published in the official gazette on 30/12/1439H (corresponding to 10 September 2018) as amended, supplemented or restated from time to time.

In June 2017, a Royal Order was issued changing the name of the Bureau of Investigation and Public Prosecution to the Public Prosecution and establishing it as an independent government body that reports directly to the King, headed by a general prosecutor.

In March 2018, the King approved the establishment of specialised departments within the Public Prosecution, which are directly linked to the Attorney General, to investigate corruption cases.

### ***Competition Law***

The New Competition Law was issued pursuant to royal decree number M/75 dated 29/6/1440H (the "**Competition Law**"). The main objective of the Competition Law is to protect and encourage fair competition in the market and monitor and prohibit all practices that might affect fair competition and the consumers' interest. The Competition Law aims to enhance the competition in the market and contribute to the development of the economy.

The Competition Law prohibits any activity, including any contract or agreement between any entity, whether written or verbal, explicit or implicit, which aims to or may result in restricting or negatively affecting the fair competition in the market. Further, entities with a dominant position in the market or an important part of the market are prohibited from abusing their position to either negatively affect or restrict competition.

Entities intending to participate in an economic concentration (as defined in the Competition Law) are required to notify the General Authority for Competition at least 90 days prior to the completion of such concentration, provided that the annual sales revenue of such entities exceeds a specific amount set out in the Implementing regulations (which has not been issued as at the date of this Base Prospectus).

Entities violating the Competition Law may be exposed to severe consequences, including a fine not exceeding 10 per cent. of the annual sales revenue or SAR 10,000,000 (if the sales revenue cannot be estimated).

### **Economy**

Saudi Arabia had the nineteenth largest economy in the world and the largest economy in the GCC region in the year ended 31 December 2017. Saudi Arabia's economy accounted for 47 per cent. of the combined nominal GDP of the GCC countries and 20 per cent. of the combined nominal GDP of the countries in the Middle East and North Africa region in the year ended 31 December 2017.

Based on preliminary figures, Saudi Arabia's real GDP (based on constant 2010 prices) was SAR647.8 billion (U.S.\$172.7 billion) in the three month period ended 31 March 2018, representing an increase of 1.2 per cent. in real terms as compared to real GDP of SAR640.4 billion (U.S.\$170.8 billion) in the three month period ended 31 March 2017. Saudi Arabia's nominal GDP was SAR688.1 billion (U.S.\$183.5 billion) in the three month period ended 31 March 2018, representing an increase of 8.8 per cent. in nominal terms as compared to real GDP of SAR632.4 billion (U.S.\$168.6 billion) in the three month period ended 31 March 2017.

Based on preliminary figures, Saudi Arabia's real GDP (based on constant 2010 prices) was SAR2,565.6 billion (U.S.\$684.2 billion) in the year ended 31 December 2017, representing a decrease of 0.9 per cent. in real terms as compared to real GDP of SAR2,587.8 billion (U.S.\$690.1 billion) in the year ended 31 December 2016, which itself represented an increase of 1.7 per cent. in real terms as compared to real GDP of SAR2,545.2 billion (U.S.\$678.7 billion) in the year ended 31 December 2015. Saudi Arabia's nominal GDP was SAR2,575.3 billion (U.S.\$686.7 billion) in the year ended 31 December 2017, representing an increase of 6.5 per cent. in nominal terms as compared to nominal GDP of SAR2,418.5 billion (U.S.\$644.9 billion) in the year ended 31 December 2016, which itself represented a decrease of 1.4 per cent. compared to nominal GDP of SAR2,453.5 billion (U.S.\$654.3 billion) in the year ended 31 December 2015.

Saudi Arabia possessed the world's second largest proven oil reserves (accounting for 18.0 per cent. of the world's total oil reserves) as at 31 December 2017 and was the world's second largest oil producer (accounting for 13.3 per cent. of the world's total oil production) and the world's largest oil exporter

(accounting for 15.6 per cent. of the world's total oil exports by volume) in the year ended 31 December 2017. At Saudi Arabia's current production levels of 10.0 million barrels per day ("**bpd**") on average in the year ended 31 December 2017, and without taking into consideration the discovery of additional reserves or developments in the oil production process, Saudi Arabia's oil reserves of 266.3 billion barrels will last for approximately another 70 years. Since oil was first discovered in Saudi Arabia in 1938, Saudi Arabia's economy has expanded rapidly, principally due to the revenues generated from the export of crude oil and related products.

Based on preliminary figures, the non-oil sector of the economy contributed 69.3 per cent. and 71.0 per cent. to Saudi Arabia's nominal GDP and grew by 6.2 per cent. and declined by 2.7 per cent. in nominal terms in the three month periods ended 31 March 2018 and 2017, respectively. Based on preliminary figures, the non-oil sector of the economy contributed 70.6 per cent. and 74.3 per cent. to Saudi Arabia's nominal GDP and grew by 1.2 per cent. and 1.7 per cent. in nominal terms in the years ended 31 December 2017 and 2016, respectively. Furthermore, the prioritisation by the Government of the non-oil private sector, which is a key element of the Government's economic diversification policy, has contributed and is expected to continue to contribute to growth in the non-oil private sector of Saudi Arabia.

The hydrocarbon industry is the single largest contributor to Saudi Arabia's economy. Saudi Aramco, the state-owned oil company of Saudi Arabia, is the principal producer of oil and natural gas in Saudi Arabia. According to the Ministry of Energy, Industry and Mineral Resources, and based on preliminary figures, Saudi Arabia's crude oil and condensate reserves stood at 266.3 billion barrels as at 31 December 2017. Based on preliminary figures, the oil sector accounted for 43.0 per cent. and 44.0 per cent. of Saudi Arabia's real GDP and 28.5 per cent. and 24.6 per cent. of Saudi Arabia's nominal GDP in the years ended 31 December 2017 and 2016, respectively, while oil revenues accounted for 63.0 per cent. and 64.3 per cent. of total Government revenues in the fiscal years 2017 and 2016, respectively. Oil exports accounted for 77.0 per cent. of Saudi Arabia's total export earnings in the year ended 31 December 2017.

## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the registered office of the Trustee and the specified offices of each Paying Agent.*

### **Master Restricted Mudaraba Agreement, as supplemented by each Supplemental Mudaraba Agreement**

A master restricted mudaraba agreement (the "**Master Restricted Mudaraba Agreement**") will be entered into on 26 April 2019 between the Trustee (as "**Rab Al Maal**"), STC (as "**Mudareb**") and the Delegate and will be governed by English law. A supplemental mudaraba agreement between the same parties shall be entered into on the Issue Date of the first Tranche of each Series and shall also be governed by English law (the "**Supplemental Mudaraba Agreement**" and, together with the Master Restricted Mudaraba Agreement, the "**Restricted Mudaraba Agreement**").

In respect of each Series, the Rab Al Maal has agreed to pay to the Mudareb, on the relevant Issue Date, the Mudaraba Capital (as specified in the applicable Final Terms (or Pricing Supplement, as applicable) and which shall not be less than 51 per cent. of the proceeds of the issuance of the relevant Tranche of Certificates). The Mudareb shall undertake to invest the Mudaraba Capital less an amount equal to the All Expenses Reserve Amount (as defined in the Service Agency Agreement) on the relevant Issue Date by acquiring certain assets (the "**Mudaraba Assets**") and subsequently on the relevant Issue Date: (i) enter into a Lease Agreement (as defined below) to lease those Mudaraba Assets (such leased assets, the "**Lease Assets**"); (ii) enter into a Service Agency Agreement (as defined below) in respect of certain services to be rendered in respect of the Lease Assets; and (iii) pay an amount equal to the All Expenses Reserve Amount to the Service Agent in accordance with the Service Agency Agreement as an advance for Service Charge Amounts to be incurred by the Service Agent.

The income from the Mudaraba Assets (including, for the avoidance of doubt, any Rental received by the Mudareb under the Lease Agreement) less mudaraba costs (consisting of the costs and expenses incurred by the Mudareb in performing the Mudaraba activities, the incurrence or payment of which shall require the approval of the Rab Al Maal and the Delegate) shall be the "**Mudaraba Income**". The Mudaraba Income will be shared between the Mudareb and the Trustee (as Rab Al Maal) in the following profit sharing ratio: 1 per cent. for the Mudareb (the "**Mudareb Profit**") and 99 per cent. for the Rab Al Maal (the "**Rab Al Maal Profit**").

On the business day prior to each Periodic Distribution Date, the Mudareb shall calculate the Mudaraba Income received during the relevant Return Accumulation Period on the basis of the Mudaraba Income, including Rental received pursuant to the Lease Agreement by the Mudareb during the relevant periodic distribution period, and shall credit the Mudaraba Income to a ledger collection account opened and maintained by the Mudareb (the "**Mudaraba Collection Account**"). On each Periodic Distribution Date, the Mudareb shall apply the amounts standing to the credit of the Mudaraba Collection Account on a *pari passu* basis as follows: (i) with respect to any Mudareb Profit, to retain such amount for itself; and (ii) with respect to any Rab Al Maal Profit, by crediting to a non-interest bearing account of the Trustee maintained in London (the "**Transaction Account**") the amount equal to the scheduled Periodic Distribution Amount Payable under the Certificates on the immediately following Periodic Distribution Date (the "**Expected Amount**") and shall be applied by the Trustee for such purpose.

Any Rab Al Maal Profit remaining in the Mudaraba Collection Account in excess of the Expected Amount shall be held by the Mudareb for the benefit of the Trustee, save that the Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Collection Account at any time prior to the applicable Dissolution Date to reinvest such amounts in additional Mudaraba Assets.

On the Scheduled Dissolution Date or in any other instance where the relevant Series is redeemed in full:

- (i) the Buyer shall pay the aggregate outstanding Deferred Sale Price in full to the Seller by crediting such amount to the relevant Transaction Account; and
- (ii) the outstanding Rental under the Lease Agreement shall become immediately due and payable in accordance with its terms and the Mudareb shall liquidate the Mudaraba Assets at their current

market value on the applicable redemption date. The proceeds of such liquidation shall be paid by the Mudareb: (a) to the Transaction Account, provided that such payment shall not exceed an amount equal to 15 per cent. of the outstanding face amount of the Certificates plus any accrued but unpaid Periodic Distribution Amounts relating to the aggregate face amounts of Certificates being redeemed all outstanding amounts due under the Certificates on the business day prior to the applicable redemption date; and (b) the balance being paid into the Mudaraba Collection Account.

Such amounts will be used to fund the relevant Dissolution Amount payable by the Trustee under the Certificates. Following the redemption of the Certificates in full, the Mudareb shall be entitled to deduct and retain all Rab Al Maal Profit remaining in the Mudaraba Collection Account as an incentive for its own account.

To the extent there is an early partial dissolution event in respect of which a Partial Dissolution Amount is due and payable, a corresponding part of the Deferred Sale Price under the Master Murabaha Agreement and a corresponding part of the Rental under the Lease Agreement shall become due and payable and there will be a partial liquidation of the Mudaraba and such proceeds shall be used to satisfy the Trustee's obligations to the Certificateholders.

#### ***Lease Agreement***

A lease agreement between the Trustee, the Mudareb (as "**Lessor**"), STC (as "**Lessee**") and the Delegate shall be entered into on the Issue Date of the first Tranche of each Series and shall be governed by English law (the "**Lease Agreement**").

Pursuant to the Lease Agreement, on the Issue Date, the Lessor shall lease to the Lessee and the Lessee shall irrevocably and unconditionally lease from the Lessor, the Lease Assets from the date of the Lease Agreement to the Scheduled Dissolution Date of the relevant Series of Certificates (unless the Lease Agreement is terminated earlier in accordance with its terms) (such term being the "**Lease Term**") in consideration of payment by the Lessee on each rental payment date (the "**Rental Payment Date**", being the relevant Periodic Distribution Date) of rental determined in accordance with the Lease Agreement (the "**Rental**") for each rental period (the "**Rental Period**", being the relevant Return Accumulation Period) upon and subject to the terms and conditions contained in the Lease Agreement.

The Lessee shall take delivery of the Lease Assets in their current condition on an "as is" basis (without any warranty, express or implied, as to condition, fitness for purpose, suitability for use or otherwise, and if any warranty is implied by law it shall be excluded to the fullest extent permitted by law) from the Lessor. The Lessee shall, at its own cost and expense, be responsible for the performance of all repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Lease Assets and to keep, repair, maintain and preserve the Lease Assets in good order, state and condition (which shall, for the avoidance of doubt, exclude all structural repair and major maintenance, including doing such acts or things and taking such steps to ensure that the Lease Assets are fit for their original purpose and suffer no damage, loss or diminution in value, without which the Lease Assets could not be reasonably and properly used by the Lessee ("**Major Maintenance and Structural Repair**"). The Lessor shall be responsible for: (i) all Major Maintenance and Structural Repair; (ii) payment of any Taxes in relation to the Lease Assets imposed, charged or levied by law, regulation or decree against a proprietor, but excluding all Taxes that are imposed, charged or levied by law, regulation or decree against a lessee or a tenant of such assets ("**Proprietorship Taxes**"); and (iii) insuring the Lease Assets (other than in respect of operational insurance and third party liability insurance which shall be the responsibility of the Lessee) (the "**Insurances**").

The parties to the Lease Agreement have agreed that the Trustee will have direct recourse to the Lessee in respect of any Rental which is due to the Lessor in the event of any non-payment by the Lessee or following an insolvency or winding up of Saudi Telecom Company.

#### ***Service Agency Agreement***

A service agency agreement between the Trustee, the Lessor, STC (as "**Service Agent**") and the Delegate shall be entered into on the Issue Date of the first Tranche of each Series and shall be governed by English law (the "**Service Agency Agreement**").

Pursuant to the Service Agency Agreement, the Lessee shall instruct the Service Agent to perform, or to procure the performance of, certain services (the "**Services**") including the Major Maintenance and Structural Repair, the payment of any Proprietorship Taxes and procuring the Insurances to the extent consistent with general industry practice by prudent owners of similar assets against a Total Loss Event in an insured amount, at all times, at least equal to the Full Reinstatement Value, in each case, in accordance with the terms and conditions set out in the Service Agency Agreement. The Service Agent shall provide the Services in accordance with the terms hereof for the duration of the Lease Term.

In consideration of the Service Agent acting as agent of the Lessor in relation to the Lease Assets, the Service Agent shall receive a fee of U.S.\$100, payable on the date of Service Agency Agreement (the receipt and adequacy of which the Service Agent shall acknowledge).

As an advance to the Service Agent for Service Charge Amounts to be paid or incurred by it in respect of the Services, the Lessor shall procure that an amount equal to the All Expenses Reserve Amount (as defined in the Service Agency Agreement) is paid to the Service Agent on the date of the Service Agency Agreement. The Service Agent shall not be permitted to incur or pay any liability in respect of the Services to be performed in relation to the relevant Lease Assets which, individually or in the aggregate, would exceed the All Expenses Reserve Amount without the consent of the Lessor, the Trustee and the Delegate.

The Service Agent shall, on or prior to each Services Invoice Date, submit to the Lessor or its agent the invoice in the Specified Currency for each liability comprising the Service Charge Amounts, as soon as practicable after the payment or incurrence of each such liability comprising the Service Charge Amounts and, in any case, an invoice consolidating all liabilities comprising the Service Charge Amounts paid or incurred during a Rental Period on the Services Invoice Date. On the Rental Payment Date immediately following the Service Invoice Date, the Service Agent shall be entitled to deduct an amount equal to the Service Charge Amounts specified in such consolidated invoice from the All Expense Reserve Amount by way of reimbursement for the Service Charge Amounts.

For this purpose:

- (i) "**Full Reinstatement Value**" means, at any time, an amount equal to the aggregate of: (a) (1) the face amount of the Certificates outstanding at that time; (2) an amount equal to the then prevailing Periodic Distribution Amounts which has accrued or would have accrued (had a Total Loss Event not occurred) for a period of 60 days in relation to the Certificates then outstanding; and (3) without duplication or double counting, an amount equal to any Service Charge Amount or any Additional Service Charge Amount outstanding under the terms of the Service Agency Agreement in relation to the Lease Assets or any Mudaraba Costs outstanding under the Master Restricted Mudaraba Agreement; less (b) the aggregate amount of the Deferred Sale Price (as defined below) outstanding;
- (ii) "**Service Charge Amount**" means, in respect of a Rental Period, all payments and liabilities incurred or paid by the Service Agent in respect of the Services performed in relation to the Lease Assets during that Rental Period; and
- (iii) "**Total Loss Event**" means: (a) the total loss or destruction of, or damage to the whole of, the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances payable or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or (b) the expropriation, nationalisation, requisition, confiscation, attachment, sequestration or execution of any legal process in respect of the whole of the Lease Assets.

### ***Total Loss Event***

By no later than the 59<sup>th</sup> day after the occurrence of a Total Loss Event, the Lessor may procure the identification of available replacement Lease Assets to which STC has full legal title free of any encumbrance and the aggregate value of which is not less than the aggregate value of the Lease Assets immediately prior to the occurrence of the Total Loss Event (the "**Replacement Lease Assets**"). Following such identification of the Replacement Lease Assets by the Lessor, the Lessor shall notify the Service Agent and the Rab Al Maal of the same and the Lessor may acquire such Replacement Lease

Assets from STC by: (i) paying or procuring the payment of the proceeds of the Insurances (or the assignment of the rights to such proceeds) to or to the order of STC; and (ii) transferring to STC of any residual interest it may hold in the Lease Assets (including any remaining rights in respect of any proceeds of the Insurances). Following such acquisition, the Service Agent shall, on behalf of the Lessor, deliver a lease asset replacement notice to the Lessee (such notice being the "**Lease Asset Replacement Notice**") whereupon the Lease Agreement shall continue on the same terms save that the Lease Assets will be the assets described in the Lease Asset Replacement Notice.

If the Lease Assets are not replaced pursuant to the Service Agency Agreement and as provided immediately above and if the Service Agent fails to comply with its obligations to obtain and maintain the required insurances in respect of the Lease Assets, and as a result of such breach the amount (if any) credited to the Transaction Account pursuant to clause 6.1 of the Service Agency Agreement is less than the Full Reinstatement Value (the difference between the Full Reinstatement Value and the amount credited to the Transaction Account being the "**Total Loss Shortfall Amount**"), then the Service Agent acknowledges that it shall have failed in its responsibility to properly insure the Lease Assets and accordingly (unless it proves beyond any doubt that any shortfall in the insurance proceeds is both: (a) not attributable to its negligence; and (b) not attributable to its failing to comply with the terms of the Service Agency Agreement relating to the Insurances) irrevocably and unconditionally undertakes to pay (in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly to the Transaction Account by no later than the 61<sup>st</sup> day after the Total Loss Event has occurred. Subject to paying such Total Loss Shortfall Amount, there will be no further claim against the Service Agent for failing to comply with its insurance obligations. Any breach of clause 6.1 of the Service Agency Agreement will not constitute a STC Event.

#### **Master Murabaha Agreement**

The Master Murabaha Agreement will be entered into on 26 April 2019 between the Trustee (as "**Seller**"), STC (as "**Buyer**") and the Delegate and will be governed by English law.

Pursuant to the Master Murabaha Agreement, the Seller shall enter into a commodity purchase transaction (such commodities being the "**Commodities**") with the Buyer using the Murabaha Investment Amount (as specified in the applicable Final Terms (or Pricing Supplement, as applicable) and which shall be no more than 49 per cent. of the proceeds of the issuance of the relevant Tranche of Certificates). In relation to each Tranche, the Buyer may issue a duly completed, irrevocable notice (a "**Notice of Request to Purchase**") to the Seller (with a copy to HSBC Bank Middle East Limited (as "**Commodity Agent**")) in relation to a proposed Murabaha Contract. Pursuant to such Notice of Request to Purchase, the Seller (acting through the Commodity Agent) shall purchase the Commodities which are the subject of that Notice of Request to Purchase from the commodity supplier at the relevant purchase price (the "**Commodity Purchase Price**") in accordance with the terms set out in that Notice of Request to Purchase. Upon completion of such purchase by the Seller and the Seller gaining title and (actual or constructive) possession thereof, the Seller shall offer to sell such Commodities to the Buyer on a deferred payment basis (at the "**Deferred Sale Price**") by delivering a notice (an "**Offer Notice**") to the Buyer (with a copy to the Commodity Agent). Immediately upon receipt of a duly completed and issued Offer Notice from the Seller in respect of the relevant Commodities, the Buyer may accept such offer to purchase the Commodities from the Seller on the Issue Date at the relevant Deferred Sale Price (to be paid in the Specified Currency and amounts and on the dates as specified in the relevant Offer Notice).

As soon as the Buyer has accepted the Seller's offer by countersigning the relevant Offer Notice, a Murabaha Contract shall be created between the Seller and the Buyer upon the terms of the Offer Notice and incorporating the terms and conditions set out in the Master Murabaha Agreement and the ownership of, (actual or constructive) possession of and all risks in and to the Commodities shall immediately pass to and be vested in the Buyer, together with all rights and obligations relating thereto.

Each of the Seller and the Buyer shall acknowledge and agree that a failure to create the relevant Murabaha Contract by the time specified in the Master Murabaha Agreement shall result in the Offer Notice for such Murabaha Contract being void *ab initio*, whereupon the Buyer undertakes to compensate the Seller in respect of all actual costs, claims, losses and expenses of whatsoever nature (not to include any opportunity costs and funding costs) suffered or incurred by the Seller as a result of such failure (except to the extent arising from the gross negligence, wilful default or fraud of the Seller).



Capitalised terms and expressions used in the above paragraphs which are not defined herein shall have the meanings set out in the Master Murabaha Agreement.

### **The Master Declaration of Trust, as supplemented by each Supplemental Declaration of Trust**

A master declaration of trust (the "**Master Declaration of Trust**") will be entered into on 26 April 2019 between the Trustee, STC and the Delegate and will be governed by English law. A supplemental declaration of trust between the same parties shall be entered into on the Issue Date of each Tranche of Certificates and shall also be governed by English law (the "**Supplemental Declaration of Trust**" and, together with the Master Declaration of Trust, the "**Declaration of Trust**").

Upon the issue of one or more Global Certificates initially representing the Certificates of any Series, the relevant Declaration of Trust shall constitute the trust declared by the Trustee in relation to such Series (the "**Trust**").

The trust assets in respect of each Series of Certificates (the "**Trust Assets**") shall comprise: (i) the cash proceeds of the issue of such Series of Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (ii) the interests, rights, benefits and entitlements, present and future, of the Trustee in, to and under the relevant Mudaraba Assets and Lease Assets; (iii) the interests, rights, benefits and entitlements, present and future, of the Trustee in, to and under the Transaction Documents (excluding: (a) any representations given by STC to the Trustee pursuant to any of the Transaction Documents and/or any rights which have been expressly waived by the Trustee in any of the Transaction Documents; and (b) the covenants given by STC pursuant to clause 17 of the Master Declaration of Trust); (iv) all monies standing to the credit of the relevant Transaction Account from time to time, and (v) all proceeds of the foregoing. The Trust Assets shall be held by the Trustee upon trust absolutely for and on behalf of the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the relevant Declaration of Trust.

Each Declaration of Trust will specify that no payment of any amount whatsoever shall be made by the Trustee, STC, the Delegate or any of their respective shareholders, directors, officers, employees or agents on their behalf except: (1) in the case of the Trustee, to the extent funds are available therefor from the Trust Assets of the relevant Series; or (2) in the case of STC, to the extent it has not fulfilled its obligations under the Transaction Documents to which it is a party. No recourse shall be had for the payment of any amount due and payable hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.

### ***Delegation***

The Trustee has irrevocably and unconditionally appointed the Delegate to: (i) execute, deliver and perfect all documents; and (ii) to exercise all of the present and future powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant Declaration of Trust, that the Delegate may consider to be necessary or desirable in order (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) to exercise all of the rights of the Trustee under the Transaction Documents, take such other steps as the Trustee or the Delegate may consider necessary to recover amounts due to the Certificateholders and make such distributions from the relevant Trust Assets as the Trustee is bound to make in accordance with the relevant Declaration of Trust (together, the "**Delegation**" of the "**Relevant Powers**"), provided that: (a) no obligations, duties, Liabilities (as defined in the Master Declaration of Trust) or covenants of the Trustee pursuant to this Deed or any other Transaction Document shall be imposed on the Delegate by virtue of this Delegation; (b) in no circumstances will such Delegation result in the Delegate holding on trust or managing the relevant Trust Assets; and (c) such Delegation and the Relevant Powers shall not include any duty, power, trust, authority, rights or discretion to dissolve any of the trusts constituted by a Declaration of Trust following the occurrence of a Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers. The appointment of such Delegate is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee of the Trust.

## ***Enforcement***

The Master Declaration of Trust specifies, *inter alia*, that:

- (i) no Certificateholder shall be entitled to proceed directly against the Trustee or STC under any Transaction Document to which either of them is a party unless: (a) the Delegate: (1) fails to do so within a reasonable time of becoming so bound and such failure its continuing; or (2) is unable by reason of an order of a court having competent jurisdiction to do so and such inability is continuing; and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or STC as the case may be) holds at least one-fourth of the then outstanding aggregate face amount of the Certificates pertaining to the relevant Series. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets, and the sole right of the Delegate and the Certificateholders against the Trustee and/or STC shall be to enforce their respective obligations under the Transaction Documents;
- (ii) neither the Trustee nor the Delegate shall be bound in any circumstances to take any action to enforce or to realise the relevant Trust Assets or take any action, steps or proceedings against the Trustee and/or STC (as applicable) under any Transaction Document to which either of the Trustee or STC is a party unless directed or requested to do so: (a) by an Extraordinary Resolution (as defined in the Master Declaration of Trust); or (b) in writing by the holders of at least one-fourth of the then outstanding aggregate face amount of the Certificates of the relevant Series and, in each case, then only if it is indemnified and/or secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby render itself liable and provided that neither the Trustee nor the Delegate shall be held liable for the consequences of exercising or not exercising its discretion or taking or not taking any such action and may do so without having regard to the effect of such action or the failure to take action on individual Certificateholders; and
- (iii) paragraph (i) and paragraph (ii) above are subject to this paragraph (iii). After enforcing or realising the Trust Assets in respect of the Certificates of the relevant Series and distributing the net proceeds of the Trust Assets in accordance with the Conditions and the relevant Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and the Trustee shall not be liable for any further sums in respect of such Series and, accordingly, no Certificateholder may take any action, steps or proceedings against the Trustee (to the extent that the Trust Assets have been exhausted) (or any steps against the Delegate) or any other person (including STC (to the extent that it fulfils all of their relevant obligations under the relevant Transaction Documents to which they are a party)) to recover any further sums in respect of such Certificates and the right to receive any such sums remaining unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any steps for the winding-up of the Trustee nor shall any of them have any claim in respect of the Trust Assets of any other trust established by the Trustee.

## ***Indemnity***

STC shall undertake to the Trustee and Delegate that if on a Dissolution Date, any Rental or Deferred Sale Price is not received by the Trustee in the Transaction Account in accordance with the provisions of the Master Restricted Mudaraba Agreement, the Lease Agreement or the Master Murabaha Agreement (as the case may be) for any reason whatsoever, STC shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the outstanding Certificates of such Series and, accordingly, the amount payable under any such indemnity claim will equal the Rental and Deferred Sale Price.

## ***Declaration of Commingling of Assets***

If the Trustee issues additional Certificates in respect of an existing Series pursuant to Condition 21, on the date of issue of such additional Certificates, the Trustee will execute a Declaration of Commingling of Assets (in the form scheduled to the Master Declaration of Trust) for and on behalf of the holders of the existing Certificates and the holders of such additional Certificates so issued, declaring that the Additional Mudaraba Assets (as defined in the relevant Declaration of Commingling of Assets) and the Mudaraba Assets in respect of the relevant Series as in existence immediately prior to the creation and issue of the

additional Certificates and each Commodity Murabaha Transaction made pursuant to the Master Murabaha Agreement (and all rights arising under or with respect thereto) in relation to the relevant Series are commingled and shall collectively comprise part of the Trust Assets for the benefit of the holders of the existing Certificates and the holders of such additional Certificates as tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder, in accordance with the relevant Declaration of Trust.

### **Agency Agreement**

Pursuant to an agency agreement (the "**Agency Agreement**") entered into on 26 April 2019 between, amongst others, the Trustee, STC and the Principal Paying Agent, provision will be made for, *inter alia*, payment of all sums due in respect of the Certificates.

### **Payments**

STC has agreed in the Transaction Documents that payments thereunder by STC shall be made without deduction or withholding for, or on account of, any present or future Taxes, unless the deduction or withholding of the Taxes is required by law and, in such case, provide for the payment by STC of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

STC has also agreed in the Master Declaration of Trust that if the Trustee fails to comply with any obligation to pay additional amounts pursuant to Condition 12, STC shall unconditionally and irrevocably (irrespective of the payment of any fee), as a continuing obligation, pay to the Delegate (for the benefit of the Certificateholders) such additional amounts as shall be necessary in order that the aggregate net amounts received by the Certificateholders and the Delegate for the benefit of the Certificateholders after all withholding or deductions shall equal the amounts that would have been receivable in the absence of any deduction or withholding to which this paragraph applies.

### **Shari'a Compliance**

Each of the Trustee and STC has agreed in the Transaction Documents that, to the extent permitted by law:

- (i) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is *ultra vires* or not compliant with the principles of *Shari'a*; and
- (ii) it shall not take any steps or bring any proceedings in any forum to challenge the *Shari'a* compliance of the Transaction Documents to which it is a party.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Clearstream, Luxembourg or Euroclear (together, the "Clearing Systems") in effect as at the date of this Base Prospectus. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Trustee, STC, the Delegate nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### Book-Entry Systems

#### DTC

DTC is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, together with Direct Participants, "Participants"). More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "DTC Rules"), DTC makes book-entry transfers of Certificates among Direct Participants on whose behalf it acts with respect to Certificates accepted into DTC's book-entry settlement system ("DTC Certificates") as described below and receives and transmits distributions of Periodic Distribution Amounts and Dissolution Amounts on DTC Certificates. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Certificates ("Owners") have accounts with respect to the DTC Certificates similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Certificates through Direct Participants or Indirect Participants will not possess Certificates, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Certificates.

Purchases of DTC Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Certificates on DTC's records. The ownership interest of each actual purchaser of each DTC Certificate ("Beneficial Owner") is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Certificates, except in the event that use of the book-entry system for the DTC Certificates is discontinued.

To facilitate subsequent transfers, all DTC Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Certificates with DTC and their registration in the

name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Certificates unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Periodic Distribution Amounts and Dissolution Amounts on the DTC Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Periodic Distribution Amounts and Dissolution Amounts to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, including if there is a Dissolution Event under the Certificates, DTC will exchange the DTC Certificates for definitive Certificates, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Certificate, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Certificates purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Certificates by causing the Direct Participant to transfer the Participant's interest in the DTC Certificates, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Certificates to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Certificates at any time by giving reasonable notice to the Trustee or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Certificates are required to be printed and delivered.

The Trustee may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Certificates to persons or entities that do not participate

in DTC, or otherwise take actions with respect to such DTC Certificates, will be required to withdraw its Certificates from DTC as described below.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

### **Book-Entry Ownership and Payment in Respect of DTC Certificates**

The Trustee may apply to DTC in order to have any Tranche of Certificates represented by a Global Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Unrestricted Global Certificate (as defined herein), the respective depositories of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of any amount in respect of a Global Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Certificate. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Certificate in the currency in which such payment was made and/or (where an election to receive payment in the Specified Currency has not been made) cause all or a portion of such payment to be converted into U.S. dollars and the proceeds of such conversion (net of all applicable costs of exchange) shall be credited to the applicable Participants' account(s).

The Trustee expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Trustee also expects that payments by Participants to beneficial owners of Certificates will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Trustee, STC, the Delegate, the Principal Paying Agent or the Registrar. Payment of Periodic Distribution Amounts and Dissolution Amounts on Certificates to DTC is the responsibility of the Trustee.

### **Transfers of Certificates Represented by Global Certificates**

Transfers of any interests in Certificates represented by a Global Certificate within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Certificates represented by a Global Certificate to such persons may depend upon the ability to exchange such Certificates for Certificates in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a

person having an interest in Certificates represented by a Global Certificate accepted by DTC to pledge such Certificates to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Certificates may depend upon the ability to exchange such Certificates for Certificates in definitive form. The ability of any holder of Certificates represented by a Global Certificate accepted by DTC to resell, pledge or otherwise transfer such Certificates may be impaired if the proposed transferee of such Certificates is not eligible to hold such Certificates through a Direct Participant or Indirect Participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Certificates described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other hand, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Delegate, the Principal Paying Agent, the Registrar and any custodian ("**Custodian**") with whom the relevant Global Certificates have been deposited.

On or after the Issue Date for any Series, transfers of Certificates of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Certificates of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Delegate, the Principal Paying Agent, the Registrar and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Clearstream, Luxembourg or Euroclear accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Trustee, STC, the Delegate, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Certificates represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION AND ZAKAT

### General

The following is a general description of certain tax/zakat considerations relating to the Certificates. It does not purport to be a complete analysis of all tax/zakat considerations relating to the Certificates, whether in the jurisdictions specified below or elsewhere. It is not intended and does not constitute tax/zakat advice. Prospective purchasers of Certificates are advised to consult their own tax/zakat advisers as to the consequences under the tax/zakat laws of the countries of their respective citizenship, residence or domicile or applicable tax/zakat laws in respect of acquiring, holding and/or disposing Certificates and/or receiving any payments thereunder. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any changes in law that might take effect after such date.

Prospective purchasers should note that neither the Trustee nor STC is obliged to update this section for any subsequent changes or modification to the applicable tax/zakat regulations. Also, investors should note that the appointment by an investor in any Certificates, or any person through which an investor holds any Certificates, of a custodian, collection agent or similar person in relation to such Certificates in any jurisdiction may have tax/zakat implications. Investors should consult their own tax/zakat advisers in relation to the tax consequences for them of any such appointment.

### Cayman Islands

Under existing Cayman Islands laws payments on the Certificates to be issued under the Programme will not be subject to taxation in the Cayman Islands and no withholding under Cayman Islands law will be required on the payment to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. The Trustee has received, from the Governor-in-Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law of the Cayman Islands, an undertaking that for a period of 20 years from the date of the grant of the undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or in part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. However, an instrument transferring title to such Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Registrar of Companies in the Cayman Islands which is calculated by reference to the nominal amount of the Trustee's authorised share capital. At current rates, this annual registration fee is approximately U.S.\$854. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

### Kingdom of Saudi Arabia

#### *Overview of Saudi Tax and Zakat Law*

##### *Income Tax*

According to the Income Tax Law, a resident company (as defined in Chapter 2 – Article 3 of the Income Tax Law) with foreign (i.e., non-GCC) ownership (on its foreign partner's (shareholder's) share) and a non-resident who carries out business in Saudi Arabia through a Permanent Establishment (as defined below) (unless they are non-GCC Persons with a Permanent Establishment in Saudi Arabia that meet the conditions set out under Chapter 1 – Article 2(4) of the New Zakat Regulations as set out below) are subject to corporate income tax in Saudi Arabia at the rate of 20 per cent. Resident companies which are wholly owned by GCC Persons (as defined below) are subject to zakat instead of corporate income tax.

Resident companies owned jointly by GCC and non-GCC Persons are subject to corporate income tax in respect of their profit corresponding to the ownership (legal or beneficial) percentage of non-GCC Persons and zakat to the extent of ownership (legal or beneficial) percentage of GCC Persons. Shares held directly by GCC Persons or via other GCC companies (where the shareholding structure does not fall



outside of the GCC) in a Saudi resident company are subject to zakat and not corporate income tax. In determining the tax/zakat profile, the General Authority of Zakat and Tax ("GAZT") (formerly Department of Zakat and Income Tax) applies a "look-through" approach to determine whether the upstream shareholding structure at any point exists outside of the GCC (i.e., at the ultimate shareholder level). The recent amendments to the Income Tax Law have introduced new provisions that may limit the "look-through" approach by GAZT to up to two layers of shareholding above the relevant Saudi Arabian company; such changes have not yet been tested with GAZT to assess their practical application.

### *Zakat*

Zakat is a religious obligation imposed on Muslims under Shari'a rules. The zakat implementing regulations of Saudi Arabia were issued by the Ministry of Finance under Ministerial Resolution No. 2082 dated 28 February 2017 (the "**Zakat Regulations**"). The Zakat Regulations are effective from the date of their issuance and supersede all prior directives, resolutions, instructions and circulars issued by GAZT. Furthermore, the Ministry of Finance has issued new zakat implementing regulations under Ministerial Resolution No. 2216 dated 07/07/1440H (corresponding to 14 March 2019) (the "**New Zakat Regulations**"). The New Zakat Regulations are expected to be effective (and replace the existing Zakat Regulations) for financial year starting from 1 January 2019. According to the New Zakat Regulations, zakat is assessed on GCC Persons carrying out activities in the Kingdom through a Permanent Establishment for tax purposes as defined under Chapter 2 – Article 4 of the Income Tax Law (except for non-resident GCC Persons who do not meet certain conditions, as mentioned below in which case they would be subject to corporate income tax), on Saudi companies wholly-owned by such individuals/entities, and on the ownership (legal or beneficial) percentage owned by GCC Persons with respect to a company jointly owned by GCC and non-GCC Persons.

As per the New Zakat Regulations, a Permanent Establishment of a GCC Person in Saudi Arabia is subject to zakat (and not corporate income tax) provided at least two of the following three conditions are met in respect of central management of such Permanent Establishment (as set out under Chapter 1 – Article 2(4)):

- (i) board of directors' ordinary meetings which are held regularly and where main policies and decisions relating to management and running of the Permanent Establishment's business are held and made in Saudi Arabia;
- (ii) senior executive decisions relating to the Permanent Establishment's functions such as executive directors /deputies' decisions are made in Saudi Arabia; and
- (iii) the Permanent Establishment's business is mainly (i.e., 50 per cent. of its revenues) generated from Saudi Arabia.

There are certain rules that apply to the method of calculating the zakat liability. In general, zakat is currently levied at a fixed rate of 2.5 per cent. on the higher of the adjusted zakatable profits or the zakat base which, in general, comprises equity, loans and provisions reduced by certain deductible investments and fixed assets. Under the Zakat Regulations, investments in debt securities, such as investments in bonds, sukuks, notes, currencies, deposits or forward transactions (whether issued inside or outside Saudi Arabia or whether classified as short-term or long-term investments) are not deductible from the zakat base for purposes of determining the zakat base (based on the Zakat Regulation and current practice of GAZT).

GCC individuals resident in the Kingdom for tax purposes (as defined in Chapter 2 – Article 3 of the Income Tax Law) should in principle be subject to zakat in the Kingdom if they carry out activities in the Kingdom; however, zakat compliance/administration is not currently enforced by GAZT for such individuals (unless they carry out such activities through establishments).

### *Withholding Tax ("WHT")*

The Income Tax Law provides for WHT at different rates (ranging from 5 per cent. to 20 per cent.) on payments made to non-resident parties (including those located/tax resident in the GCC other than the Kingdom) by a Saudi tax resident entity from a source of income in Saudi Arabia. WHT is imposed on payments against services and not the sale of goods. Services are defined to mean anything done for consideration other than the purchase and sale of goods and other property. Interest or loan charges paid

by a Saudi tax resident to non-residents are subject to Saudi WHT at a rate of 5 per cent., unless such WHT is reduced or eliminated pursuant to the terms of an applicable double tax treaty (see below). Payments for lease rentals, murabaha profits, and mudarabah profits (which are typically treated by GAZT under financing arrangements similar to interest payments for tax purpose) made by STC to the Trustee should also generally be treated as interest payments for Saudi Arabia tax purposes and attract 5 per cent. Saudi WHT.

Application of double tax treaties in Saudi Arabia may take place under one of two methods: (i) a refund mechanism which requires the payor to subject the relevant payment to WHT and then a refund request of the WHT may be submitted to GAZT; or (ii) the automatic application of double tax treaties which provides for the possibility of the payor to not subject the relevant payment to WHT in the first place. Both mechanisms require the beneficiary/recipient to provide certain documents and forms to GAZT (such as, among others, a tax residency certificate).

### ***Certain Tax and Zakat Implications for Certificateholders***

#### *GCC Certificateholders who are resident in Saudi Arabia*

Certificateholders who are GCC Persons and resident in Saudi Arabia for tax purposes are not subject to any Saudi Arabian income tax, whether by way of WHT or direct assessment, in respect of any profit payment received or gain realised in respect of the Certificates. However, such Certificateholders will be subject to zakat in respect of any profit payment received or gain realised in respect of the Certificates including capital gain on sale/transfer of Certificates. Additionally, the deduction of an investment in the Certificates from the zakat base of such Certificateholders is not permitted, as stipulated under Chapter 2 – Article 4 (second (4c)) of the Zakat Regulations and per the current practices of GAZT.

GCC individuals resident in the Kingdom for tax purposes should in principle be subject to zakat in the Kingdom if they carry out activities in the Kingdom; however, zakat compliance/administration is not currently enforced by GAZT for such individuals (unless they carry out such activities through establishments).

#### *Non-GCC Certificateholders who are resident in Saudi Arabia*

Certificateholders who are non-GCC legal entities and resident in Saudi Arabia for tax purposes should be subject to Saudi Arabian corporate income tax at the rate of 20 per cent. on any profit payment received or gain realised in respect of the Certificates but they will not be subject to any zakat.

The considerations described above also apply to Saudi Arabian companies wholly-owned by non-GCC Persons (which should be subject to Saudi Arabian corporate income tax) and on the income attributable to the ownership of non-GCC Persons in Saudi Arabian companies (which should be subject to Saudi Arabian corporate income tax on the profits attributable to such non-GCC ownership).

Certificateholders, who are non-GCC individuals and resident in Saudi Arabia and not performing commercial activities in Saudi Arabia (as defined in Chapter 2 – Article 2 of the Income Tax Law) are not currently subject to Saudi Arabian income tax or zakat on any profit received or gain realised in respect of the Certificates, according to existing practices of GAZT (as compliance/administration of Income Tax Law is not currently enforced by GAZT on such individuals).

#### *Certificateholders who are not resident in Saudi Arabia*

Certificateholders, either individuals or legal entities, who are not resident in Saudi Arabia (whether such Certificateholders are GCC nationals or non-GCC nationals (including Certificateholders resident in the GCC)) and do not have a Permanent Establishment in Saudi Arabia for tax purposes, should not be subject to Saudi Arabian WHT or corporate income tax or zakat on any payments received by them in respect of the Certificates (as the payments will be made by the Trustee who is not a Saudi tax resident entity).

Notwithstanding the above, pursuant to Condition 12, to the extent that any WHT is deducted, the Trustee will generally be obliged to pay such additional amounts as will result in receipt by the Certificateholders, after such deduction or withholding, of such amounts as would have been received by them had no such deduction or withholding been required.

A non-resident Certificateholder without a Permanent Establishment in Saudi should not be subject to tax/zakat in Saudi Arabia on the disposal of the Certificates.

Non-resident Certificateholders having a Permanent Establishment in Saudi Arabia should be subject to Saudi Arabian corporate income tax at the rate of 20 per cent. in respect of any profit received or gain realised in respect of the Certificates to the extent such profits/gains are attributable to such Permanent Establishment, but will not be subject to zakat (unless they are non-GCC Persons with a Permanent Establishment in Saudi that meet the conditions set out under Chapter 1 – Article 2(4) of the New Zakat Regulations).

#### *Transfer Taxes/Stamp Duty*

There are no transfer taxes/stamp duty regimes currently applicable in Saudi Arabia.

#### *Indirect Tax*

Saudi Arabia has introduced value added tax with an effective date starting on 1 January 2018 pursuant to ratifying a GCC framework agreement between the GCC member states. To this effect, VAT legislations have also been issued in Saudi in line with the GCC framework agreement.

All goods and services traded within or imported into Saudi Arabia are subject to VAT, unless they are classified as exempt for VAT purposes. Certain supplies have been prescribed to be subject to tax at zero rate (including designated medical products, exports, international transportation etc.). Currently the standard rate of VAT is 5 per cent. applicable on standard rated taxable supplies.

For the purposes of this summary:

- (i) **"GCC"** means the Gulf Cooperation Council comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE;
- (ii) a **"GCC Person"** means: (a) an individual having the nationality of any of the GCC countries; and (b) any legal entity wholly-owned by GCC nationals and established under the laws of a GCC country;
- (iii) **"Permanent Establishment"**, subject to the exceptions stipulated in the Income Tax Law, of a non-resident in Saudi Arabia represents a permanent place for the non-resident's activity where such person conducts the activity either fully or partly; which also includes any activity conducted by the non-resident through a dependent agent. A non-resident carrying out an activity in Saudi Arabia through a licensed branch is considered to have a Permanent Establishment in Saudi Arabia;
- (iv) a person is **"resident"** in Saudi Arabia for tax purposes (as defined in Chapter 2 – Article 3 of the Income Tax Law), if it meets the following conditions:
  - (a) an individual is considered a tax resident in Saudi Arabia for a taxable year if such person meets either of the two following conditions:
    - (1) such person has a permanent place of abode in Saudi Arabia and is physically present in Saudi Arabia for a total of not less than 30 days in a tax year; or
    - (2) such person is physically present in Saudi Arabia for a period of not less than 183 days in a tax year; and
  - (b) a company is considered a tax resident in Saudi Arabia during a tax year if it meets either of the following conditions:
    - (1) it is formed in accordance with the Saudi Companies Law; or
    - (2) its place of central control and management is located in Saudi Arabia.

Certificateholders should not be deemed to be resident in Saudi Arabia solely by reason of holding any Certificates.

## United States Federal Income Taxation

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Certificates. Except as specifically noted below, this discussion applies only to:

- (i) Certificates purchased on original issuance at their initial offer price;
- (ii) Certificates held as capital assets;
- (iii) U.S. Holders (as defined below); and
- (iv) Certificates with an original maturity of 30 years or less.

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances or to U.S. Holders subject to special rules, such as:

- (a) financial institutions;
- (b) insurance companies;
- (c) tax-exempt organisations;
- (d) dealers in securities or currencies;
- (e) persons holding Certificates as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;
- (f) U.S. Holders whose functional currency is not the U.S. dollar;
- (g) partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes; or
- (h) former citizens and residents of the United States.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), administrative pronouncements, published rulings, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, all as of the date of this Base Prospectus and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Certificates should consult the applicable Final Terms (or Pricing Supplement, as applicable) for any additional discussion regarding U.S. federal income taxation and should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other U.S. federal tax rules (such as the Medicare contribution tax and the alternative minimum tax), the laws of any state, local or non-U.S. taxing jurisdiction. No ruling will be sought from the U.S. Internal Revenue Service (the "**IRS**") with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, that a court will uphold such statement or conclusion.

This summary does not discuss Certificates that by their terms may be retired for an amount less than their principal amount and Certificates subject to special rules. U.S. Holders should consult their tax advisers regarding the tax consequences with respect to the acquisition, ownership and disposition of Certificates.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Certificate that is for U.S. federal income tax purposes:

- (1) an individual that is a citizen or resident of the United States;
- (2) a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;

- (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source;  
or
- (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Certificates, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. If such partnerships invest in Certificates, they should consult with their tax advisers regarding the U.S. federal tax consequences to themselves and their partners.

#### ***Certain Accrual Method Taxpayers***

Certain U.S. Holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on their financial statements, which may be earlier than would be the case under the rules described below. With respect to instruments that have original issue discount, the rule is effective for tax years beginning after 31 December 2018. U.S. Holders that use an accrual method of accounting should consult with their tax advisers regarding the potential applicability of this legislation to their particular situations.

#### ***Classification of the Certificates***

The Trustee and STC intend to treat the Certificates as representing a beneficial interest in indebtedness for U.S. federal income tax purposes and each holder and beneficial owner of a Certificate, by acceptance of such Certificate or a beneficial interest therein, will likewise agree to treat the Certificates as representing a beneficial interest in indebtedness for such purposes. This treatment is not binding on the IRS and no ruling will be sought from the IRS regarding this or any other aspect of the tax treatment of the Certificates. It is possible that the IRS could successfully argue that the Certificates should be treated as equity interests for U.S. federal income tax purposes. In that case, the Certificates could be classified as equity interests in a passive foreign investment company, which could result in materially adverse consequences to the U.S. Holder. Prospective investors should seek advice from their own tax advisers as to the consequences to them of alternative characterisations of the Certificates. The remainder of this discussion assumes that the Certificates represent a beneficial interest in indebtedness for U.S. federal income tax purposes.

#### ***Payments of Stated Interest***

Interest paid on a Certificate will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). Interest income (including original issue discount, as discussed below) earned by a U.S. Holder with respect to a Certificate will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisers about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount Certificates and foreign currency Certificates are described under "*Taxation and Zakat—United States Federal Income Taxation—Original Issue Discount*", "*Taxation and Zakat—United States Federal Income Taxation—Contingent Payment Debt Instruments*" and "*Taxation and Zakat—United States Federal Income Taxation—Foreign Currency Certificates*".

#### ***Original Issue Discount***

A Certificate that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to as an "**original issue discount Certificate**") unless the Certificate satisfies a *de minimis* threshold (as described below). Generally, the "issue price" of a Certificate will be the first price at which a substantial amount of the Certificates are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). However, in the case of Certificates issued in a further issuance that is a "qualified

reopening" for U.S. federal income tax purposes, their issue price will be equal to the issue price of the original Certificates in the relevant Series. The "stated redemption price at maturity" of a Certificate generally will equal the sum of all payments required to be made under the Certificate other than payments of "qualified stated interest". **"Qualified stated interest"** is stated interest unconditionally payable in cash or property (other than in debt instruments of STC) at least annually during the entire term of the Certificate at a single fixed rate of interest, at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Certificate is denominated.

If the difference between a Certificate's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., one-quarter of one per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity (or weighted average maturity if any amount included in the stated redemption price at maturity is payable before maturity), the Certificate will not be considered to have original issue discount. U.S. Holders of the Certificates with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a *pro rata* basis as principal payments are made on the Certificate.

U.S. Holders of original issue discount Certificates that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received. Under these rules, U.S. Holders generally will have to include in taxable income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder may make an election to include in gross income all interest that accrues on any particular Certificate (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and generally may revoke such election (a **"constant yield election"**) only with the permission of the IRS. If a U.S. Holder makes a constant yield election with respect to a Certificate with market discount (discussed below), the U.S. Holder will be treated as having made an election to include market discount in income currently over the life of all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies. U.S. Holders should consult their tax advisers about making this election in light of their particular circumstances.

A Certificate that matures one year or less from its date of issuance (a **"short-term Certificate"**) will be treated as being issued at a discount and none of the interest paid on the Certificate will be treated as qualified stated interest regardless of its issue price. In general, a cash method U.S. Holder of a short-term Certificate is not required to accrue the discount for U.S. federal income tax purposes but may elect to do so. Cash method U.S. Holders who do not elect to accrue the discount should include stated interest payments on short-term Certificates as ordinary income upon receipt. Cash method U.S. Holders who do elect to accrue the discount and certain other Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Certificate will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Certificates in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Trustee may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Trustee to redeem, a Certificate prior to its stated maturity date. Under applicable regulations, if the Trustee has an unconditional option to redeem a Certificate prior to its stated maturity date, this option will be presumed to be exercised if, by utilising any date on which the Certificate may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Certificate as the stated redemption price at maturity, the yield on the Certificate would be lower than its

yield to maturity. If the U.S. Holders have an unconditional option to require the Trustee to redeem a Certificate prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Certificate would be higher than its yield to maturity. If it was presumed that an option would be exercised but it is not in fact exercised, the Certificate would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new Certificate were issued, on the presumed exercise date for an amount equal to the Certificate's adjusted issue price on that date. The adjusted issue price of an original issue discount Certificate is defined as the sum of the issue price of the Certificate and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

### ***Market Discount***

If a U.S. Holder purchases a Certificate (other than a short-term Certificate) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Certificate, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an original issue discount Certificate, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Certificate, including disposition in certain non-recognition transactions, as foreign source ordinary income to the extent of the market discount accrued on the Certificate at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the U.S. Holder to include market discount in income as it accrues. An election to include market discount in income as it accrues applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which such election applies and may not be revoked without the consent of the IRS. In addition, a U.S. Holder that does not elect to include market discount in income currently may be required to defer, until the maturity of the Certificate or its earlier disposition (including certain non-taxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Certificate.

Market discount will accrue on a straight line basis unless a U.S. Holder makes an election on a Certificate to accrue on the basis of a constant interest rate. This election is irrevocable once made.

### ***Acquisition Premium and Amortisable Bond Premium***

A U.S. Holder who purchases a Certificate for an amount that is greater than the Certificate's adjusted issue price but less than or equal to the stated redemption price at maturity will be considered to have purchased the Certificate at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. Holder must include in its gross income with respect to the Certificate for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Certificate for an amount that is greater than the stated redemption price at maturity, the U.S. Holder will be considered to have purchased the Certificate with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The U.S. Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Certificate. A U.S. Holder who elects to amortise bond premium must reduce its tax basis in the Certificate by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "*Taxation and Zakat—United States Federal Income Taxation—Original Issue Discount*") for a Certificate with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the Holder's debt instruments with amortisable bond premium.

### ***Sale, Exchange or Retirement of the Certificates***

Upon the sale, exchange or retirement of a Certificate, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the Holder's

adjusted tax basis in the Certificate. A U.S. Holder's adjusted tax basis in a Certificate generally will equal the acquisition cost of the Certificate increased by the amount of original issue discount and market discount included in the U.S. Holder's gross income and decreased by any bond premium or acquisition premium previously amortised and by the amount of any payment received from the Trustee other than a payment of qualified stated interest, in each case, with respect to the Certificate. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation except to the extent attributable to market discount that has not been previously included in the U.S. Holder's gross income. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid qualified stated interest on the Certificate. Amounts attributable to accrued but unpaid qualified stated interest are treated as payments of interest as described under "*Taxation and Zakat—United States Federal Income Taxation—Payments of Stated Interest*".

Gain or loss realised on the sale, exchange or retirement of a Certificate will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Certificate for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Certificate, to the extent of any accrued discount, not previously included in the U.S. Holder's taxable income. See "*Taxation and Zakat—United States Federal Income Taxation—Original Issue Discount*" and "*Taxation and Zakat—United States Federal Income Taxation—Market Discount*". In addition, other exceptions to this general rule apply in the case of foreign currency Certificates, and contingent payment debt instruments. See "*Taxation and Zakat—United States Federal Income Taxation—Foreign Currency Certificates*" and "*Taxation and Zakat—United States Federal Income Taxation—Contingent Payment Debt Instruments*". The deductibility of capital losses is subject to limitations.

#### ***Contingent Payment Debt Instruments***

If the terms of the Certificates provide for certain contingencies that affect the timing and amount of payments (including Certificates with a variable rate or rates that do not qualify as "variable rate debt instruments" for the purposes of the original issue discount rules), the Certificates generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Certificates qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Certificate and the Certificate's "projected payment schedule" as described below. The comparable yield is determined by the Trustee and STC at the time of issuance of the Certificates. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Certificates. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, the Trustee will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield. The Trustee's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

**Neither the comparable yield nor the projected payment schedule constitutes a representation by the Trustee or STC Trustee regarding the actual amount, if any, that the contingent payment debt instrument will pay.**

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by STC in determining interest accruals and adjustments unless the U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the U.S. Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent



payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- (i) will first reduce the amount of interest in respect of the contingent payment debt instrument that a Holder would otherwise be required to include in income in the taxable year; and
- (ii) to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
  - (a) the amount of all previous interest inclusions under the contingent payment debt instrument, *over*
  - (b) the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the 2 per cent. floor limitation that will be imposed on miscellaneous itemised deductions after 2025. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Certificate that is a contingent payment debt instrument generally will be the acquisition cost of the Certificate, increased by the interest previously accrued by the U.S. Holder on the Certificate under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Certificate. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a U.S. Holder recognises loss above certain thresholds, the U.S. Holder may be required to file a disclosure statement with the IRS (as described under "*Taxation and Zakat—United States Federal Income Taxation—Reportable Transactions*").

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The U.S. Holder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments the payments of interest or principal on which are denominated in or determined by reference to a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Debt Instruments**"). Very generally, Foreign Currency Contingent Payment Debt Instruments are accounted for like a contingent payment debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Debt Instruments. The relevant amounts must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of Foreign Currency Contingent Payment Debt Instruments.

### ***Foreign Currency Certificates***

The following discussion summarises certain U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of Certificates the payments of interest or principal on which are denominated in or determined by reference to a currency other than the U.S. dollar ("**foreign currency Certificates**")

The rules applicable to foreign currency Certificates could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Certificate to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Certificates are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Certificates.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Certificate will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Certificate during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the relevant taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. Holder or cash method U.S. Holder accruing original issue discount may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the relevant taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a foreign currency Certificate are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a Certificate is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the foreign currency Certificate. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Certificate with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a foreign currency Certificate, and the amount of any subsequent adjustment to the Holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such foreign currency Certificate, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. Holder who purchases a foreign currency Certificate with

previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the foreign currency Certificate on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a foreign currency Certificate that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between: (i) the U.S. dollar value of the foreign currency principal amount of the Certificate, determined on the date the payment is received or the Certificate is disposed of; and (ii) the U.S. dollar value of the foreign currency principal amount of the Certificate, determined on the date the U.S. Holder acquired the Certificate. For purposes of computing exchange gain and loss, the principal amount of a debt instrument is the U.S. Holder's purchase price in units of nonfunctional currency. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Certificates described above. The foreign currency gain or loss in connection with the sale, exchange or retirement of a foreign currency Certificate will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of the foreign currency Certificate (including, for this purpose, any exchange gain or loss recognised with respect to accrued but unpaid interest). The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder or the "qualified business unit" of the U.S. Holder on whose books the Certificate is properly reflected. Any gain or loss realised by these U.S. Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, discount on a short-term Certificate not previously included in the Holder's income, provided that the Certificate is not a Foreign Currency Contingent Payment Debt Instrument.

Holders should consult their tax advisers with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Certificate accrue and with respect to the payment and receipt of amounts in a currency other than U.S. dollars.

#### ***Backup Withholding and Information Reporting***

Information returns may be filed with the IRS in connection with payments on the Certificates and the proceeds from a sale or other disposition of the Certificates. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is furnished to the IRS.

U.S. Holders should consult their tax advisers regarding any tax reporting or filing requirements they may have as a result of the acquisition, ownership or disposition of the Certificates. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a U.S. Holder's particular situation. U.S. Holders should consult their tax advisers with respect to the tax consequences to them of the acquisition, ownership and disposition of the Certificates, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.**

#### **Foreign Account Tax Compliance Act**

Pursuant to Sections 1471 through 1474 of the Code, commonly known as "FATCA", a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**", a term not defined as of the date of this Base Prospectus) to persons that fail to meet certain certification, reporting, or related requirements. The Trustee may be a foreign financial institution for these purposes. A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Certificates, including whether

withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Certificates, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register (the "**grandfathering date**") generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Trustee). Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Certificates. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Certificates, no person will be required to pay additional amounts or indemnify any person as a result of the withholding.

### **The proposed financial transactions tax**

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

## CERTAIN ERISA AND RELATED CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and Section 4975 of the Code, prohibit certain transactions involving: (i) "employee benefit plans" (such as pension plans, profit-sharing plans, collective investment funds, separate accounts and entities whose underlying assets include the assets of such employee benefit plan) within the meaning of Section 3(3) of ERISA that are subject to Title I of ERISA, "plans" (such as individual retirement accounts and "Keogh plans") within the meaning of Section 4975(e) of the Code that are subject to Section 4975 of the Code (collectively, "**Plans**") or persons or entities whose underlying assets include "plan assets" of any such Plan by reason of the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**"), for the purposes of Title I of ERISA or Section 4975 of the Code (together with Plans, "**Benefit Plan Investors**"); and (ii) persons who have certain specified relationships to Plans ("parties in interest" under ERISA and "disqualified persons" under Section 4975 the Code and collectively, "**Parties in Interest**"). A violation of these "prohibited transaction" rules may result in the imposition of an excise tax, the rescission of the transaction or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless relief is available under an applicable statutory or administrative exemption. Under the Plan Assets Regulation, when Benefit Plan Investors acquire twenty-five per cent. (25%) or more of the total value of any class of equity in an entity, the underlying assets owned by that entity will be treated as if they were "plan assets" of such Benefit Plan Investors, unless an exception otherwise applies. For purposes of this twenty-five per cent. calculation, the value of any class of equity held by certain persons (other than Benefit Plan Investors) that have discretionary authority or "control" over the assets of the entity or that provide investment advice with respect to such assets for a fee, directly or indirectly, or "affiliates" of such persons (other than Benefit Plan Investors) are excluded. An "**affiliate**" of a person includes any person, directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the person. "**Control**", with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person. If the assets of the Trustee were deemed to be "plan assets" of such Benefit Plan Investors, the Trustee could be subject to certain fiduciary obligations under Title I of ERISA, and certain transactions that the Trustee might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt "prohibited transactions" under Section 406 of ERISA and Section 4975 of the Code.

"Governmental plans" within the meaning of Section 3(32) of ERISA, "church plans" within the meaning of Section 3(33) of ERISA that have made no election under Section 410(d) of the Code, "non-U.S. plans" described in Section 4(b)(4) of ERISA, benefit plans that are not Benefit Plan Investors or persons or entities whose underlying assets are deemed to include the assets of any such plan (any such plan, person or entity, a "**Similar Plan**"), while not subject to the fiduciary responsibility and prohibited transaction provisions of Title I of ERISA or Section 4975 of the Code, may nevertheless be subject to a U.S. federal, state, local, non-U.S. or other law or regulation that contains one or more provisions that are substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (any such law or regulation, a "**Similar Law**").

Each initial purchaser of the Certificates (or an interest therein) and each subsequent transferee will be deemed to have acknowledged, represented and agreed, by its purchase or holding of Certificates (or an interest therein), that (a) it is not, and is not acting on behalf of (and for so long as it holds Certificates (or an interest therein) will not be, and will not be acting on behalf of) (1) a Benefit Plan Investor; or (2) a Similar Plan unless, under this subsection (2), its acquisition, holding and disposition of the Certificates (or an interest therein) will not constitute or result in a violation of any Similar Law and will not subject the Trustee or any transactions thereby to any Similar Law applicable to such a Similar Plan as a result of the investment in the Certificates by the Similar Plan; and (b) it and any person causing it to acquire any of the Certificates (or an interest therein) agrees to indemnify and hold harmless the Trust, the Administrator, the Trustee, STC, the Arrangers and the Dealers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Benefit Plan Investor.

## SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 26 April 2019, agreed with the Trustee and STC a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under "*Form of the Certificates*" and "*Terms and Conditions of the Certificates*".

In accordance with the terms of the Dealer Agreement, the Trustee and STC will pay each relevant Dealer a commission as agreed between the Trustee, STC and such Dealers in respect of Certificates subscribed by it. The Trustee and STC may also agree arrangement in respect of reimbursing the Dealers for certain of their expenses in connection with the issue of any Certificates. The Trustee and STC have also agreed in the Dealer Agreement to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealer Agreement entitles the relevant Dealer(s) to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Certificates.

In order to facilitate the offering of any Tranche, certain persons participating in the offering of the Series may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Certificates during and after the offering of the Series. Specifically, such persons may create a short position in the Certificates for their own account by selling more Certificates than have been sold to them by the Trustee. Such persons may also elect to cover any such short position by purchasing Certificates in the open market. In addition, such persons may stabilise or maintain the price of the Certificates by bidding for or purchasing Certificates in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Certificates are reclaimed if Certificates previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Certificates to the extent that it discourages resale thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the relevant subscription agreement (or persons acting on behalf of any Stabilisation Manager(s)) or, as the case may be, named in the relevant Pricing Supplement, and only for a limited period following the Issue Date of the relevant Series of Certificates.

### ***Other Relationships***

Certain of the Dealers and their respective affiliates may, from time to time, engage in transactions with, and perform services for, the Trustee or STC or any member of the Group in the ordinary course of their respective businesses (see further "*General Information—Dealers Transacting with the Trustee or STC*"). In addition, His Royal Highness Prince Mohammed K.A. Al-Faisal, Independent Chairman of the Board of STC, serves as the Chairman of JP Morgan, Saudi Arabia, an affiliate of J.P. Morgan Securities plc.

### **Transfer Restrictions**

***As a result of the following restrictions, purchasers of Certificates who are in the United States or who are U.S. persons are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Certificates.***

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable securities laws of any state or other jurisdiction of the United States. Accordingly, the Certificates are being offered and sold: (i) in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A of the Securities Act; or (ii) to non U.S. persons in an offshore transaction in reliance on Regulation S.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognised by the Trustee or STC.

### ***Restricted Certificates***

Each purchaser of a beneficial interest in the Restricted Certificates, by accepting delivery of this Base Prospectus and the Restricted Certificates, will be deemed to have acknowledged, represented and agreed that:

- (i) it is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Issuer and it is not acting on the Issuer's or their behalf and it is either (i) a QIB and is aware that any sale of Notes to it may be made in reliance on Rule 144A and such acquisition will be for its own account or for the account of another QIB;
- (ii) it will provide notice of the transfer restrictions to any subsequent transferees. In addition, it understands that the Trustee may receive a list of participants holding positions in the Restricted Certificates from one or more book entry depositories;
- (iii) (a) the Restricted Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except: (1) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs; or (2) to a non U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; and (b) it will, and each subsequent holder of the Restricted Certificates is required to, notify any purchaser of the Restricted Certificates from it of the resale restrictions on the Restricted Certificates;
- (iv) it understands that the Restricted Certificates sold in this offering constitute "restricted securities" within the meaning of Rule 144 under the Securities Act, and for so long as they remain "restricted securities" such Restricted Certificates may not be transferred except as described in paragraph (iii) above;
- (v) the Restricted Certificates, unless the Trustee determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

"THE CERTIFICATE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT: (I) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A "**QIB**") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF ONE OR MORE QIBs WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT; OR (II) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE TRUSTEE, STC OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS CERTIFICATE.

THE TRUSTEE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST HEREIN) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT: (I) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS CERTIFICATE (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF) (A) AN "EMPLOYEE BENEFIT PLAN" (WITHIN THE MEANING OF SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974), AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" WITHIN THE MEANING OF SECTION 4975(e) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("**CODE**"), THAT IS SUBJECT TO SECTION 4975 OF THE CODE, OR (C) A PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE PERSON OR ENTITY BY ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN UNDER THE U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, FOR PURPOSES OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH, A "**BENEFIT PLAN INVESTOR**") OR A "GOVERNMENTAL PLAN" WITHIN THE MEANING OF SECTION 3(32) OF ERISA, A "CHURCH PLAN" WITHIN THE MEANING OF SECTION 3(33) OF ERISA THAT HAS MADE NO ELECTION UNDER SECTION 410(D) OF THE CODE, A "NON-U.S. PLAN" DESCRIBED IN SECTION 4(b)(4) OF ERISA, A BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR OR A PERSON OR ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN (ANY SUCH PLAN, PERSON, OR ENTITY, A "**SIMILAR PLAN**"), UNLESS, UNDER THIS SUBSECTION (D), ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS CERTIFICATE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF A U.S. FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAW OR REGULATION THAT CONTAINS ONE OR MORE PROVISIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**") AND WILL NOT SUBJECT THE TRUSTEE OR ANY TRANSACTIONS THEREBY TO ANY SIMILAR LAW APPLICABLE TO SUCH A SIMILAR PLAN AS A RESULT OF THE INVESTMENT IN THE CERTIFICATES BY THE SIMILAR PLAN; AND (II) IT AND ANY PERSON CAUSING IT TO ACQUIRE THIS CERTIFICATE (OR ANY INTEREST HEREIN) SHALL INDEMNIFY AND HOLD HARMLESS THE TRUST, THE ADMINISTRATOR, THE TRUSTEE, STC, THE ARRANGERS AND THE DEALERS AND THEIR RESPECTIVE AFFILIATES FROM ANY COST, DAMAGE OR LOSS INCURRED BY THEM AS A RESULT OF IT BEING OR BEING DEEMED TO BE A BENEFIT PLAN INVESTOR. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, (OR ANY INTEREST HEREIN) WILL BE EFFECTIVE, AND NEITHER THE TRUSTEE NOR THE DELEGATE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE TRUSTEE DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE TRUSTEE MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE BASE PROSPECTUS.

THE TRUSTEE MAY COMPEL EACH BENEFICIAL OWNER OF THE CERTIFICATES REPRESENTED HEREBY THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB.";

- (vi) that: (a) it is not, and is not acting on behalf of (and for so long as it holds Certificates (or an interest therein) will not be, and will not be acting on behalf of) (1) a Benefit Plan Investor; or (2) a Similar Plan unless, under this subsection (2), its acquisition, holding and disposition of the Certificates (or an interest therein) will not constitute or result in a violation of any Similar Law and will not subject the Trustee or any transactions thereby to any Similar Law applicable to such a Similar Plan as a result of the investment in the Certificates by the Similar Plan; and (b) it and any person causing it to acquire any of the Certificates (or an interest therein) agrees to indemnify and hold harmless the Trust, the Administrator, the Trustee, STC, the Arrangers and



the Dealers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Benefit Plan Investor;

- (vii) it acknowledges that the Trustee, STC, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Restricted Certificates is no longer accurate, it shall promptly notify the Trustee, STC and the Dealers. If it is acquiring any Certificates as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account; and
- (viii) it understands that Restricted Certificates will be represented by interests in one or more Restricted Global Certificates. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate, it will be required to provide the Registrar or a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

#### *Unrestricted Certificates*

Each purchaser of a beneficial interest in the Unrestricted Certificates and each subsequent purchaser of Unrestricted Certificates, prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Unrestricted Certificates, will be deemed to have represented, agreed and acknowledged that:

- (i) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and it is not an affiliate of the Trustee, STC or a person acting on behalf of the Trustee, STC or such an affiliate;
- (ii) it is, or at the time Unrestricted Certificates are purchased it will be, the beneficial owner of such Unrestricted Certificates;
- (iii) the Unrestricted Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and that if it should offer, sell, pledge or otherwise transfer Unrestricted Certificates prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Unrestricted Certificates), it will do so only except: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB; or (b) to a non U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any state or other jurisdiction of the United States;
- (iv) it understands that the Unrestricted Certificates, unless otherwise determined by the Trustee in accordance with applicable law, will bear a legend substantially in the following form:

"THE CERTIFICATE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THIS PARAGRAPH OF THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE

PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE CERTIFICATES OF THE SERIES OF WHICH THIS CERTIFICATE FORMS PART.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST THEREIN) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT: (I) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS CERTIFICATE (OR ANY INTEREST HEREIN) WILL NOT BE, AND WILL NOT BE ACTING ON BEHALF OF) (A) AN "EMPLOYEE BENEFIT PLAN" (WITHIN THE MEANING OF SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), THAT IS SUBJECT TO TITLE I OF ERISA, (B) A "PLAN" WITHIN THE MEANING OF SECTION 4975(e) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("CODE"), THAT IS SUBJECT TO SECTION 4975 OF THE CODE, OR (C) A PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE PERSON OR ENTITY BY ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN UNDER THE U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA, FOR PURPOSES OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH, A "BENEFIT PLAN INVESTOR"), OR (D) A "GOVERNMENTAL PLAN" WITHIN THE MEANING OF SECTION 3(32) OF ERISA, A "CHURCH PLAN" WITHIN THE MEANING OF SECTION 3(33) OF ERISA THAT HAS MADE NO ELECTION UNDER SECTION 410(D) OF THE CODE, A "NON-U.S. PLAN" DESCRIBED IN SECTION 4(b)(4) OF ERISA, A BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR OR A PERSON OR ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN (ANY SUCH PLAN, PERSON, OR ENTITY, A "SIMILAR PLAN"), UNLESS, UNDER THIS SUBSECTION (D), ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS CERTIFICATE (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF A U.S. FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAW OR REGULATION THAT CONTAINS ONE OR MORE PROVISIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") AND WILL NOT SUBJECT THE TRUSTEE OR ANY TRANSACTIONS THEREBY TO ANY SIMILAR LAW APPLICABLE TO SUCH A SIMILAR PLAN AS A RESULT OF THE INVESTMENT IN THE CERTIFICATES BY THE SIMILAR PLAN; AND (II) IT AND ANY PERSON CAUSING IT TO ACQUIRE THIS CERTIFICATE (OR ANY INTEREST HEREIN) SHALL INDEMNIFY AND HOLD HARMLESS THE TRUST, THE ADMINISTRATOR, THE TRUSTEE, STC, THE ARRANGERS AND THE DEALERS AND THEIR RESPECTIVE AFFILIATES FROM ANY COST, DAMAGE OR LOSS INCURRED BY THEM AS A RESULT OF IT BEING OR BEING DEEMED TO BE A BENEFIT PLAN INVESTOR. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, (OR ANY INTEREST HEREIN) WILL BE EFFECTIVE, AND NEITHER THE TRUSTEE NOR THE DELEGATE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE TRUSTEE DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE TRUSTEE MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE BASE PROSPECTUS.";

- (v) that: (a) it is not, and is not acting on behalf of (and for so long as it holds Certificates (or an interest therein) will not be, and will not be acting on behalf of) (1) a Benefit Plan Investor; or (2) a Similar Plan unless, under this subsection (2), its acquisition, holding and disposition of the Certificates (or an interest therein) will not constitute or result in a violation of any Similar Law and will not subject the Trustee or any transactions thereby to any Similar Law applicable to such a Similar Plan as a result of the investment in the Certificates by the Similar Plan; and (b) it and any person causing it to acquire any of the Certificates (or an interest therein) agrees to indemnify and hold harmless the Trust, the Administrator, the Trustee, STC, the Arrangers and the Dealers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Benefit Plan Investor;
- (vi) it acknowledges that the Trustee, STC, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that, if any of the acknowledgements, representations or agreements

deemed to have been made by it by its purchase of Unrestricted Certificates is no longer accurate, it shall promptly notify the Trustee, STC and the Dealers; and

- (vii) it understands that Unrestricted Certificates will be evidenced by an Unrestricted Global Certificate. Before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide the Registrar or a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

## **Selling Restrictions**

### ***Cayman Islands***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer or invitation, whether directly or indirectly, to subscribe for or purchase Certificates has been or will be made to the public in the Cayman Islands.

### ***Dubai International Financial Centre***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "DFSA") rulebook; and
- (ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA rulebook.

## **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the EEA (each such Member State, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Base Prospectus as completed by the applicable Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Certificates to the public in that Relevant Member State:

- (i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee for any such offer;
- (iii) at any time if the denomination per Certificate being offered amounts to at least €100,000 (or equivalent); or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Certificates referred to in paragraphs (i) to (iv) above shall require the Trustee, STC or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Certificates to the public**" in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

### ***Hong Kong***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates, except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO"), other than: (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "CO") or which do not constitute an offer to the public within the meaning of the CO; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

### ***Japan***

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "FIEA"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Kingdom of Bahrain***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

- (i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more (excluding that person's principal place of residence);
- (ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

### ***Kingdom of Saudi Arabia***

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017, as amended by the Board of the Capital Market Authority resolution number 3-45-2018 dated 23 April 2018 (the "**KSA Regulations**"), made through a person authorised by the Capital Market Authority

("CMA") to carry on the securities activity of arranging and following a notification to the CMA under Article 11 of the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates to a Saudi Investor will be made in compliance with Article 9 or Article 10 of the KSA Regulations.

Each offer of Certificates shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (i) the Certificates are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (ii) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (iii) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

### ***Malaysia***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia ("CMSA"); and
- (ii) accordingly, the Certificates have not been and will not be offered, sold or delivered by it, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, by it nor may any document or other material in connection therewith be distributed by it in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the CMSA, read together with Schedule 9 or Section 257(3) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

### ***Singapore***

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that, it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

#### ***State of Kuwait***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no Certificates will be offered in Kuwait unless all necessary approvals from the Kuwait Capital Markets Authority pursuant to Law No.7 of 2010 and its executive bylaws, each as amended, together with the various resolutions, regulations, guidance principles and instructions issued pursuant thereto, or in connection therewith (regardless of nomenclature) or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing, and sale of the Certificates. For the avoidance of doubt, no Certificates shall be offered, marketed and/or sold in Kuwait except on a private placement basis to Professional Clients (as defined in Module 1 of the executive by laws of Law No.7 of 2010 (each as amended)).

#### ***State of Qatar (including the Qatar Financial Centre)***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Certificates in Qatar (including the Qatar Financial Centre), except: (i) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar (including the Qatar Financial Centre). This Base Prospectus: (a) has not been, and will not be, registered with or approved by the Qatar Central Bank, the Qatar Financial Centre Regulatory Authority, the Qatar Financial Markets Authority or the Qatar Stock Exchange and may not be publicly distributed in Qatar (including the Qatar Financial Centre); (b) is intended for the original recipient only and must not be provided to any other person; and (iii) is not for general circulation in Qatar (including the Qatar Financial Centre) and may not be reproduced or used for any other purpose.

#### ***United Arab Emirates (excluding the Dubai International Financial Centre)***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

#### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to any Certificates which have a maturity of less than one year: (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (b) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in

acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Trustee or STC;

- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or STC; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

### ***United States***

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States, and the Certificates may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer and sell Certificates: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Certificates on a syndicated basis, the relevant Lead Manager, of all Certificates of the Tranche of which such Certificates are a part, within the United States or to, or for the account or benefit of, U.S. persons other than in offshore transactions pursuant to Regulation S or pursuant to Rule 144A under the Securities Act to QIBs. Accordingly, neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Certificates, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to further agree, that it will send to each dealer to which it sells its Certificates during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph and not otherwise defined herein have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented, warranted, undertaken and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant, undertake and agree, that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with any offer and sale of the Certificates in the United States.

In addition, until 40 days after the commencement of the offering, an offer or sale of Certificates within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Certificates (or an interest therein) may not be sold to or held by or on behalf of (1) a Benefit Plan Investor or (2) a Similar Plan, unless, under this subsection (2), its acquisition, holding and disposition of the Certificates (or an interest therein) will not constitute or result in a violation of any Similar Law and will not subject the Trustee or any transactions thereby to any such Similar Law *applicable to such a Similar Plan as a result of the investment in the Certificates by the Similar Plan.*

### ***General***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will, to the best of its knowledge and belief, comply in all material

respects with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Trustee, STC nor any of the other Dealers shall have any responsibility therefor.

Neither the Trustee, STC nor any of the Dealers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

No action has been or will be taken in any country or jurisdiction by the Trustee, STC or the Dealers that would permit a public offering of Certificates, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Base Prospectus or any Final Terms (or Pricing Supplement, as applicable) comes are required by the Trustee, STC and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Certificates or have in their possession or distribute such offering material, in all cases at their own expense.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Trustee, STC and the relevant Dealer(s) shall agree and as shall be set out in the relevant subscription agreement or, as the case may be, in the applicable Final Terms (or Pricing Supplement, as applicable).



## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issuance of the Certificates thereunder was authorised by a resolution of the board of directors of the Trustee dated 23 April 2019. The establishment of the Programme and the issuance of the Certificates thereunder was authorised by a resolution of the shareholders of STC dated 24 April 2019 and by a resolution of the board of directors of STC dated 25 April 2019. The Trustee and STC have obtained or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue and performance of the Certificates.

### Listing of the Certificates

It is expected that each Tranche of the Certificates (other than Exempt Certificates) which is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Certificate initially representing the Certificates of such Tranche. Application has been made to Euronext Dublin for the Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List and to trading on the Regulated Market. Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of MiFID II and/or which are to be offered to the public in any EU Member State. The approval of the Programme in respect of such Certificates is expected to be granted on or around 26 April 2019.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Trustee in connection with the Certificates and is not itself seeking admission of the Certificates to the Official List or to trading on the Regulated Market for the purposes of the Prospectus Directive.

Exempt Certificates may be issued pursuant to the Programme.

### Documents Available for Inspection

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available in physical form for inspection during normal business hours at the registered office of the Trustee and at the specified office of the Principal Paying Agent:

- the constitutional documents of the Trustee and STC (with a direct and accurate English translation thereof);
- the Financial Statements;
- in respect of each Series, the Declaration of Trust, the Agency Agreement, the Master Restricted Mudaraba Agreement, the Supplemental Mudaraba Agreement, the Lease Agreement, the Service Agency Agreement, the Master Murabaha Agreement (together with all documents, notices of request to purchase, offer notices, acceptances, notices and confirmations delivered or entered into as contemplated by the Master Murabaha Agreement in connection with the relevant Series) and the forms of the Global Certificates and Definitive Certificates (provided that, in the case of Exempt Certificates, such holder must produce evidence satisfactory to the Trustee or the relevant Paying Agent (as applicable) as to its holding of such Certificates and identity);
- a copy of this Base Prospectus; and
- any future offering circulars, prospectuses, information memoranda and supplements, including Final Terms and Pricing Supplements to this Base Prospectus and any other documents incorporated herein or therein by reference (provided that, in the case of Exempt Certificates, such holder must produce evidence satisfactory to the Trustee or the relevant Paying Agent (as applicable) as to its holding of such Certificates and identity).

This Base Prospectus will also be available, in electronic format, on the website of Euronext Dublin (<http://www.ise.ie/Market-Data-Announcements/Debt/>).

## **Significant or Material Change**

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of the Trustee, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of STC or the Group since 31 March 2019. There has been no material adverse change in the prospects of STC or the Group since 31 December 2018.

## **Legal Proceedings**

Save as disclosed under "*Description of the Group—Litigation, Arbitration and Disputes*", there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or STC is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have in such period had, a significant effect on the financial position or profitability of the Trustee, STC or the Group.

## **Independent Auditors**

The unaudited interim condensed consolidated financial statements of the Group as at and for the three months ended 31 March 2019 were reviewed by EY as stated in their review report included elsewhere in this Base Prospectus. The audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 and as at and for the year ended 31 December 2017 were audited by EY as stated in their respective audit reports included elsewhere in this Base Prospectus.

With respect to the unaudited interim condensed consolidated financial statements of the Group as at and for the three months ended 31 March 2019, EY reported that they have applied limited procedures in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Auditor of the Entity*". However, their report dated 24 April 2019, included herein, states that they did not audit and they do not express any audit opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Ernst & Young & Co. (Certified Public Accountants) is licensed by the Saudi Organisation for Certified Public Accountants.

## **Clearing Systems**

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms (or Pricing Supplement, as applicable). The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

In addition, the Trustee may make an application for any Certificates in registered form to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Certificates and the CUSIP and/or CINS numbers for each Series of Certificates, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Final Terms (or Pricing Supplement, as applicable). The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

The Legal Entity Identifier (LEI) code of the Trustee is 549300XDIYY7XEYHTO45.

## **Conditions for Determining Price and Yield**

The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, STC and each relevant Dealer at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Certificates, the issue price may include accrued profit in respect of the period from the profit commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if profit payment dates have already passed, the most recent profit payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Certificates will be calculated on an annual or semi-annual basis using the relevant issue price at the relevant issue date. It is not an indication of future yield.

### **Certificates Having a Maturity of Less Than One Year**

Where Certificates have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Trustee in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA, such Certificates must have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses.

### **Dealers Transacting with STC**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may provide services to STC and its affiliates in the ordinary course of business for which they may receive fees.

In connection with any offering of the Certificates, each Dealer and/or its affiliate(s) may act as an investor for its own account and may take up Certificates in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Trustee or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to the Dealers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans or *Shari'a* compliant financings) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of STC and its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with STC and its affiliates routinely hedge their credit exposure to STC and its affiliates consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Certificates issued under the Programme. Any such short positions could adversely affect future trading prices of Certificates issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purposes of this paragraph, the term "affiliates" shall also include parent companies.

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**Saudi Telecom Company**  
(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE THREE MONTHS PERIOD ENDED  
31 MARCH 2019  
(Unaudited)**

**First Quarter  
2019**

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED 31 March 2019**

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

**Introduction:**

We have reviewed the accompanying interim condensed consolidated statement of financial position of Saudi Telecom Company - a Saudi Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 31 March 2019 and the related interim condensed consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the three months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

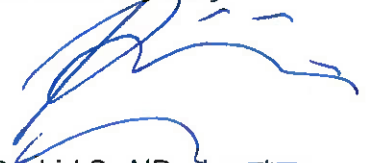
**Scope of Review:**

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

**Conclusion:**

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

for Ernst & Young



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



Riyadh: 19 Sha'aban 1440H  
(24 April 2019)

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

		<u>31 March 2019</u>	<u>31 December 2018</u>
	<i>Notes</i>		
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	41,243,110	41,920,409
Intangible assets and goodwill	7	9,342,212	9,560,119
Right of use assets	8	2,468,609	-
Investments in associates and joint ventures	13	6,385,146	6,581,733
Contract assets		602,376	504,042
Contract costs		966,687	1,030,129
Other non-current assets	9	7,820,418	3,744,637
<b>TOTAL NON-CURRENT ASSETS</b>		<u>68,828,558</u>	<u>63,341,069</u>
<b>CURRENT ASSETS</b>			
Inventories		829,873	787,456
Trade and other receivables	12	15,559,908	14,422,178
Short term murabahas		6,087,181	9,685,491
Contract assets		5,750,202	5,539,412
Other current assets	10	5,978,083	7,441,123
Cash and cash equivalents		6,180,154	8,153,865
		<u>40,385,401</u>	<u>46,029,525</u>
Assets held for sale	14	267,728	-
<b>TOTAL CURRENT ASSETS</b>		<u>40,653,129</u>	<u>46,029,525</u>
<b>TOTAL ASSETS</b>		<u>109,481,687</u>	<u>109,370,594</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Issued capital		20,000,000	20,000,000
Statutory reserves		10,000,000	10,000,000
Other reserves		(2,229,455)	(1,903,878)
Retained earnings		40,593,271	37,417,562
<b>Equity attributable to the equity holders of the Parent Company</b>		<u>68,363,816</u>	<u>65,513,684</u>
Non-controlling interests		1,085,311	1,147,914
<b>TOTAL EQUITY</b>		<u>69,449,127</u>	<u>66,661,598</u>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Long term borrowings	15	3,937,536	3,965,479
Provision for end of service benefit	16	3,937,717	3,919,362
Deferred income		2,352,191	2,144,290
Lease liabilities	17	1,593,893	-
Provisions		1,019,639	891,910
Contract liabilities		771,915	771,915
Other non-current liabilities	18	1,572,548	1,558,985
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>15,185,439</u>	<u>13,251,941</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		11,596,131	14,092,907
Provisions		6,506,482	6,829,451
Contract liabilities		2,247,115	2,538,940
Zakat and income tax liabilities	20	1,645,272	1,465,775
Lease liabilities	17	734,208	-
Short term borrowings	15	282,292	320,533
Deferred income		46,381	41,141
Other current liabilities	19	1,789,240	4,168,308
<b>TOTAL CURRENT LIABILITIES</b>		<u>24,847,121</u>	<u>29,457,055</u>
<b>TOTAL LIABILITIES</b>		<u>40,032,560</u>	<u>42,708,996</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>109,481,687</u>	<u>109,370,594</u>



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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	<i>For the three months period ended</i>	
		<i>31 March</i>	
		<i>2019</i>	<i>2018</i>
Revenues	5	<b>13,385,753</b>	12,349,080
Cost of revenues		<b>(5,482,277)</b>	(5,414,229)
<b>GROSS PROFIT</b>		<b>7,903,476</b>	6,934,851
<b>OPERATING EXPENSES</b>			
Selling and marketing		<b>(1,115,657)</b>	(1,250,911)
General and administration		<b>(1,402,316)</b>	(1,156,882)
Depreciation and amortisation	6,7,8	<b>(2,110,299)</b>	(1,894,704)
<b>TOTAL OPERATING EXPENSES</b>		<b>(4,628,272)</b>	(4,302,497)
<b>OPERATING PROFIT</b>		<b>3,275,204</b>	2,632,354
<b>OTHER EXPENSES AND INCOME</b>			
Cost of early retirement		<b>(150,000)</b>	-
Finance income		<b>181,120</b>	149,668
Finance costs		<b>(164,176)</b>	(97,379)
Other (expenses)/income, net		<b>(126,314)</b>	94,395
Share in results of investments in associates and joint ventures, net	13	<b>(35,538)</b>	36,025
Other gains, net		<b>7,427</b>	40,967
<b>TOTAL OTHER (EXPENSES) AND INCOME</b>		<b>(287,481)</b>	223,676
<b>NET PROFIT BEFORE ZAKAT AND INCOME TAX</b>		<b>2,987,723</b>	2,856,030
Zakat and income tax	20	<b>(180,553)</b>	(198,639)
<b>NET PROFIT</b>		<b>2,807,170</b>	2,657,391
<i>Net profit attributable to:</i>			
Equity holders		<b>2,749,735</b>	2,587,530
Non-controlling interests		<b>57,435</b>	69,861
		<b>2,807,170</b>	2,657,391
Basic and diluted earnings per share (In Saudi Riyals)		<b>1.37</b>	1.29

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	<i>For the three months period ended</i>	
		<i>31 March</i>	
		<i>2019</i>	<i>2018</i>
<b>NET PROFIT</b>		<b>2,807,170</b>	2,657,391
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>			
Re-measurement of end of service benefit provision	16	(4,461)	(16,022)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	11	(34)	(2,357)
<i>Total items that will not be reclassified subsequently to consolidated statement of profit or loss</i>		<b>(4,495)</b>	(18,379)
<i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i>			
Foreign currency translation differences		(8,613)	(3,215)
Fair value changes from cash flow hedges		(906)	1,159
Share of other comprehensive income/(loss) of associates and joint ventures, net		<b>113,185</b>	(93,518)
<i>Total items that will be reclassified subsequently to consolidated statement of profit or loss</i>		<b>103,666</b>	(95,574)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>		<b>99,171</b>	(113,953)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2,906,341</b>	2,543,438
<i>Total comprehensive income attributable to:</i>			
Equity holders		<b>2,850,132</b>	2,480,097
Non-controlling interests		<b>56,209</b>	63,341
		<b>2,906,341</b>	2,543,438

**Saudi Telecom Company**  
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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three months period ended	
		2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit before zakat and tax		2,987,723	2,856,030
<i>Adjustments for:</i>			
Depreciation and amortisation	6,7,8	2,110,299	1,894,704
Amortisation and impairment loss of contract costs and assets		148,782	182,708
Impairment loss on trade receivables		82,009	158,181
Write-down of inventories		19,339	64,532
Finance income		(181,120)	(149,668)
Finance costs		164,176	97,379
Provision for end of service benefits and other provisions		249,739	772,160
Share in results of investments in associates and joint ventures, net		35,538	(36,025)
Other gains, net		(7,427)	(40,967)
<b>Operating profit before working capital adjustments</b>		<b>5,609,058</b>	<b>5,799,034</b>
<i>Movements in working capital:</i>			
Trade and other receivables		(1,047,599)	(2,189,023)
Inventories		(61,756)	33,898
Contract costs		(54,631)	(485,103)
Contract assets		(339,834)	(1,046,390)
Other assets		(328,020)	(212,647)
Trade and other payables		(3,244,956)	807,083
Deferred income		213,141	148,742
Contract liabilities		(291,825)	(283,412)
Other liabilities		(3,162,788)	588,727
<b>Cash (used in) generated from operations</b>		<b>(2,709,210)</b>	<b>3,160,909</b>
Less: Zakat and income tax paid	20	-	(63,022)
Less: Provision for end of service benefits paid		(115,192)	(74,347)
<b>Net cash (used in) generated from operating activities</b>		<b>(2,824,402)</b>	<b>3,023,540</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	6	(171,798)	(1,349,213)
Additions to intangible assets	7	(214,097)	(197,160)
Proceeds from sale of property, plant and equipment		85,550	6,876
Proceeds from finance income		701,595	55,586
Proceeds related to financial assets		5,997,028	6,757,553
Payments related to financial assets		(5,208,888)	(6,833,728)
<b>Net cash from (used in) investing activities</b>		<b>1,189,390</b>	<b>(1,560,086)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(1,528)	(1,994)
Repayment of lease liabilities		(175,697)	-
Repayment of borrowings	15	(131,700)	(334,021)
Proceeds from borrowings	15	50,000	-
Finance costs paid		(77,799)	(21,762)
<b>Net cash used in financing activities</b>		<b>(336,724)</b>	<b>(357,777)</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,971,736)</b>	<b>1,105,677</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		<b>8,153,865</b>	<b>2,567,044</b>
Net foreign exchange differences		(1,975)	2,873
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>		<b>6,180,154</b>	<b>3,675,594</b>

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Attributable to equity holders of the Parent Company</i>						<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Notes</i>	<i>Issued Capital</i>	<i>Statutory reserves</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>Total</i>		
<b><i>Balance as at 1 January 2018</i></b>		20,000,000	10,000,000	(1,775,390)	34,637,791	62,862,401	939,180	63,801,581
Net profit		-	-	-	2,587,530	2,587,530	69,861	2,657,391
Other comprehensive loss		-	-	(107,433)	-	(107,433)	(6,520)	(113,953)
Total comprehensive income		-	-	(107,433)	2,587,530	2,480,097	63,341	2,543,438
Dividends to shareholders	23	-	-	-	(2,000,000)	(2,000,000)	-	(2,000,000)
Dividends to non-controlling interests		-	-	-	-	-	(90,118)	(90,118)
<b><i>Balance as at 31 March 2018</i></b>		<u>20,000,000</u>	<u>10,000,000</u>	<u>(1,882,823)</u>	<u>35,225,321</u>	<u>63,342,498</u>	<u>912,403</u>	<u>64,254,901</u>
<b><i>Balance as at 1 January 2019</i></b>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,903,878)</b>	<b>37,417,562</b>	<b>65,513,684</b>	<b>1,147,914</b>	<b>66,661,598</b>
Net profit		-	-	-	2,749,735	2,749,735	57,435	2,807,170
Other comprehensive income/(loss)		-	-	100,397	-	100,397	(1,226)	99,171
Total comprehensive income		-	-	100,397	2,749,735	2,850,132	56,209	2,906,341
Dividends to non-controlling interests		-	-	-	-	-	(118,812)	(118,812)
Transfers		-	-	(425,974)	425,974	-	-	-
<b><i>Balance as at 31 March 2019</i></b>		<u>20,000,000</u>	<u>10,000,000</u>	<u>(2,229,455)</u>	<u>40,593,271</u>	<u>68,363,816</u>	<u>1,085,311</u>	<u>69,449,127</u>

**Saudi Telecom Company**  
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**1. GENERAL INFORMATION**

**A) ESTABLISHMENT OF THE COMPANY**

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

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

**B) GROUP ACTIVITIES**

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

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

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

## **2. BASIS OF PREPARATION**

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements in accordance with International Financial Reporting Standards and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018.

## **3. THE GROUP’S ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and amendment effective as of 1 January 2019. The Group has not early adopted any other standards, interpretation or amendment that has been issued but is not yet effective.

The Group applied IFRS 16 “Leases” retrospectively without restating comparative figures with the cumulative effect of initially applying the Standard recognised at the date of initial application (i.e. 1 January 2019).

## **4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP**

### **4.1 IFRS 16 “LEASES”**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 supersedes the following Standards and Interpretations:

- (a) IAS 17 Leases;
- (b) IFRIC 4 Determining whether an Arrangement contains a Lease;
- (c) SIC-15 Operating Leases—Incentives; and
- (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases; which represents a significant change from IAS 17.

Lessor accounting under IFRS 16 is substantially unchanged from current accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group’s accounting policy under IFRS 16 is as follows:

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, plus any 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).

**4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP**  
**(CONTINUED)**

**4.1 IFRS 16 “LEASES” (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 the commencement 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 amount to reflect interest on the lease liability.
- (b) reducing the carrying amount to reflect the lease payments made.
- (c) remeasuring the carrying amount 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 profit or loss.

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

**4.1.1 Impact of transition to IFRS 16**

The Group has adopted IFRS 16 using the modified retrospective approach with the effect of applying this standard recognised at the date of initial application (1 January 2019) and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Group has elected to record right-of-use assets (amounting to SR 2,556 million) based on the corresponding lease liability (amounting to SR 2,367 million) adjusted for any prepaid or accrued lease payments as of 1 January 2019, with no net impact on retained earnings.

Lease liabilities are recognized on the date of initial application of the lease contracts previously classified as operating leases (in accordance with IAS 17). Lease liabilities were measured at the present value of the remaining lease payments discounted using the Group's additional borrowing rate as of 1 January 2019. The weighted average rate of additional borrowing rate at the initial implementation date was 3.9%.

The Group has elected to apply the following practical expedient:

- apply one discount rate on a portfolio of leases with reasonably similar characteristics .
- account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.
- exclude direct costs from measuring the right of use assets at the date of initial application.
- use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Group applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

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**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**5. SEGMENT INFORMATION**

The following is an analysis of the Group's revenues and results based on segmental basis:

	<i>For the three months period ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
<b>Revenues (1)</b>		
Saudi Telecom Company	<b>9,512,199</b>	9,698,952
STC Channels	<b>2,322,580</b>	1,252,374
Other operating segments (2)	<b>2,531,062</b>	2,042,440
Eliminations/ Adjustments	<b>(980,088)</b>	(644,686)
	<hr/>	<hr/>
<b>Total revenues</b>	<b>13,385,753</b>	12,349,080
Cost of operations (excluding depreciation and amortisation)	<b>(8,000,250)</b>	(7,822,022)
Depreciation and amortisation	<b>(2,110,299)</b>	(1,894,704)
Cost of early retirement	<b>(150,000)</b>	-
Finance income	<b>181,120</b>	149,668
Finance costs	<b>(164,176)</b>	(97,379)
Other (expenses) income, net	<b>(126,314)</b>	94,395
Share in results of investments in associates and joint ventures, net	<b>(35,538)</b>	36,025
Other gains, net	<b>7,427</b>	40,967
Zakat and income tax	<b>(180,553)</b>	(198,639)
	<hr/>	<hr/>
<b>Net profit</b>	<b>2,807,170</b>	2,657,391
	<hr/> <hr/>	<hr/> <hr/>

Following is the gross profit analysis on a segmental basis:

	<i>For the three months period</i>	
	<i>ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
Saudi Telecom Company	<b>6,762,856</b>	5,761,607
STC Channels	<b>352,359</b>	297,222
Other operating segments (2)	<b>870,435</b>	899,879
Eliminations/ Adjustments	<b>(82,174)</b>	(23,857)
	<hr/>	<hr/>
<b>Gross profit</b>	<b>7,903,476</b>	6,934,851
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**5. SEGMENT INFORMATION (CONTINUED)**

The following is an analysis of the Group's assets and liabilities based on segmental basis:

	<i>31 March 2019</i>	<i>31 December 2018</i>
<b><u>Assets</u></b>		
Saudi Telecom Company	<b>116,635,536</b>	116,882,397
STC Channels	<b>3,566,324</b>	3,333,662
Other operating segments (2)	<b>21,076,975</b>	19,539,165
Eliminations/ Adjustments	<b>(31,797,148)</b>	(30,384,630)
<b>Total Assets</b>	<b>109,481,687</b>	109,370,594
<b><u>Liabilities</u></b>		
Saudi Telecom Company	<b>35,770,404</b>	38,998,013
STC Channels	<b>2,238,506</b>	2,068,819
Other operating segments (2)	<b>12,013,159</b>	10,512,261
Eliminations/ Adjustments	<b>(9,989,509)</b>	(8,870,097)
<b>Total Liabilities</b>	<b>40,032,560</b>	42,708,996

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 980 million for the three months period ended 31 March 2019 (for the three months period ended 31 March 2018: SR 645 million) inter-segment sales and adjustments eliminated at consolidation.

(2) Other operating segments include: VIVA Kuwait, VIVA Bahrain, STC Solutions, Intigral, STC Specialized, Sapphire, Aqalat and Tower Co.

**6. PROPERTY, PLANT AND EQUIPMENT**

During the three months period ended 31 March 2019, the Group acquired assets with total cost of SR 919 million (31 March 2018: SR 1,680 million).

During the three months period ended 31 March 2019, the Group disposed of assets with a net book value of SR 95 million (31 March 2018: SR 51 million) resulting in a loss on sale of property, plant and equipment for the three months period ended 31 March 2019 amounting to SR 9 million (three months period ended 31 March 2018: SR 44 million).

Following is the breakdown of depreciation expense if allocated to operating costs items:

	<i>For the three months period ended</i>	
	<b>31 March</b>	
	<i>2019</i>	<i>2018</i>
Cost of revenues	<b>1,204,142</b>	1,233,216
Selling and marketing expenses	<b>4,061</b>	8,651
General and administration expenses	<b>273,469</b>	251,725
<b>Total</b>	<b>1,481,672</b>	1,493,592

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS PERIOD ENDED 31 MARCH 2019**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**7. INTANGIBLE ASSETS AND GOODWILL**

During the three months period ended 31 March 2019, the net additions in intangible assets amounted to SR 299 million (31 March 2018: SR 1,958 million).

Following is the breakdown of amortisation expense if allocated to operating costs items:

	<i>For the three months period ended</i>	
	<i>31 March</i>	
	<i>2019</i>	<i>2018</i>
Cost of revenues	<b>128,456</b>	131,921
Selling and marketing expenses	<b>967</b>	9,290
General and administration expenses	<b>311,458</b>	259,901
<b>Total</b>	<b>440,881</b>	401,112

**8. RIGHT OF USE ASSETS**

	<i>31 March 2019</i>
Balance at 1 January 2019	<b>2,555,524</b>
Additions	<b>130,938</b>
Depreciation	<b>(187,746)</b>
Disposal and others	<b>(30,107)</b>
Balance at 31 March 2019	<b>2,468,609</b>

Following is the breakdown of depreciation expense if allocated to operating costs items:

	<i>For the three months period ended 31 March 2019</i>
Cost of revenues	<b>136,318</b>
Selling and marketing expenses	<b>1,986</b>
General and administration expenses	<b>49,442</b>
<b>Total</b>	<b>187,746</b>

**9. OTHER NON CURRENT ASSETS**

	<i>31 March 2019</i>	<i>31 December 2018</i>
Financial assets (*)	<b>7,456,805</b>	3,373,016
Other assets	<b>363,613</b>	371,621
	<b>7,820,418</b>	3,744,637

(\*) The Group also subscribed in Sukuk that issued by the Ministry of Finance during the first quarter of 2019:

	<i>Tranche I</i>	<i>Tranche II</i>
Investment amount	<b>1,762,000</b>	<b>2,140,000</b>
Investment duration	<b>5 years</b>	<b>10 years</b>
Yield	<b>3.17%</b>	<b>3.9%</b>
Investment amount at maturity	<b>1,771,755</b>	<b>2,227,188</b>

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**10. OTHER CURRENT ASSETS**

	<u>31 March 2019</u>	<u>31 December 2018</u>
Financial assets	3,707,172	5,488,245
Other assets	2,270,911	1,952,878
	<u>5,978,083</u>	<u>7,441,123</u>

**11. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES**

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

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

Fair value of financial assets is estimated based on quoted market prices of Sukuk and estimated future cash flows based on contractual ratios and future commodity ratios in accordance with future curves that can be observed at the end of the financial period of other assets in the portfolio that are discounted at a rate reflecting the credit risk of various counterparties. The fair value is within level 2 of the fair value hierarchy. There were no transfers between level 1 and level 2 during the period. The Group's policy is to recognise transfer to and from the levels of the fair value hierarchy at the end of the reporting period.

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

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

**12. RELATED PARTIES TRANSACTIONS AND BALANCES**

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

The following are the transactions with related parties:

	<i>For the three months period ended</i>	
	<i>31 March</i>	
	<u>2019</u>	<u>2018</u>
<b><i>Telecommunication services provided</i></b>		
Associates	126,990	133,358
Joint Ventures	4,260	11,534
	<u>131,250</u>	<u>144,892</u>

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**12. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)**

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

	<i>For the three months period ended</i>	
	<b>31 March</b>	
	<b>2019</b>	<b>2018</b>
<b><i>Telecommunication services received</i></b>		
Associates	<b>2,887</b>	13,246
Joint Ventures	<b>140</b>	1,010
	<b>3,027</b>	14,256

The following balances are outstanding with related parties:

	<i>Amounts due from related parties</i>		<i>Amounts due to related parties</i>	
	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Associates	<b>302,932</b>	338,652	<b>26,291</b>	23,184
Joint ventures	<b>6,810</b>	5,444	<b>105,174</b>	112,801
	<b>309,742</b>	344,096	<b>131,465</b>	135,985

**12.2 Trade transactions and related parties' balances (government and government related entities)**

Revenues related to transactions with governmental parties for the three months period ended 31 March 2019 amounted to SR 1,360 million (for the three months period ended 31 March 2018 amounted to SR 1,435 million) and expenses related to transactions with governmental parties for the three months period ended 31 March 2019 (including government charges) amounted to SR 1,106 million (for the three months period ended 31 March 2018 amounted to SR 1,398 million). It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H corresponding to 11 December 2018, the percentage of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous calculation mechanism which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 31 March 2019, accounts receivable from Government entities totalled SR 12,760 million (31 December 2018: SR 12,343 million) and as at 31 March 2019, accounts payable to government entities totalled SR 1,039 million (31 December 2018: SR 3,706 million) which were after the Group's agreement with the government to pay all outstanding receivables as at 31 December 2016 amounting to SR 12,532 million through offsetting accounts payables balances and the collection of the balance in cash. The Group also subscribed to an amount of SR 3,902 thousand in Sukuk that issued by the Ministry of Finance during the first quarter of 2019 (see note 9).

The following is the existing ageing with government:

	<b>31 March 2019</b>	<b>31 December 2018</b>
Less than a year	<b>7,295,072</b>	6,936,884
One to two years	<b>4,354,407</b>	5,367,424
More than two years	<b>1,110,744</b>	38,416
	<b>12,760,223</b>	12,342,724

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**13. ASSOCIATES AND JOINT VENTURES**

At its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to buy an additional 39% stake in Virgin Mobile Saudi Arabia for SR 151 million. The legal and regulatory procedures concerning the transaction are expected to be completed during 2019. Upon completing the transaction, Saudi Telecom Group's share in Virgin Mobile Saudi Arabia shall increase to 49%.

**14. ASSETS HELD FOR SALE**

On 26 March 2019, Uber Technologies signed an assets purchase agreement with Careem (an associate accounted for using the equity method and the Group holds a direct shares of 8.83%) to acquire the net assets of Careem for about US \$ 3.1 billion (Equivalent to SR 11.6 billion) subject to modifications. The total consideration for the agreement consists of the following:

- about US \$ 1.7 billion (equivalent to about SR 6.4 billion) of unsecured, interest-free convertible bonds.
- about US \$ 1.4 billion (equivalent to SR 5.2 billion) in cash.

The deal is expected to be completed and final impact recorded upon completion of the regulatory procedures. Accordingly, the Group's investment in Careem has been reclassified as assets held for sale as at 31 March 2019.

**15. BORROWINGS**

Total borrowings paid during the three months period ended 31 March 2019 amounted to SR 132 million (31 March 2018: SR 334 million). Total borrowings received during the three months period ended 31 March 2019 amounted to SR 50 million (31 March 2018: nil).

**16. PROVISION FOR END OF SERVICE BENEFIT**

The provision for end of service benefit as at 31 March 2019 is calculated using the latest actuarial valuation as at 31 December 2018. During the year, there have not been significant fluctuations or events that would require adjustment to the actuarial assumptions made at 31 December 2018.

**17. LEASE LIABILITIES**

	<u><b>31 March 2019</b></u>
Current	<b>734,208</b>
Non Current	<b>1,593,893</b>
	<u><b>2,328,101</b></u>

Interest expense on lease liabilities for the three months period ended 31 March 2019 amounted to SR 20 million included in financing costs. Total cash outflow for leases liabilities amounted to SR 176 million for the same period.

**18. OTHER NON-CURRENT LIABILITIES**

	<u><b>31 March 2019</b></u>	<u><b>31 December 2018</b></u>
Financial liabilities	<b>1,542,396</b>	1,526,259
Other liabilities	<b>30,152</b>	32,726
	<u><b>1,572,548</b></u>	<u><b>1,558,985</b></u>

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**19. OTHER CURRENT LIABILITIES**

	<u>31 March 2019</u>	<u>31 December 2018</u>
Financial liabilities	339,465	90,731
Other liabilities	1,449,775	4,077,577
	<u>1,789,240</u>	<u>4,168,308</u>

**20. ZAKAT AND INCOME TAX LIABILITIES**

**Zakat**

The Company submitted its zakat returns since its inception through 2017. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company received Zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total Zakat differences for these objections amounted to SR 625 million. The Company has reached a partial settlement for the years 2010-2011 and GAZT is in the process of issuing an amended zakat assessment for those years. The objections related to the years 2008-2009 remain before the appeals committee until the date of preparation of these interim condensed consolidated financial statements. The majority of the zakat differences subject for objections are for the years 2008-2009 in relation to the comparison between the Zakat base and the adjusted profit whichever is higher. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, the Company believes that the results of these objections will be in its favour and will not result in any additional provisions.

Zakat declarations for the years 2012 to 2017 are still pending with the GAZT until the date of preparation of these interim condensed consolidated financial statements.

**21. CAPITAL COMMITMENTS**

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

## **22. CONTINGENT LIABILITIES**

- (a) The Group has outstanding letters of guarantee amounting to SR 6,809 million as at 31 March 2019 (31 December 2018: SR 6,597 million).
- (b) The Group has outstanding letters of credit as at 31 March 2019 amounting to SR 655 million (31 December 2018: SR 655 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these interim condensed consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.
- (f) The agreement signed with government agencies during the fourth quarter of 2018 includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from 2018. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

## **23. PROPOSED DIVIDENDS**

On 9 Rabi Thani 1440H (corresponding to December 16, 2018) the Board of Directors have approved the Company's dividend policy for the next three years starting from the fourth quarter of 2018, which will be presented at the next General Assembly meeting for approval that will hold on 24 April 2019. The objective of the dividend policy is to maintain a minimum level of dividend of SR 1 per share on quarterly basis. The Company will consider and pay additional dividend subject to the Board approval after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. Additional dividends are likely to vary on quarterly basis depending on the company's performance.

The dividends policy will remain subject to:

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

In line with the above policy, the Company's Board of Directors recommended on 9 Rabi Thani 1440H (corresponding to December 16, 2018) to distribute cash dividends to the shareholders of the Company for the fourth quarter of 2018, amounting to SR 2,000 million, at a rate of SR 1 per share. Furthermore, after evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended to distribute an amount of SR 4,000 million, at a rate of SR 2 per share, as an additional one-time special dividends for the year 2018.

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**23. PROPOSED DIVIDENDS (CONTINUED)**

In the line of the same policy, the company will distribute of cash dividends to the shareholders of the Company for the first quarter of 2019, amounting to SR 2,000 million, at a rate of SR 1 per share.

**24. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the classification used for the period ended 31 March 2019.





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These statements were originally prepared in Arabic and the Arabic version should prevail



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### **Independent auditor's report**

To the Shareholders of Saudi Telecom Company  
(A Saudi Joint Stock Company)

### **Opinion**

We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

**Independent auditor's report**  
To the Shareholders of Saudi Telecom Company (continued)  
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**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>The Group's revenue consists primarily of subscription fees for telecommunication, data packages and use of the network totalling SR 52 billion for the year ended 31 December 2018.</p> <p>With effect from 1 January 2018, the Group adopted IFRS 15 "Revenue from Contracts with Customers" which impacted both how the Group recognizes revenue and the treatment of costs to obtain customers contracts. The Group applied the requirements of IFRS 15 retrospectively and restated prior years consolidated financial statements.</p> <p>In order to adopt the new standard, management undertook a process to identify customer contracts relating to services provided. For each type of contract identified management determine the performance obligations that exist under the contract and the transaction price which represents revenue expected to be received under the contract. The revenue was then allocated to the performance obligations under the contract utilising a proportionate allocation method. Revenue is recognised proportionately as performance obligations are satisfied. Further, as per IFRS 15, the incremental costs incurred to obtain a customer under a contract are now capitalised and amortised over the expected life of the relationship with that customer. Previously these costs were expensed as incurred.</p> <p>We considered this a key audit matter as the application of accounting standards for revenue recognition has a significant impact to the Group's consolidated financial statements and the complexity of the estimates and assumptions used in the application of the standard. In addition, there are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment and significant dependency on IT applications, as well as the materiality of the amounts and volumes of transactions involved.</p> <p>Refer to note 4.3 for revenue recognition policy and note 32 for details of group revenue and note 3 for the disclosure of the adoption of IFRS 15.</p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Involvement of IT specialists in testing the design, implementation and effectiveness of system internal controls related to revenue recognition.</li> <li>• Review of a sample of revenue reconciliations prepared by management between the primary billing system and the general ledger.</li> <li>• Performance of analytical procedures by comparing expectations of revenue with actual revenue on a monthly basis and analysed variances.</li> <li>• In relation to the criteria utilised by management to determine the appropriate level of revenue to be recognised we have, on a sample basis, tested <ul style="list-style-type: none"> <li>- The performance obligations identified were consistent with the terms and conditions in the underlying contract;</li> <li>- The transaction price agreed to execute customer contract;</li> <li>- The value of the performance obligations used in allocating the transaction prices were determined using market rates for each stand-alone service provided.</li> </ul> </li> <li>• With respect to customer acquisition costs we have, on a sample basis: <ul style="list-style-type: none"> <li>- Tested the costs back to supporting documentation to assess that the costs were incremental in nature and incurred in the process of obtaining a customer contract;</li> <li>- Tested that incremental costs are amortised over the expected life of the relationship with the customer; and</li> <li>- Assessed the expected life of the relationship with the customer by observing past customer behaviour and internal customer churn data.</li> </ul> </li> <li>• Assessment of the relevant disclosures in the consolidated financial statement.</li> </ul>



**Independent auditor's report**  
To the Shareholders of Saudi Telecom Company (continued)  
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**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<b>Accounting for zakat and withholding tax claims from the General Authority of Zakat and Tax (GAZT)</b>	
<p>As at 31 December 2018, the Group received following claims from the GAZT, relating to Zakat and withholding tax:</p> <p><b>Zakat:</b> The Group received the zakat assessments from its inception until 2011, which resulted in additional exposure. The Group challenged the claim and submitted its appeal which is underway before GAZT and the relevant committee.</p> <p><b>Withholding Tax:</b> The Group received withholding tax assessments from the GAZT for the service of renting international operators' networks outside the Kingdom of Saudi Arabia for the years from 2004 to 2015. The Group's management believes that this service should not be subject to withholding tax and has objected against such assessments which are still underway before the relevant committee.</p> <p>We considered this as a key audit matter as accounting for zakat and withholding tax involves significant management estimates in addition to the materiality of the additional amounts claimed.</p> <p><i>Refer to note 4.8 for zakat and withholding taxes policy and notes 31 and 43-E for disclosure of Group's zakat and withholding tax liabilities.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Review of correspondences between the Group, the GAZT and the Group's consultants to determine the amount of the additional assessments made by the GAZT.</li> <li>• Attend meetings with those charged with governance and the management of the Group to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant committees.</li> <li>• Use of specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by the GAZT and management's judgement in this matter.</li> <li>• Review of the prior year's decisions from the relevant committee on zakat assessment.</li> <li>• Assessed the related disclosures included in the consolidated financial statements of the Group.</li> </ul>

**Independent auditor's report**

To the Shareholders of Saudi Telecom Company (continued)  
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**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<b>Allowance for impairment in trade receivable</b>	
<p>At 31 December 2018, the Group's trade receivables amounted to SR 15.6 billion against which an impairment allowance of SR 2.5 billion was maintained.</p> <p>The Group adopted IFRS 9 "Financial Instruments" during the year which requires the use of the expected credit loss (ECL) model instead of the incurred credit loss model under IAS 39. The Group applied the requirements of IFRS 9 retrospectively, and restated prior years consolidated financial statements. The adoption resulted in a transition adjustment of SR 173 million to the Group's equity as at 1 January 2018.</p> <p>We considered this as a key audit matter as ECL model involves complex calculations and use of assumptions by management.</p> <p><i>Refer to notes 4 and 5 for trade receivables policy and critical accounting judgements and note 10 for the movement in Group's ECL.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Assessment of the design, implementation, and operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> <li>- Recording of trade receivables and settlements.</li> <li>- Trade receivables aging reports.</li> </ul> </li> <li>• Test of a sample of trade receivables to assess whether ECL has been recorded in a timely manner.</li> <li>• Assessment of 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.</li> <li>• Testing the mathematical accuracy of the ECL model.</li> <li>• Assessment of the disclosures included in the consolidated financial statements of the Group.</li> </ul>

**Independent auditor's report**

To the Shareholders of Saudi Telecom Company (continued)  
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**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<b>Capitalization and useful lives of property, plant and equipment</b>	
<p>The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment.</p> <p>Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses in the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management assumptions.</p> <p>Further, there are a number of areas where management, judgment impacts the carrying values and depreciation of property, plant and equipment which include:</p> <ul style="list-style-type: none"> <li>- Decision to capitalize or expense costs;</li> <li>- Review of the useful lives of property, plant, and equipment including the impact of changes in the Group's strategy; and</li> <li>- The timing of commencement of depreciation based on when they are ready for their intended use.</li> </ul> <p>We considered this as a key audit matter since it involves management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to note 4.9 accounting policy of property, plant and equipment and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Tested the effectiveness of the key controls in place over the capitalization of property, plant and equipment and assessed the Group's capitalisation policies.</li> </ul> <p>In addition to the above, we also performed the following procedures on the capitalized cost:</p> <ul style="list-style-type: none"> <li>• Assessed the Group's capitalisation policy for compliance with relevant accounting standards;</li> <li>• Tested the implementation of expenditure policy during the year, including review of minutes of meetings where capital expenditure plan was approved.</li> <li>• On a sample basis, we tested capitalisation of project expenses in compliance with the Group's capitalisation policy including instances where actual costs differed from the expenditure plan.</li> </ul>



**Independent auditor's report**

To the Shareholders of Saudi Telecom Company (continued)  
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**Key Audit Matters (continued)**

Key audit matter	How our audit addressed the key audit matter
<b>Provisions related to government fees</b>	
<p>During 2018, the Group reached an agreement with the Ministry of Finance, the Ministry of Communications &amp; Information Technology and the authority of Communications and Information Technology ("Government Entities") regarding the basis of government fees calculation, and settlement of outstanding dispute related to prior years.</p> <p>Based on the agreement the dispute related to government fees for the period from 1 January 2008 to 31 December 2017 was settled completely. In return, the Group committed to capital expenditure in its infrastructure consistent with the Kingdom of Saudi Arabia strategy of developing telecommunication infrastructure within a period of three years from 1 January 2018 according to the terms and conditions of the Settlement Agreement (Referred to as "Target Performance Indicators").</p> <p>We considered this as a key audit matter due to the involvement of management's judgment and estimates in measuring the Target Performance Indicators as well as the materiality of the amounts involved.</p> <p><i>Refer to note 4.13 for accounting policy of provision and notes 42.a and 43.f which disclose related provisions.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Review of underlying agreement between the Group and Government Entities which included the agreed Target Performance Indicators;</li> <li>• Review of management's assumptions for assessment of compliance with the Target Performance Indicators and the impact of these on the consolidated financial statements;</li> <li>• Testing the mathematical accuracy of achieved Target Performance Indicators.</li> <li>• Assessment of the disclosures included in the consolidated financial statements of the Group.</li> </ul>
<b>Valuation of property, plant and equipment and intangible assets</b>	
<p>As at 31 December 2018, the Group's consolidated financial position included property, plant and equipment amounting to SR 41.9 billion and intangible assets amounting to SR 9.5 billion.</p> <p>The assessment of the recoverable value of these assets, or relevant cash-generating units ('CGUs'), involves significant judgment in respect of factors such as technological changes, challenging economic conditions, changing regulatory environment and restrictions, operating/capital costs and other economic assumptions used by the Group.</p> <p>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.</p> <p><i>Refer to note 4.11 for the related accounting policy and note 5.1.2 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Test of design and implementation of the internal controls to assess the Group's determination of impairment of assets, if any.</li> <li>• Reviewed management's impairment indicator testing.</li> <li>• Assessed management's assumptions and estimates used to determine the recoverable value of the assets by based on our knowledge of the Group and the industry it operates in.</li> <li>• Assessment of management's methods of identification of individual CGUs.</li> <li>• Assessed mathematical accuracy of cash flow models.</li> <li>• Assessment of the disclosures included in the consolidated financial statements of the Group.</li> </ul>



### **Independent auditor's report**

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

### **Other Information Included in the Group's 2018 Annual Report**

The Board of Directors of the Group (the "Board") are responsible for the other information in its annual report. Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. The Group's 2018 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 do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the Group's 2018 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

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

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

### Independent auditor's report

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

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

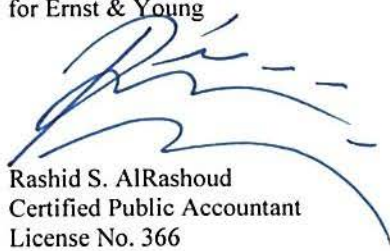
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies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

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



Rashid S. AlRashoud  
Certified Public Accountant  
License No. 366



Riyadh: 13 Rajab 1440H  
(20 March 2019)



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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

		<u>31 December 2018</u>	<u>31 December 2017</u> <i>(Restated – Note 3)</i>	<u>1 January 2017</u> <i>(Restated-Note 3)</i>
	<i>Notes</i>			
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	<b>41,920,409</b>	39,940,616	39,407,579
Intangible assets and goodwill	8	<b>9,560,119</b>	7,174,575	7,259,148
Investments in associates and joint ventures	19	<b>6,581,733</b>	6,908,653	6,301,641
Contract costs	13	<b>1,030,129</b>	1,091,254	1,131,085
Contract assets	14	<b>504,042</b>	276,842	64,676
Financial assets	15	<b>3,373,016</b>	7,793,291	7,401,610
Other non-current assets	12	<b>371,621</b>	860,851	259,051
<b>TOTAL NON-CURRENT ASSETS</b>		<b>63,341,069</b>	64,046,082	61,824,790
<b>CURRENT ASSETS</b>				
Inventories	9	<b>787,456</b>	482,281	474,516
Trade and other receivables	10	<b>14,422,178</b>	20,368,531	14,335,511
Short term murabahas	11	<b>9,685,491</b>	14,465,364	15,004,490
Contract assets	14	<b>8,117,463</b>	5,211,211	6,019,946
Financial assets	15	<b>5,488,245</b>	335,487	432,501
Other current assets	12	<b>1,952,878</b>	1,006,073	935,532
Cash and cash equivalents	17	<b>8,153,865</b>	2,567,044	3,631,202
<b>TOTAL CURRENT ASSETS</b>		<b>48,607,576</b>	44,435,991	40,833,698
<b>TOTAL ASSETS</b>		<b>111,948,645</b>	108,482,073	102,658,488
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Issued capital	20	<b>20,000,000</b>	20,000,000	20,000,000
Statutory reserves	21	<b>10,000,000</b>	10,000,000	10,000,000
Other reserves	22	<b>(1,903,878)</b>	(1,775,390)	(1,935,473)
Retained earnings		<b>37,417,562</b>	34,637,791	32,622,215
<b>Equity attributable to the holders of the Parent Company</b>		<b>65,513,684</b>	62,862,401	60,686,742
Non-controlling interests		<b>1,147,914</b>	939,180	1,255,725
<b>TOTAL EQUITY</b>		<b>66,661,598</b>	63,801,581	61,942,467
<b>LIABILITIES</b>				
<b>NON-CURRENT LIABILITIES</b>				
Long term borrowings	23	<b>3,965,479</b>	4,005,980	4,017,231
Provisions	24	<b>891,910</b>	1,203,152	1,122,266
Provision for end of service benefit	26	<b>3,919,362</b>	3,922,065	3,776,269
Deferred income	25	<b>2,144,290</b>	990,275	670,139
Contract liabilities	27	<b>771,915</b>	773,165	775,638
Other financial liabilities	28	<b>1,526,259</b>	59,755	208,963
Other non-current liabilities	29	<b>32,726</b>	87,227	90,887
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>13,251,941</b>	11,041,619	10,661,393
<b>CURRENT LIABILITIES</b>				
Trade and other payables	30	<b>16,670,958</b>	13,155,927	13,908,388
Short term borrowings	23	<b>320,533</b>	647,763	1,867,220
Provisions	24	<b>6,829,451</b>	7,633,280	5,686,284
Zakat and income tax liabilities	31	<b>1,465,775</b>	1,507,881	1,378,960
Deferred income	25	<b>41,141</b>	96,431	81,654
Contract liabilities	27	<b>2,538,940</b>	3,261,695	2,961,889
Other financial liabilities	28	<b>90,731</b>	54,640	44,138
Other current liabilities	29	<b>4,077,577</b>	7,281,256	4,126,095
<b>TOTAL CURRENT LIABILITIES</b>		<b>32,035,106</b>	33,638,873	30,054,628
<b>TOTAL LIABILITIES</b>		<b>45,287,047</b>	44,680,492	40,716,021
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>111,948,645</b>	108,482,073	102,658,488

The accompanying notes from 1 to 46 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 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

	Notes	2018	2017 (Restated-Note 3)
Revenues	32	<b>51,963,243</b>	50,661,335
Cost of revenues	33	<b>(21,416,928)</b>	(22,105,926)
<b>GROSS PROFIT</b>		<b>30,546,315</b>	28,555,409
<b>OPERATING EXPENSES</b>			
Selling and marketing	34	<b>(5,463,212)</b>	(5,608,634)
General and administration	35	<b>(5,247,348)</b>	(4,516,029)
Depreciation and amortisation	7 & 8	<b>(7,590,530)</b>	(7,444,735)
<b>TOTAL OPERATING EXPENSES</b>		<b>(18,301,090)</b>	(17,569,398)
<b>OPERATING PROFIT</b>		<b>12,245,225</b>	10,986,011
<b>OTHER INCOME AND EXPENSES</b>			
Cost of early retirement		<b>(450,000)</b>	(600,000)
Finance income	36	<b>554,909</b>	584,682
Finance costs	37	<b>(398,814)</b>	(353,542)
Other income, net		<b>102,943</b>	85,036
(Loss) / gain from investments in associates and joint ventures, net		<b>(10,605)</b>	305,591
Other losses, net	38	<b>(215,493)</b>	(18,405)
<b>TOTAL OTHER INCOME AND EXPENSES</b>		<b>(417,060)</b>	3,362
<b>NET PROFIT BEFORE ZAKAT AND TAX</b>		<b>11,828,165</b>	10,989,373
Zakat and income tax	31	<b>(747,667)</b>	(720,700)
<b>NET PROFIT</b>		<b>11,080,498</b>	10,268,673
<i>Net profit attributable to:</i>			
Equity holders		<b>10,779,771</b>	10,015,576
Non-controlling interests		<b>300,727</b>	253,097
		<b>11,080,498</b>	10,268,673
Basic and diluted earnings per share (In Saudi Riyals)	39	<b>5.39</b>	<b>5.01</b>

The accompanying notes from 1 to 46 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 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

	<i>Notes</i>	<b>2018</b>	<b>2017</b> <i>(Restated-Note 3)</i>
<b>NET PROFIT</b>		<b>11,080,498</b>	10,268,673
<b>OTHER COMPREHENSIVE INCOME:</b>			
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i>			
Re-measurement of end of service benefit provision	26	<b>13,414</b>	(117,361)
Fair value changes on equity instruments at fair value through other comprehensive income (FVTOCI)		<b>113,543</b>	90,557
<i>Total items that will not be reclassified subsequently to consolidated statement of profit or loss</i>		<b>126,957</b>	(26,804)
<i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i>			
Foreign currency translation differences		<b>(10,003)</b>	6,875
Share of other comprehensive loss of associates and joint ventures, net		<b>(247,317)</b>	(30,603)
<i>Total items that will be reclassified subsequently to consolidated statement of profit or loss</i>		<b>(257,320)</b>	(23,728)
<b>OTHER COMPREHENSIVE LOSS</b>		<b>(130,363)</b>	(50,532)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>10,950,135</b>	10,218,141
<i>Total comprehensive income attributable to:</i>			
Equity holders		<b>10,651,283</b>	9,958,319
Non-controlling interests		<b>298,852</b>	259,822
		<b>10,950,135</b>	10,218,141

The accompanying notes from 1 to 46 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 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

	Notes	2018	2017 (Restated-Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit before zakat and tax		<b>11,828,165</b>	10,989,373
<i>Adjustments for:</i>			
Depreciation and amortisation	7 & 8	<b>7,590,530</b>	7,444,735
Amortisation and impairment loss of contract costs and assets	33&34	<b>623,136</b>	579,468
Impairment loss on trade receivables	10	<b>741,583</b>	848,495
Write-down of inventory	9	<b>31,863</b>	124,487
Finance income	36	<b>(554,909)</b>	(584,682)
Finance costs	37	<b>398,814</b>	353,542
Provision for end of service benefits and other provisions		<b>1,293,581</b>	2,806,935
Loss / (Gain) from investments in associates and joint ventures, net		<b>10,605</b>	(305,591)
Other losses, net	38	<b>215,493</b>	18,405
<b>Operating profit before working capital adjustments</b>		<b>22,178,861</b>	22,275,167
<i>Movements in working capital:</i>			
Trade and other receivables		<b>5,274,505</b>	(8,298,267)
Inventories		<b>(337,038)</b>	(132,252)
Contract costs		<b>(477,758)</b>	(404,074)
Contract assets		<b>(3,339,955)</b>	1,756,702
Other assets		<b>(1,210,921)</b>	(702,237)
Trade and other payables		<b>3,246,720</b>	410,636
Deferred income		<b>1,098,725</b>	374,007
Contract liabilities		<b>(724,005)</b>	(1,027,978)
Other liabilities		<b>(5,482,112)</b>	2,813,388
<b>Cash generated from operations</b>		<b>20,227,022</b>	17,065,092
Less: Zakat and income tax paid	31	<b>(690,934)</b>	(649,427)
Less: Provision for end of service benefits paid	26	<b>(521,861)</b>	(499,614)
<b>Net cash from operating activities</b>		<b>19,014,227</b>	15,916,051
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		<b>(8,406,935)</b>	(6,576,858)
Additions to intangible assets		<b>(1,350,151)</b>	(1,359,313)
Proceeds from sale of property, plant and equipment		<b>123,283</b>	13,375
Purchase of interest in an associate		-	(375,095)
Dividends received from associates		-	41,077
Proceeds from finance income		<b>595,731</b>	752,261
Proceeds and payments related to financial assets, net		<b>4,129,233</b>	498,916
<b>Net cash used in investing activities</b>		<b>(4,908,839)</b>	(7,005,637)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(8,054,671)</b>	(8,019,234)
Acquisition cost of non-controlling interests in a subsidiary	16.2	-	(437,382)
Repayment of borrowings		<b>(635,710)</b>	(3,298,573)
Proceeds from borrowing		<b>303,936</b>	1,924,461
Finance costs paid		<b>(130,517)</b>	(149,454)
<b>Net cash used in financing activities</b>		<b>(8,516,962)</b>	(9,980,182)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>5,588,426</b>	(1,069,768)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>2,567,044</b>	3,631,202
Net foreign exchange difference		<b>(1,605)</b>	5,610
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	17	<b>8,153,865</b>	2,567,044

The accompanying notes from 1 to 46 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 2018**  
(All Amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Issued capital (Note 20)	Statutory reserves (Note 21)	Other reserves (Note 22)	Retained earnings	Total equity Attributable to equity holders of the Parent Company	Non-controlling interests (Note 16-2)	Total equity
<i>Balance as at 1 January 2017, as previously reported</i>		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331
Impact of adoption of IFRS 9 and IFRS 15		-	-	360	745,027	745,387	(81,251)	664,136
<b>Balance as at 1 January 2017 (as restated)</b>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,935,473)</b>	<b>32,622,215</b>	<b>60,686,742</b>	<b>1,255,725</b>	<b>61,942,467</b>
Net profit (as restated)		-	-	-	10,015,576	10,015,576	253,097	10,268,673
Other comprehensive loss		-	-	(57,257)	-	(57,257)	6,725	(50,532)
Total comprehensive income (as restated)		-	-	(57,257)	10,015,576	9,958,319	259,822	10,218,141
Dividends paid to shareholders	45	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interest	16.2	-	-	67,474	-	67,474	(546,772)	(479,298)
Dividends paid to non-controlling interests		-	-	-	-	-	(29,595)	(29,595)
Other reserves	22	-	-	149,866	-	149,866	-	149,866
<b>Balance as at 31 December 2017 (as restated)</b>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,775,390)</b>	<b>34,637,791</b>	<b>62,862,401</b>	<b>939,180</b>	<b>63,801,581</b>
<b>At 1 January 2018</b>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,775,390)</b>	<b>34,637,791</b>	<b>62,862,401</b>	<b>939,180</b>	<b>63,801,581</b>
Net profit		-	-	-	10,779,771	10,779,771	300,727	11,080,498
Other comprehensive loss		-	-	(128,488)	-	(128,488)	(1,875)	(130,363)
Total comprehensive income		-	-	(128,488)	10,779,771	10,651,283	298,852	10,950,135
Dividends paid to shareholders	45	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Dividends paid to non-controlling interests		-	-	-	-	-	(90,118)	(90,118)
<b>Balance as at 31 December 2018</b>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,903,878)</b>	<b>37,417,562</b>	<b>65,513,684</b>	<b>1,147,914</b>	<b>66,661,598</b>

The accompanying notes from 1 to 46 form an integral part of these consolidated financial statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

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**1. GENERAL INFORMATION**

**A) ESTABLISHMENT OF THE COMPANY**

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

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

**B) GROUP ACTIVITIES**

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

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

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



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**2. BASIS OF PREPARATION AND CONSOLIDATION**

*2.1 Basis of preparation*

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

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

An additional consolidated statement of financial position as at 1 January 2017 has been presented as a result of the adoption of IFRS 9 and 15 (Note 3.2).

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

*2.2 Basis of consolidation*

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (refer to note 16).

Control is achieved when the Group has:

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

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

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

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

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

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

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

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

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**2. BASIS OF PREPARATION AND CONSOLIDATION (CONTINUED)**

*2.2 Basis of consolidation (continued)*

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

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

**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

*3.1 New and revised IFRSs in issue but not yet effective*

**3.1.1 IFRS 16 "Leases"**

IFRS 16 'Leases' was published in January 2016 and will be effective for Group from 1 January 2019, replacing IAS 17 'Leases'. IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has not early adopted the standard and so transition to IFRS 16 will take place on 1 January 2019. The Group is currently in process of assessing the financial impact of application of IFRS 16 on the Group's consolidated financial statements.

Few other amendments to IFRS and IFRIC that are applicable from the date mentioned against each of the amendment and interpretation:

Amendments and interpretations	Effective Date
Amendments to IFRS 9 'Financial Instruments' - Prepayments features with negative compensation	1 January 2019
Amendments to IAS 19 'Employee Benefits' - Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28 'Investments in Associates and Joint Ventures' – Long-term interests in Associates and Joint Ventures	1 January 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	1 January 2019
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture	Effective date is deferred indefinitely earlier adoption is permitted

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

*3.2 New standards issued and adopted*

**3.2.1 IFRS 9 “Financial Instruments”**

IFRS 9 “Financial Instruments” replaces IAS 39 “Financial Instruments: Recognition and measurement” for annual periods beginning on or after 1 January 2018. IFRS 9 addresses classification, measurement and derecognition requirements for financial assets and liabilities and introduces new rules on hedging and impairment requirements for financial assets.

The Group has adopted IFRS 9 retrospectively from 1 January 2017, in accordance with IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’. (see Note 3.2.3)

**3.2.2 IFRS 15 “Revenue from contracts with customers”**

IFRS 15 replaces the standards IAS 11 “construction contracts” and IAS 18 “revenue” and their related interpretations. IFRS 15 applies to all contracts with customers except for those covered by other standards. IFRS 15 is delivered in five-step model to recognize revenue from contracts with customers.

The Group has adopted IFRS 15 retrospectively from 1 January 2017, in accordance with IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’. (see Note 3.2.3)

**3.2.3 The impact of applying the new and revised IFRS standards**

The Group has adopted IFRS 9 and IFRS 15 retrospectively which resulted into the following remeasurement and reclassification adjustments:

- **Consolidated statement of financial position as at 1 January 2017:**

	<i>As reported earlier under IAS 18 and 39</i>	<i>Adjustments due to adoption of IFRS 9</i>	<i>Adjustments due to adoption of IFRS 15</i>	<i>As restated under IFRS 9 and 15</i>
Intangible assets and goodwill (b)	7,840,443	-	(581,295)	7,259,148
Contract cost (b)	-	-	1,131,085	1,131,085
Contract assets (c)	-	(52,581)	6,137,203	6,084,622
Trade and other receivables (a,c)	19,768,149	218,663	(5,651,301)	14,335,511
Others (e)	74,168,296	(131)	(320,043)	73,848,122
<b>Total assets</b>	<b>101,776,888</b>	<b>165,951</b>	<b>715,649</b>	<b>102,658,488</b>
Trade and other payables	13,885,561	(1,145)	23,972	13,908,388
Contract liabilities (d)	-	-	3,737,527	3,737,527
Deferred income (d)	4,262,618	-	(3,510,825)	751,793
Others	22,350,378	-	(32,065)	22,318,313
<b>Total liabilities</b>	<b>40,498,557</b>	<b>(1,145)</b>	<b>218,609</b>	<b>40,716,021</b>
Retained earnings (b,d)	31,877,188	167,096	577,931	32,622,215
Others	29,401,143	-	(80,891)	29,320,252
<b>Total liabilities and equity</b>	<b>101,776,888</b>	<b>165,951</b>	<b>715,649</b>	<b>102,658,488</b>

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

**3.2 New standards issued and adopted (continued)**

**3.2.3 The impact of applying the new and revised IFRS standards (continued)**

- **Consolidated statement of financial position as at 31 December 2017:**

	<i>As reported earlier under IAS 18 and 39</i>	<i>Adjustments due to adoption of IFRS 9</i>	<i>Adjustments due to adoption of IFRS 15</i>	<i>As restated under IFRS 9 and 15</i>
Intangible assets and goodwill (b)	7,773,839	-	(599,264)	7,174,575
Contract cost (b)	-	-	1,091,254	1,091,254
Contract assets (c)	-	(53,072)	5,541,125	5,488,053
Trade and other receivables (a,c)	25,549,424	225,732	(5,406,625)	20,368,531
Others (e)	74,789,541	-	(429,881)	74,359,660
<b>Total assets</b>	<b>108,112,804</b>	<b>172,660</b>	<b>196,609</b>	<b>108,482,073</b>
Trade and other payables	13,827,806	(1,451)	(670,428)	13,155,927
Contract liabilities (d)	-	-	4,034,860	4,034,860
Deferred income (d)	4,635,523	-	(3,548,817)	1,086,706
Others	26,404,802	-	(1,803)	26,402,999
<b>Total liabilities</b>	<b>44,868,131</b>	<b>(1,451)</b>	<b>(186,188)</b>	<b>44,680,492</b>
Retained earnings (b,d)	34,010,412	173,016	454,363	34,637,791
Others	29,234,261	1,095	(71,566)	29,163,790
<b>Total liabilities and equity</b>	<b>108,112,804</b>	<b>172,660</b>	<b>196,609</b>	<b>108,482,073</b>

- **Consolidated statement of profit or loss for the year ended 31 December 2017:**

	<i>As reported earlier under IAS 18 and 39</i>	<i>Adjustments due to adoption of IFRS 9</i>	<i>Adjustments due to adoption of IFRS 15</i>	<i>As restated under IFRS 9 and 15</i>
Revenue (c)	50,746,675	-	(85,340)	50,661,335
Cost of revenue (b)	(21,255,477)	-	(850,449)	(22,105,926)
Selling and distribution expenses (b)	(5,726,280)	5,616	112,030	(5,608,634)
General and administration expenses	(4,471,573)	-	(44,456)	(4,516,029)
Depreciation and amortisation (b)	(8,208,360)	-	763,625	(7,444,735)
Finance cost	(354,199)	657	-	(353,542)
Others	(360,651)	(353)	(2,792)	(363,796)
<b>Net profit</b>	<b>10,370,135</b>	<b>5,920</b>	<b>(107,382)</b>	<b>10,268,673</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

**3.2 New standards issued and adopted (continued)**

**3.2.3 The impact of applying the new and revised IFRS standards (continued)**

- **Consolidated statement of comprehensive income for the year ended 31 December 2017:**

	<i>As reported earlier under IAS 18 and 39</i>	<i>Adjustments due to adoption of IFRS 9</i>	<i>Adjustments due to adoption of IFRS 15</i>	<i>As restated under IFRS 9 and 15</i>
Net profit	10,370,135	(107,382)	5,920	10,268,673
<b><i>Items that will not be reclassified subsequently to consolidated statement of profit or loss:</i></b>				
Re-measurement of end of service benefit provision	(117,361)	-	-	(117,361)
Fair value changes on equity instruments measured at fair value through other comprehensive income (FVOCI)	-	-	90,557	90,557
<b><i>Total items that will not be reclassified subsequently to consolidated statement of profit or loss</i></b>	<b>(117,361)</b>	<b>-</b>	<b>90,557</b>	<b>(26,804)</b>
<b><i>Items that will be reclassified subsequently to consolidated statement of profit or loss:</i></b>				
Foreign currency translation differences	(17,962)	-	24,837	6,875
Fair value changes on available-for- sale financial assets, net	90,557	-	(90,557)	-
Share of other comprehensive loss of associates and joint ventures, net	-	-	(30,603)	(30,603)
<b><i>Total items that will be reclassified subsequently to consolidated statement of profit or loss</i></b>	<b>72,595</b>	<b>-</b>	<b>(96,323)</b>	<b>(23,728)</b>
<b><i>OTHER COMPREHENSIVE LOSS</i></b>	<b>(44,766)</b>	<b>-</b>	<b>(5,766)</b>	<b>(50,532)</b>
<b><i>TOTAL COMPREHENSIVE INCOME</i></b>	<b>10,325,369</b>	<b>(107,382)</b>	<b>154</b>	<b>10,218,141</b>

- **Consolidated statement of cash flows for the year ended 31 December 2017:**

	<i>As reported earlier under IAS 18 and 39</i>	<i>Adjustments</i>	<i>As restated under IFRS 9 and 15</i>
Net cash from operating activities	16,700,155	(784,104)	15,916,051
Net cash used in investing activities	(7,789,741)	784,104	(7,005,637)
Net cash used in financing activities	(9,980,182)	-	(9,980,182)

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

**3.2 New standards issued and adopted (continued)**

**3.2.3 The impact of applying the new and revised IFRS standards (continued)**

**- Changes due to the adoption of IFRS 9:**

The adoption of IFRS 9 has not had a significant impact on the Group's accounting policies related to financial assets or liabilities except for the reclassification of financial assets and new requirements for impairment loss calculation.

The following table sets out the original measurement categories in accordance with IAS 39 as well as the new measurement categories in accordance with IFRS 9 of the Group's financial assets as at 1 January 2017:

	<i>Original classification amount under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original book value under IAS 39</i>	<i>New book value under IFRS 9</i>
<b>Financial Assets</b>				
Diversified investment portfolio	Fair value through profit or loss	Fair value through profit or loss	3,986,104	3,986,104
Trade receivables and others (a,c)	Loans and receivables	Amortized cost	19,768,149	14,335,511
Investments in murabahas and sukuk	Loans and receivables	Amortized cost	2,731,914	2,731,914
Other investments	Loans and receivables	Amortized cost	701,088	701,088
Short term murabahas	Loans and receivables	Amortized cost	15,004,490	15,004,490
Cash and cash at banks	Loans and receivables	Amortized cost	3,631,202	3,631,202
Investments in funds	Available for sale Investments	Fair value through other comprehensive income	415,005	415,005

**(a) Impairment of financial assets**

IFRS 9 requires the use of the expected credit loss model instead of the incurred credit loss model under IAS 39.

**- Changes due to the adoption of IFRS 15**

**(b) Contract costs**

Under IAS 18, contract costs related to commission (cost to obtain a contract) and installation service (cost to fulfil a contract) were expensed as incurred as it was not qualified to be recognized as an asset under any other accounting standards. Upon adoption IFRS 15, these were capitalized as contract costs and included as assets in the consolidated statement of financial position. Commission costs considered as cost to obtain a contract because these costs are incremental costs and the Group expects to recover those costs. Installation costs considered as cost to fulfil a contract with a customer and are not within the scope of another standard. The Group recognizes an asset from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:

1. the costs relate directly to a contract (or to a specified anticipated contract).
2. 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.
3. the costs are expected to be recovered.

**(c) Contract assets**

Under IFRS 15, if the Group transferred goods or services to a customer before the customer pays consideration or before payment is due, the Group shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is the Group right to consideration in exchange for goods or services that the Group has transferred to a customer. There was no significant change due to this change; except for reclassification between receivables and contract assets.

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**3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

*3.2 New standard issued and adopted (continued)*

**3.2.3 The impact of applying the new and revised IFRS standard (continued)**

- **Changes due to the adoption of IFRS 15 (continued)**

**(d) Contract liabilities**

*Prepaid Subscription Revenue*

Previously, the Group recognized prepaid subscription revenue based on “Months”; however, as a result of IFRS 15 adoption, it is recognized based on “Days” resulting in increase in contract liabilities and decrease in retained earnings.

*Installation fees*

Under IAS 18, revenue was recognized upfront when the installation was completed. Under IFRS 15, the installation service is not considered a separate performance obligation and therefore a one-time installation fee is added to the total transaction price and recognized over the period of service delivery, resulting in a change in timing of revenue recognition.

**(e) Reclassification**

Reclassifications and adjustments resulting from the adoption of IFRS 15.

**3.3 IFRS issued and applied**

Following are other amendments to IFRS and IFRIC adopted by the Group during the year without a material impact:

Amendments and interpretations	Effective Date
IFRIC 22 'Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4 'Insurance Contracts' - Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	1 January 2018 (Optional)
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property	1 January 2018
Annual Improvements to IFRS Standards 2014 – 2016 Cycle	1 January 2018

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**4.1 Business combinations**

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

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

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

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

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 is recognised in the consolidated statement of profit or loss.

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

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

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

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

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



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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*4.1 Business combinations (continued)*

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

*4.2 Investments in associates and joint ventures*

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

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 parties sharing control. The considerations made in determining significant influence or joint control are holding— directly or indirectly – voting rights in the investee, representation on the board of directors or equivalent governing body of the investee, participation in policy-making, including participation in decisions about dividends or other distributions; material transactions between the Group and its investee; interchange of managerial personnel; or provision of essential technical information.

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

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of IFRS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. The carrying amount of the investment in an associate or a joint venture is tested for impairment in accordance with the policy described in note (5-1-2).

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*4.2 Investments in associates and joint ventures (continued)*

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

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

*4.3 Revenue recognition*

Revenue is recognized based on the consideration specified in a contract with a customer and excludes amount collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

The timing of 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 of services revenues rendered to 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.

<b>Product and services</b>	<b>Nature and timing of satisfaction of performance obligation</b>
Telecommunication services	Telecommunication services include voice, data and text services. The Group recognizes revenue 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 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 revenue 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.

Dividend income from investments in equity instrument is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

*4.4 Leasing*

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date and if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. If the contract does not transfer it substantially, the contract is classified as an operating lease.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.4 Leasing (continued)**

Leased assets:

Finance leases are recognized at the commencement of the lease as assets and liabilities in the consolidated statement of financial position at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments and then lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve the remaining balance of the liability. Finance charges are recognised in the consolidated statement of profit or loss.

At the beginning of the contract or when reviewed, the Group separates payments and other amounts required under the contract into lease payments and payments to other items based on the relative fair value.

The leased asset is depreciated over the estimated useful life of the asset. Where there is no reasonable assurance that the asset ownership will be transferred to the Group at the end of the contract term, the asset is depreciated over the useful life of the asset or lease period, whichever is lower.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are exhausted. The benefits received and accrued are also allocated as an incentive to enter into an operating lease on a straight-line basis over the lease term. The total benefit from the incentive is recognized as a reduction of the lease expense on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leased out assets:

Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. The benefits granted as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term. The aggregate benefit from the incentive is recognized as a reduction of rental income on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted.

Amounts due from finance leases are recognized as receivables in an amount equal to the Group's net investment in the lease. The rental payment receivable is treated as a payment of the original amount as financing income to compensate the Group for its investment and services. The incremental costs which are directly associated with the lease negotiation process are included in the amounts due and the amount of financing income recognized over the period of the contract is reduced.

In case the Group considers the lease as a manufacturer or a seller at the beginning of the contract, revenue are recognized at the fair value of the asset or the present value of the outstanding lease payments and the cost of revenue and gain or loss resulting from the sale are recognized directly. Additional costs directly associated with the negotiation of the lease contract incurred by the Group as a manufacturer or seller are recognized as an expense at the beginning of the lease term.

**4.5 Foreign currencies**

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

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*4.5 Foreign currencies (continued)*

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise in limited circumstances.

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

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 arrangement 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 arrangements 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.

*4.6 Government grants*

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

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

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

*4.7 Employee benefits*

**4.7.1 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.

Provision for employees' end of service benefits is made in accordance with the projected unit credit method as per IAS 19 *Employee Benefits* taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference the Kingdom of Saudi Arabia interest rate swap curve or other basis, if applicable.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.7 Employee benefits (continued)**

**4.7.1 Retirement benefit costs and end of service benefits (continued)**

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

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

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

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

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

**4.7.2 Short-term employee benefits**

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

**4.8 Zakat and Taxation**

**4.8.1 Zakat**

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

**4.8.2 Current and deferred taxes**

Tax relating to investee companies outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in those countries.

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

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

**4.9 Property, plant and equipment**

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

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

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.9 Property, plant and equipment (continued)**

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

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

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss within other operating income or expenses. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**4.10 Intangible assets other than goodwill**

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

**4.10.1 Software**

Computer software licenses are capitalised based on the cost incurred to acquire and bring into use the specific software. 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.

**4.10.2 Licence and spectrum fees**

Amortisation periods for licence and 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 from the commencement of related network services.

Licences with indefinite useful lives are not amortised, 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.

**4.10.3 Indefeasible Rights of Use (“IRU”)**

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

**4.10.4 Derecognition of intangible assets**

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.11 Impairment of tangible and intangible assets other than goodwill**

At the end of each financial 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 value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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.

**4.12 Inventories**

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

**4.13 Provisions**

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

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

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

**4.14 Assets' decommissioning liabilities**

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

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.15 Financial instruments**

**4.15.1 Recognition, classification and presentation**

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

The Group classifies its financial assets in the following categories:

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The Group has classified all the non-derivative financial liabilities measured at amortised cost.

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

**4.15.2 Measurement**

**4.15.2.1 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 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).

**4.15.2.2 Subsequent measurement of financial assets**

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

**a. Financial assets measured at amortised cost:**

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

**b. Financial assets carried at fair value through profit or loss**

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

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

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



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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.15 Financial instruments (Continued)**

**4.15.2.2 Subsequent measurement of financial assets (continued)**

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

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

<b>Measurement category</b>	<b>Recognition and presentation of gains and losses</b>
At amortised cost	<p>The following items are recognised in the consolidated statement of profit or loss:</p> <ul style="list-style-type: none"> <li>• finance income using the effective interest method;</li> <li>• expected credit losses and reversals; and</li> <li>• foreign exchange gains and losses.</li> </ul> <p>When the financial asset is derecognised, the gain or loss is recognised in consolidated statement of profit or loss.</p>
At FVTOCI	<p>Gains and losses are recognised in the consolidated statement of comprehensive income, except for the following items, which are recognised in consolidated statement of profit or loss in the same manner as for financial assets measured at amortised cost:</p> <ul style="list-style-type: none"> <li>• finance income using the effective interest method;</li> <li>• expected credit losses and reversals; and</li> <li>• foreign exchange gains and losses.</li> </ul>
Equity instruments – gain or loss – presented in consolidated statement of comprehensive income	<p>Gains and losses are recognised in the consolidated statement of comprehensive income. Dividends are recognised in consolidated statement of profit or loss unless they clearly represent a repayment of part of the cost of the investment. The amounts recognised in the consolidated statement of comprehensive income are not reclassified to consolidated statement of profit or loss under any circumstances.</p>
At FVTPL	<p>Gains and losses, both on subsequent measurement and derecognition, are recognised in consolidated statement of profit or loss.</p>

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.15.2.3 Subsequent measurement of financial liabilities**

**a. Amortised cost**

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

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

Gains or losses on financial liabilities that are measured at fair value and (that are not generally part of a hedging relationship) are recognised in consolidated statement of profit or loss. except for gains and losses on certain financial liabilities designated as at FVTPL when the entity is required to present the effects of changes in the liability's credit risk in the consolidated statement of comprehensive income.

**b. Liabilities at fair value through profit or loss**

Financial liabilities falling under this category include:

- liabilities held for trading.
- derivative liabilities not designated as hedging instruments.
- those designated as at FVTPL.

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

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

- 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.
- the remaining amount of change in the fair value of the financial liability is presented in the consolidated statement of profit or loss.

**c. Liabilities other than financial liabilities at FVTPL**

Financial liabilities are measured at amortised cost using the effective interest rate. The proceeds from issuing debt are adjusted over the life of the debt so that the carrying amount at maturity is the amount repayable at maturity. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements.

**4.15.3 Impairment of financial instruments**

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

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*4.15 Financial instruments (continued)*

**4.15.4 Derecognition of financial assets**

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

**4.15.5 Derecognition of financial liabilities**

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

*4.15.6 Offsetting of financial instruments*

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

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

*4.16 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.

*4.17 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 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 statement purposes is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity 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.

*4.18 Segmental Information*

The specific operational 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.

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**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

**5.1 *Critical judgements in applying accounting policies***

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

**5.1.1 Revenue recognition**

*Gross versus net presentation*

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

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

**5.1.2 Impairment of non-financial assets**

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

**5.2 *Key sources of estimation uncertainty***

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

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**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**

*5.2 Key sources of estimation uncertainty (continued)*

**5.2.1 Arrangements with multiple deliverables**

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

**5.2.2 Customer activation service fees**

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

**5.2.3 Financial instruments designated at FVTPL**

The Group has established a diversified investment portfolio which has been designated at FVTPL. In estimating the fair value of the investments, the Group uses market-observable data to the extent available.

**5.2.4 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 24 for details.

**5.2.5 Useful lives for property, plant and equipment, software and other intangible assets**

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

**5.2.6 Provision for impairment losses on trade receivables and contract assets**

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

The Group recognises an allowance for impairment loss of 100% against all trade receivables that are aged over 360 days, except for balances with related parties and balances of which credit quality did not deteriorate based on historical experience of the Group.

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**6. SEGMENT INFORMATION**

The Group is engaged mainly in providing telecommunication services and related products. Majority of the Group's revenues, profits and assets relate to its operations in the Kingdom (STC KSA and STC Channels). 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:

	2018	2017 (Restated-note 3)
<b>Revenues (1)</b>		
Saudi Telecom Company	39,356,283	41,445,230
STC Channels	5,371,771	3,055,095
Other operating segments (2)	9,502,560	8,349,196
Eliminations / adjustments	<u>(2,267,371)</u>	<u>(2,188,186)</u>
<b>Total revenues</b>	<b>51,963,243</b>	<b>50,661,335</b>
Cost of operations (excluding depreciation and amortisation)	(32,127,488)	(32,230,589)
Depreciation and amortisation	(7,590,530)	(7,444,735)
Cost of early retirement	(450,000)	(600,000)
Finance income	554,909	584,682
Finance cost	(398,814)	(353,542)
Other income, net	102,943	85,036
(Loss) / profit from investments in associates and joint ventures, net	(10,605)	305,591
Other losses, net	(215,493)	(18,405)
Zakat and income tax	<u>(747,667)</u>	<u>(720,700)</u>
Net profit	<b><u>11,080,498</u></b>	<b><u>10,268,673</u></b>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,267 million for the year ended 31 December 2018 (31 December 2017: SR 2,188 million) inter-segment sales and adjustments in the current year eliminated at consolidation.

(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, STC Specialized and STC Solutions, Sapphire and Aqalat.

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

	2018	2017 (Restated-note 3)
Saudi Telecom Company	25,481,775	24,543,045
STC Channels	1,314,707	698,456
Other operating segments	3,795,174	3,730,057
Eliminations / adjustments	<u>(45,341)</u>	<u>(416,149)</u>
<b>Gross profit</b>	<b><u>30,546,315</u></b>	<b><u>28,555,409</u></b>

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**6. SEGMENT INFORMATION (CONTINUED)**

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.

The following is an analysis of the assets and liabilities on a segment basis as at 31 December:

	<i>31 December</i> <b>2018</b>	<i>31 December</i> 2017 <i>(Restated-note 3)</i>	<i>1 January</i> 2017 <i>(Restated-note 3)</i>
<b><u>Assets</u></b>			
Saudi Telecom Company	<b>119,460,448</b>	116,900,875	109,887,049
STC Channels	<b>3,333,662</b>	2,595,865	2,192,516
Other operating segments	<b>19,539,165</b>	17,813,702	16,409,513
Eliminations / Adjustments	<b>(30,384,630)</b>	(28,828,369)	(25,830,590)
<b>Total Assets</b>	<b>111,948,645</b>	108,482,073	102,658,488
<b><u>Liabilities</u></b>			
Saudi Telecom Company	<b>41,576,064</b>	41,600,776	36,186,344
STC Channels	<b>2,068,819</b>	1,544,043	926,047
Other operating segments	<b>10,512,261</b>	8,946,143	8,804,278
Eliminations / Adjustments	<b>(8,870,097)</b>	(7,410,470)	(5,200,648)
<b>Total Liabilities</b>	<b>45,287,047</b>	44,680,492	40,716,021

Following are the additions to non-current assets based on the segments for the year ended 31 December:

	<b>2018</b>	2017 <i>(Restated-note 3)</i>
<b><u>Additions to non-current assets</u></b>		
Saudi Telecom Company	<b>11,373,307</b>	7,446,573
STC Channels	<b>56,427</b>	59,715
Other operating segments	<b>1,118,474</b>	792,756
	<b>12,548,208</b>	8,299,044

***Information about major customers***

Included in revenues arising from sales are revenues of approximately SR 5,938 million for the year ended 31 December 2018 (31 December 2017: SR 5,355 million) that arose from sales to the Government and Government entities (see note 18.2). No other single customers contributed 10% or more to the Group's revenue.

***Information about geographical areas***

Geographical segmentation of revenues and non-current assets are as follows:

	<i>Revenues for the year ended</i>		<i>Non-current assets as at</i>		
	<i>31 December</i> 2018	<i>31 December</i> 2017 <i>(Restated-note 3)</i>	<i>31 December</i> 2018	<i>31 December</i> 2017 <i>(Restated-note 3)</i>	<i>1 January</i> 2017 <i>(Restated-note 3)</i>
Kingdom of Saudi Arabia	<b>47,323,610</b>	46,035,112	<b>53,862,288</b>	54,452,787	52,663,015
Others	<b>4,639,633</b>	4,626,223	<b>9,478,781</b>	9,593,295	9,161,775
	<b>51,963,243</b>	50,661,335	<b>63,341,069</b>	64,046,082	61,824,790

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**7. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
<i>Cost</i>					
As at 1 January 2018	14,681,829	77,627,211	7,873,489	3,667,103	103,849,632
Additions	23,258	120,579	64,551	8,206,522	8,414,910
Disposals / transfers	187,278	6,035,287	523,934	(8,200,628)	(1,454,129)
Effect of foreign currency exchange differences	-	(13,608)	(200)	(462)	(14,270)
<b>As at 31 December 2018</b>	<b>14,892,365</b>	<b>83,769,469</b>	<b>8,461,774</b>	<b>3,672,535</b>	<b>110,796,143</b>
<i>Accumulated depreciation</i>					
As at 1 January 2018	8,381,477	50,315,490	5,212,049	-	63,909,016
Depreciation for the year	367,828	5,154,889	382,275	-	5,904,992
Disposals / transfers	(224,986)	(597,738)	(123,272)	-	(945,996)
Effect of foreign currency exchange differences	-	7,537	185	-	7,722
<b>As at 31 December 2018</b>	<b>8,524,319</b>	<b>54,880,178</b>	<b>5,471,237</b>	<b>-</b>	<b>68,875,734</b>
<i>Net book value as at 31 December 2018</i>	<b>6,368,046</b>	<b>28,889,291</b>	<b>2,990,537</b>	<b>3,672,535</b>	<b>41,920,409</b>



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**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
<b>Cost</b>					
As at 1 January 2017	14,540,020	72,965,751	7,454,850	3,365,652	98,326,273
Additions	4,486	57,223	49,248	6,853,665	6,964,622
Disposals / transfers	137,094	4,571,728	368,818	(6,553,729)	(1,476,089)
Effect of foreign currency exchange differences	229	32,509	573	1,515	34,826
As at 31 December 2017	14,681,829	77,627,211	7,873,489	3,667,103	103,849,632
<b>Accumulated depreciation</b>					
As at 1 January 2017	8,112,372	45,856,742	4,949,580	-	58,918,694
Depreciation for the year	354,885	5,152,444	376,586	-	5,883,915
Disposals / transfers	(86,079)	(735,334)	(113,282)	-	(934,695)
Effect of foreign currency exchange differences	299	41,638	(835)	-	41,102
As at 31 December 2017	8,381,477	50,315,490	5,212,049	-	63,909,016
<b>Net book value as at 31 December 2017</b>	6,300,352	27,311,721	2,661,440	3,667,103	39,940,616
Net book value as at 1 January 2017	6,427,648	27,109,009	2,505,270	3,365,652	39,407,579

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

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

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**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

- Land and buildings include land of SR 2,200 million as at 31 December 2018 (31 December 2017: SR 2,177 million and 1 January 2017: SR 2,173 million).
- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to April 21, 1998), referred to in Note 1-A, the ownership of the Assets was transferred to the Company on 2 May 1998, but the transfer of legal title for some lands are still ongoing. Legally transferred lands up to 31 December 2018 are amounted to SR 1,879 million (2017: SR 1,879 million), Ownership transfer of the remaining lands is ongoing with total value of SR 144 million (2017: SR 144 million).
- During the year, the Group disposed of assets with a net book value of SR 414 million (31 December 2017: SR 262 million) resulting in a loss on sale of property, plant and equipment amounting to SR 291 million (31 December 2017: SR 249 million) (see note 38).
- Following is the breakdown of depreciation expense if allocated to operating costs items for the year ended 31 December:

	2018	2017
Cost of revenues	4,859,647	4,893,304
Selling and marketing expenses	31,472	37,019
General and administrative expenses	1,013,873	953,592
	<u>5,904,992</u>	<u>5,883,915</u>

- Property, plant and equipment include land and buildings owned by a subsidiary that are pledged against murabaha borrowings amounting to SR 108 million (31 December 2017: SR 108 million and 1 January 2017: SR 93 million).

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**8. INTANGIBLE ASSETS AND GOODWILL**

	<i>Computer software</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
<i>Cost</i>				
As at 1 January 2018	9,492,799	4,971,203	1,936,258	16,400,260
Additions	1,052,228	2,724,417	356,653	4,133,298
Disposals/Transfers	(134,146)	-	(222,266)	(356,412)
Effect of foreign currency exchange differences	-	-	(191)	(191)
As at 31 December 2018	<u>10,410,881</u>	<u>7,695,620</u>	<u>2,070,454</u>	<u>20,176,955</u>
<i>Accumulated amortisation and impairment</i>				
As at 1 January 2018	6,460,526	1,899,032	866,127	9,225,685
Amortisation for the year	1,166,098	378,114	141,326	1,685,538
Disposals/Transfers	(129,146)	-	(164,476)	(293,622)
Effect of foreign currency exchange differences	-	-	(765)	(765)
As at 31 December 2018	<u>7,497,478</u>	<u>2,277,146</u>	<u>842,212</u>	<u>10,616,836</u>
<i>Net book value at 31 December 2018</i>	<u><u>2,913,403</u></u>	<u><u>5,418,474</u></u>	<u><u>1,228,242</u></u>	<u><u>9,560,119</u></u>

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**8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)**

	<i>Computer software</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
<b>Cost</b>				
As at 1 January 2017 (Restated – note 3)	8,112,281	4,969,812	2,057,579	15,139,672
Additions	1,252,929	-	81,493	1,334,422
Disposals/Transfers	(4,370)	-	(176,250)	(180,620)
Effect of foreign currency exchange differences	131,959	1,391	(26,564)	106,786
	<u>9,492,799</u>	<u>4,971,203</u>	<u>1,936,258</u>	<u>16,400,260</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2017 (Restated – note 3)	5,333,222	1,697,346	849,956	7,880,524
Amortisation for the year	1,101,994	201,289	257,537	1,560,820
Disposals/Transfers	(4,370)	-	(176,250)	(180,620)
Effect of foreign currency exchange differences	29,680	397	(65,116)	(35,039)
As at 31 December 2017 (Restated – note 3)	<u>6,460,526</u>	<u>1,899,032</u>	<u>866,127</u>	<u>9,225,685</u>
<b>Net book value at 31 December 2017 (Restated – note 3)</b>	<u>3,032,273</u>	<u>3,072,171</u>	<u>1,070,131</u>	<u>7,174,575</u>
<b>Net book value at 1 January 2017 (Restated – note 3)</b>	<u>2,779,059</u>	<u>3,272,466</u>	<u>1,207,623</u>	<u>7,259,148</u>

(1) Others relate to contractual-based intangible assets, for example under-sea cable network, franchise agreements and goodwill of SR 75.6 million (31 December 2017: 75.6 million and 1 January 2017: SR 75.6 million).

The following useful lives are used in the calculation of amortisation:

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

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**8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)**

The net book value and expiry dates of the most significant mobile operating licences are as follows at:

<i>Country</i>	<i>End of amortisation period</i>	<b>31 December 2018</b>	<i>31 December 2017</i>	<i>1 January 2017</i>
Kuwait	October 2033	<b>1,933,493</b>	2,063,841	2,194,189
Bahrain	February 2038	<b>730,375</b>	691,127	723,386
Kingdom of Saudi Arabia	May 2026	<b>2,754,606</b>	317,203	354,891
		<b>5,418,474</b>	3,072,171	3,272,466

Following is the breakdown of amortisation expense if allocated to operating costs items for the year ended 31 December:

	<b>2018</b>	<i>2017</i> <i>(Restated-note 3)</i>
Cost of revenues	<b>550,947</b>	562,800
Selling and distribution expenses	<b>23,282</b>	120,977
General and administration expenses	<b>1,111,309</b>	877,043
	<b>1,685,538</b>	1,560,820

**9. INVENTORIES**

	<b>31 December 2018</b>	<i>31 December 2017</i> <i>(Restated – note 3)</i>	<i>1 January 2017</i> <i>(Restated – note 3)</i>
Goods held for resale	<b>1,128,454</b>	905,593	801,210
Less: Allowance for write-down	<b>(340,998)</b>	(423,312)	(326,694)
	<b>787,456</b>	482,281	474,516

The movement analysis for allowance for write down is as follows for the year ended 31 December:

	<b>2018</b>	<i>2017</i>
Balance at beginning of the year	<b>423,312</b>	326,694
Reversal/write off during the year	<b>(114,177)</b>	(27,869)
Provision for the year	<b>31,863</b>	124,487
Balance at end of the year	<b>340,998</b>	423,312

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**10. TRADE AND OTHER RECEIVABLES**

	<b>31 December 2018</b>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Trade receivables	<b>15,516,973</b>	21,579,781	16,373,307
Deduct: allowance for impairment loss	<b>(2,546,712)</b>	(2,509,534)	(2,796,832)
	<b>12,970,261</b>	19,070,247	13,576,475
- Non trade receivables	<b>1,451,917</b>	1,298,284	759,036
	<b>14,422,178</b>	20,368,531	14,335,511

**10.1 Trade receivables**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the financial year. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The requirement for impairment in relation to key customers and related parties are analysed on an individual basis. Retail customers and other minor receivables are assessed for impairment on a collective basis.

Ageing analysis of trade receivables follows:

	<b>31 December 2018</b>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Not past due	<b>464,011</b>	2,519,640	2,731,427
<i>Past due:</i>			
1 – 30 days	<b>1,814,988</b>	1,882,199	1,232,103
31 – 90 days	<b>1,443,925</b>	878,334	982,567
91 – 150 days	<b>1,687,290</b>	1,489,091	1,435,565
151 – 270 days	<b>2,761,160</b>	2,028,146	1,873,930
271 – 365 days	<b>731,356</b>	1,023,528	1,655,135
>365 days	<b>6,614,243</b>	11,758,843	6,462,580
Total	<b>15,516,973</b>	21,579,781	16,373,307

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

	<b>2018</b>	<i>2017</i> <i>(Restated-note 3)</i>
Balance at beginning of the year	<b>2,509,534</b>	2,796,832
Charged during the year (Note 34)	<b>741,583</b>	848,495
Amounts written off during the year	<b>(704,405)</b>	(1,135,793)
Balance at end of the year	<b>2,546,712</b>	2,509,534

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**10. TRADE AND OTHER RECEIVABLES (CONTINUED)**

*10.2 Government and government related entities*

Trade receivables balance from Government and Government entities are amounting to SR 12,343 million as at 31 December 2018 (31 December 2017: SR 18,920 million and 1 January 2017: SR 12,596 million) (see Note 18.2). No other clients represent more than 10% of the total balance of trade receivables.

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

	<i>31 December 2018</i>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Less than a year	<b>6,936,884</b>	7,187,855	6,798,621
More than one year to two years	<b>5,367,424</b>	6,751,021	4,080,746
More than two years	<b>38,416</b>	4,981,162	1,716,281
	<b>12,342,724</b>	18,920,038	12,595,648

**11. SHORT TERM MURABAHAS**

The Group invests part of its excess cash in Murabahas that have maturity of 91 days or more with several local banks, with an annual profit rate ranging from 2% to 5% (31 December 2017: 2% to 6%).

**12. OTHER ASSETS**

	<i>31 December 2018</i>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Advances	<b>1,425,088</b>	1,251,533	501,563
Prepaid expenses	<b>628,119</b>	175,233	219,717
Deferred expenses	<b>99,355</b>	249,309	445,867
Others	<b>171,937</b>	190,849	27,436
	<b>2,324,499</b>	1,866,924	1,194,583
Current	<b>1,952,878</b>	1,006,073	935,532
Non-current	<b>371,621</b>	860,851	259,051
	<b>2,324,499</b>	1,866,924	1,194,583

**13. CONTRACT COSTS**

	<i>Costs to obtain the contracts (1)</i>	<i>Costs to fulfil the contracts (2)</i>	<i>Total</i>
<i>As at 31 December 2018</i>	<b>174,357</b>	<b>855,772</b>	<b>1,030,129</b>
<i>As at 31 December 2017 (Restated - note 3)</i>	102,706	988,548	1,091,254
<i>As at 1 January 2017 (Restated - note 3)</i>	85,982	1,045,103	1,131,085

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**13. CONTRACT COSTS (CONTINUED)**

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

Following is the allocation of contract costs amortization and impairment losses among operating costs items:

	<b>2018</b>	<i>2017</i> <i>(Restated-note 3)</i>
Cost of revenues	<b>373,644</b>	388,470
Selling and marketing expenses	<b>42,989</b>	55,436
	<b>416,633</b>	443,906

**14. CONTRACT ASSETS**

	<i>31 December</i> <b>2018</b>	<i>31 December</i> <i>2017</i> <i>(Restated-note 3)</i>	<i>1 January</i> <i>2017</i> <i>(Restated-note 3)</i>
Unbilled revenue	<b>8,709,224</b>	5,524,376	6,145,792
Less: Allowance for impairment losses	<b>(87,719)</b>	(36,323)	(61,170)
	<b>8,621,505</b>	5,488,053	6,084,622
Current	<b>8,117,463</b>	5,211,211	6,019,946
Non-current	<b>504,042</b>	276,842	64,676
	<b>8,621,505</b>	5,488,053	6,084,622

Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and construction contracts for which no bills were issued. Upon completion of billing cycle, the amounts recognized as contract assets are reclassified to trade receivables.



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**15. FINANCIAL ASSETS**

	<i>31 December 2018</i>	<i>31 December 2017 (Restated-note 3)</i>	<i>1 January 2017 (Restated-note 3)</i>
<b>Financial assets measured at FVTPL (i)</b>	<b>3,115,185</b>	4,148,368	3,986,104
<i>Financial assets at amortised cost</i>			
Sukuk (iv)	<b>1,490,137</b>	1,559,371	1,422,602
Murabahas (i) (ii)	<b>2,250,746</b>	1,186,173	1,309,312
Loans to employees (iii)	<b>524,417</b>	612,918	632,726
Non trade receivables and other loans (v)(vi)	<b>86,174</b>	86,314	68,362
	<b>4,351,474</b>	3,444,776	3,433,002
<i>Financial assets designated at FVTOCI (vii)</i>	<b>1,394,602</b>	535,634	415,005
	<b>8,861,261</b>	8,128,778	7,834,111
Current	<b>5,488,245</b>	335,487	432,501
Non-current	<b>3,373,016</b>	7,793,291	7,401,610
	<b>8,861,261</b>	8,128,778	7,834,111

- (i) During 2014, The Company established a diversified investment portfolio with high credit rated local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full principal protection. The portfolio contain a mix of various murabaha's (fixed profit payable at maturity), Sukuk's (paying fixed coupons) and derivative financial instruments. The portfolio provides a minimum guaranteed return and additional upside return based on performance of the derivative financial instruments. During 2018, a portion of this investment amounting to SR 1,061 million was liquidated and reinvested in a one-year Murabaha agreement with an annual profit rate of 1.42%.
- (ii) During 2014, The Company has invested SR 1 billion with a local bank in Murabahas agreements for a five-year term with an annual profit margin of 3%.  
The investments in Murabaha agreements are not a past due nor impaired with a carrying value of SR 2,128 million as at 31 December 2018 (31 December 2017: 1,083 million and 1 January 2017: SR 1,156 million).
- (iii) The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 25 years and 4 years, respectively. The repayment is made in equal instalments over the term of the loan duration while the employee remains in service, otherwise, they are required to be repaid in full upon the employee leaving the Company. Any new loans provided to an employee after June 2016 are being funded through a local commercial bank and are secured by a guarantee issued by the Company. The Company bears loans' finance costs in full.
- (iv) On 31 December 2007, STC Asia Holdings Limited (a subsidiary), invested Malaysian Ringgit ("MR") 1,508 million in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% until 28 December 2017 then 9.25% for subsequent periods. The Sukuk investment was financed by a long term loan with variable commission for ten years denominated in MR, for an equivalent amount. The loan was due on 28 December 2017 and was fully paid. STC Asia Holding Limited acquired a variable commission loan on 28 December 2017 from several banks on a five year repayment period. These Sukuk are not past due or impaired and their carrying amount is SR 1,490 million as at 31 December 2018 (31 December 2017: SR 1,559 million and 1 January 2017: SR 1,423 million).
- (v) A subsidiary of STC Channels has placed a term deposit amounting to SR 2 million as at 31 December 2018 (31 December 2017: SR 2 million and 1 January 2017: 2 million) with a local commercial bank in Oman.

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**15. FINANCIAL ASSETS (CONTINUED)**

- (vi) A Group subsidiary, Telecom Commercial Investment Company, has supplier retentions amounting to SR 80 million as at 31 December 2018 (31 December 2017: SR 80 million and 1 January 2017: SR 80 million).
- (vii) Financial assets investments designated at fair value through other comprehensive income consist mainly of the Company's investment in units of 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 Saudi and other global markets. Investment units owned by the Group were valued at SR 614 million as at 31 December 2018 (31 December 2017: SR 501 million and 1 January 2017: SR 409.4 million).

During 2017, the Company established another ventures' capital investment fund (STV LP) for the purpose of investing in the digital and technical sectors with a total value of US \$ 500 million equivalent to SR 1,875 million, the fund is to be financed in the future by five equal instalments with value of US \$ 100 million equivalent to SR 375 million. During 2018, the first and second instalments were paid in total of US \$ 200 million (equivalent to SR 750 million). Investment units owned by the Company were valued at SR 781 million as at 31 December 2018 (31 December 2017: SR 30 million). The Fund commenced its commercial operations in 2018. The Fund's head office is located in Riyadh and invests internationally in high-growth private technology companies.

**16. SUBSIDIARIES**

Subsidiaries owned by the Company are as follows:

Name of subsidiary	Country of incorporation	Effective shareholding percentage		
		31 December 2018	31 December 2017	1 January 2017
Arabian Internet and Communications Services Company Limited ("STC Solutions")	Kingdom of Saudi Arabia	100%	100%	100%
Telecom Commercial Investment Company Limited ("TCIC")	Kingdom of Saudi Arabia	100%	100%	100%
VIVA Bahrain ("Viva Bahrain")	Kingdom of Saudi Arabia	100%	100%	100%
Aqalat Company Limited ("Aqalat")	Kingdom of Saudi Arabia	100%	100%	100%
STC Specialized	Kingdom of Saudi Arabia	100%	100%	100%
Sapphire Company Limited ("Sapphire")	Kingdom of Saudi Arabia	100%	100%	100%
STC Turkey Holdings Limited ("STC Turkey")	British Virgin Islands	100%	100%	100%
STC Asia Holdings Limited ("STC Asia")	British Virgin Islands	100%	100%	100%
STC Gulf Investment Holding S.P.C. ("STC Gulf")	Kingdom of Bahrain	100%	100%	100%
STC Channels	Kingdom of Saudi Arabia	100%	100%	60%
Kuwait Telecom Company ("Viva Kuwait")	Kuwait	51.8%	51.8%	51.8%
Communication Towers Co. Ltd.	Kingdom of Saudi Arabia	100%	-	-

- a. Arabian Internet and Communications Services Company Limited ("STCS") was established in the Kingdom of Saudi Arabia 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, STC acquired 100% of share capital of the Arabian Internet and Communications Services Company Limited, amounting to SR 100 million.

During the fourth quarter of 2017, STCS has established as subsidiary company "Saudi Digital Payments Company Limited" in the Kingdom, the main activity is to provide operating system services, e-commerce and e-trading.

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**16. SUBSIDIARIES (CONTINUED)**

- b. TCIC was established in the Kingdom of Saudi Arabia in October 2007 with a capital of SR 1 million in purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs in the Saudi market.
- c. Viva Bahrain was established in the Kingdom of Bahrain in February 2009 with a capital of BD 75 million equivalent to about SR 746 million at the exchange rate as of that date. Viva Bahrain operates in the field of 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, Viva Bahrain has fully acquired "MENA Telecom Company Limited" in the Kingdom of Bahrain (as a subsidiary). The main activity is to provide Internet services.
- d. Aqalat was established in the Kingdom of Saudi Arabia in March 2013 with a capital of SR 70 million fully owned by STC to operate in the field of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of STC.
- e. STC Specialized (Formerly: Public Telecommunications Company "BRAVO") was established in February 2002 in the Kingdom of Saudi Arabia. The Company acquired 100% of SR 200 million share capital in January 2014. This Company 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.
- f. Sapphire was established in the Kingdom of Saudi Arabia in June 2014 with a capital of SR 100 million fully owned by STC to operate in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, advance payment devices, points-of-sale devices, Telecom operator services, establish telecom sales and service centres. In November 2017, the Group Board of Directors has decided to wind up Sapphire and integrating its business with STC starting 1 January 2018. The legal procedures for the liquidation of the company is expected to be completed during 2019.
- g. STC Turkey is a limited liability company which was established under the Commercial Companies Law in the British Virgin Islands on 8 April 2007. It is a special purpose entity established to provide services and support required in respect of investment activities of the Group.

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

During 2016, and due to the continuing losses and the depletion of the Group's entire investment balance in OTL, the Group has stopped recognizing its share in OTL additional losses. (see Note 19.1)

- h. 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 company that invests in companies operating primarily in the Malaysia. It holds an investment in STC Malaysia Holdings Limited ("STC Malaysia"), (a wholly owned subsidiary), which was incorporated under the Commercial Companies Law in the British Virgin Islands.

STC Malaysia Holdings Limited in turn holds the Group's 25% stake in Binariang GSM Holdings ("BGSM") (Note 19.2). 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.

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**16. SUBSIDIARIES (CONTINUED)**

- i. STC Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008 and has wholly-owned subsidiaries in the Kingdom of Bahrain. The primary objective of this company and its subsidiaries is to provide services and support required in respect of investment activities of the Group:

- 1- STC Gulf Investment Holding 1 S.P.C.
- 2- STC Gulf Investment Holding 2 S.P.C.
- 3- STC Gulf Investment Holding 3 S.P.C.

STC Gulf Investment Holding 3 S.P.C. holds 100% (2017: 100%) in Intigral Holding, which was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. During 2018, the company increased its capital to reach BD 101 million equivalent to SR 1.008 million at the exchange rate as at 31 December 2018.

- j. STC Channels (“STCC”) (Formaly: Advanced sale (Saleco)) was established in the Kingdom of Saudi Arabia in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centres’ maintenance and operation. The Company operates in Saudi Market with subsidiaries in Bahrain and Oman whom are working in the same field. STC acquired 60% of STCC SR 100 million share capital in December 2011. On January 2017, the Company acquired the remaining shares in STCC by SR 400 million. Accordingly, STCC became a wholly-owned subsidiary of STC.
- k. In December 2007, the Company acquired 26% share capital of Viva Kuwait Company for amount of Kuwaiti Dinar (“KD”) 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Viva 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.

The Group manages Viva Kuwait and treats its investment as a subsidiary due to its control over the Company’s majority representation in Viva Kuwait’s board of directors.

On November 2015, the Company has submitted a voluntary offer to acquire the issued shares of Viva Kuwait not already owned by the Company, which represented 74% of Viva Kuwait issued shares. The offer presented by the Company to Viva Kuwait’s shareholders amounted to KD 1 per share (equivalent to SR 12.37).

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

During 2018, Viva Kuwait entered into a binding contract to acquire 100% of the total issued shares of Qualitynet, which operates in Kuwait in the field of providing Internet services.

- l. During the first quarter of 2018, the Company established Communication Towers Co. Ltd., a fully owned limited liability Company, with a share capital of SR 200 million. Communication Towers Company will be responsible for owning, constructing, operating, leasing and commercializing telecom towers. During the first quarter of 2019, Communications Towers Company obtained the necessary operating licenses from the Communications and Information Technology Commission (CITC) and has not yet started commercial operation.

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**16. SUBSIDIARIES (CONTINUED)**

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

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

Name of subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Profit allocated to non-controlling interests	Accumulated non-controlling interests 31		
	2018	2017		For the year ended 31 December 2018	31 December 2018	December 2017 (Restated-note 3)
VIVA Kuwait	48.2%	48.2%	300,107	1,143,582	937,768	705,183
STC Channels	-	-	-	-	-	506,765
Individually immaterial subsidiaries			620	4,332	1,412	43,777
			<b>300,727</b>	<b>1,147,914</b>	<b>939,180</b>	<b>1,255,725</b>

**16.2 Change in the Group's ownership interest in subsidiaries**

In January 2017, the purchase and transfer of the remaining shares in STC Channels representing 40% of STC Channels' outstanding shares for SR 400 million was completed. Accordingly, STC Channels became a 100% owned subsidiary of STC. As a result of this increase, the non-controlling interest decreased by SR 546.7 million and other reserves increased by SR 67.5 million.

**17. CASH AND CASH EQUIVALENTS**

	31 December 2018	31 December 2017	1 January 2017
Short term murabaha (with 3 months maturity or less)	6,316,162	1,043,615	1,713,740
Cash at banks	1,640,738	1,325,836	1,823,630
Cash on hand	5,848	19,638	50,263
Cheques under collection	191,117	177,955	43,569
	<b>8,153,865</b>	<b>2,567,044</b>	<b>3,631,202</b>

The Company invests a part of its surplus cash in murabaha accounts with original maturity of three months or less with several local banks. The average rate of profit during the year of 1% - 3% (2017: 1.6%-3.57%)

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**18. RELATED PARTY TRANSACTIONS**

**18.1 Trading transactions and balances with related parties (Associates and Joint Ventures – see Note 19)**

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

	2018	2017
<b>Telecommunication services provided</b>		
Associates	492,013	457,382
Joint Ventures	10,995	17,347
	<u>503,008</u>	<u>474,729</u>
	2018	2017
<b>Telecommunication services received</b>		
Associates	17,188	6,067
Joint Ventures	-	18,927
	<u>17,188</u>	<u>24,994</u>

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:

	<i>Amounts due from related parties</i>			<i>Amounts due to related parties</i>		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
Associates	338,652	325,069	158,902	23,184	29,283	32,702
Joint ventures	5,444	19,100	6,458	112,801	89,415	81,911
	<u>344,096</u>	<u>344,169</u>	<u>165,360</u>	<u>135,985</u>	<u>118,698</u>	<u>114,613</u>

**18.2 Trade transactions and related parties' balances (government and government related entities)**

Revenues related to transactions with governmental parties for the year ended 31 December 2018 amounted to SR 5,938 million (31 December 2017: SR 5,355 million) and expenses related to transactions with governmental parties for the year ended 31 December 2018 (including government charges) amounted to SR 4,139 million (31 December 2017: SR 3,662 million). It is worth mentioning that based on the Council of Ministers' resolution No. (196) dated 4 Rabi Thani 1440H corresponding to 11 December 2018, the percentage of government charges collected by the government for providing telecommunications services commercially has been amended to become a uniform annual fee of 10% of net telecommunications revenues effective 1 January 2018 instead of the previous calculation mechanism which were 15% of net mobile service revenues, 10% of net fixed line revenues and 8% of net revenues from data services. Furthermore, the Company's services licenses have been combined into a unified license.

As at 31 December 2018, accounts receivable from Government entities totalled SR 12,343 million (31 December 2017: SR 18,920 million , 1 January 2017:12.596 million) and as at 31 December 2018, accounts payable to Government entities totalled SR 3,706 million (31 December 2017: SR 6,872 million, 1 January 2017:3,784 million ) (see note 10.2) which were after the Group's agreement with the government to pay all outstanding receivables as at 31 December 2016 amounting to SR 12,532 million through offsetting accounts payables balances and the collection of the balance in cash. The Group will also subscribe to an amount of SR 4 billion in Sukuk that shall be issued by the Ministry of Finance during the first quarter of 2019 (see note 44).

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**18. RELATED PARTY TRANSACTIONS (CONTINUED)**

*18.3 Loans to related parties*

	31 December 2018	31 December 2017	1 January 2017
Loans to key management personnel	<b>1,507</b>	2,093	9,903

*18.4 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 was as follows:

	2018	2017
Short-term benefits and remunerations	<b>107,049</b>	103,948
Provision for leave and end of service benefits	<b>36,550</b>	33,000

**19. ASSOCIATES AND JOINT VENTURES**

*19.1 Associates*

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

*19.1.1 Details of associates*

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

Name of Associates		Country of incorporation	Proportion of ownership interest / voting rights		
			31 December 2018	31 December 2017	1 January 2017
Arab Satellite Communications Organisation ("Arabsat")	1	Kingdom of Saudi Arabia	<b>36.66%</b>	36.66%	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2	Kingdom of Saudi Arabia	<b>10%</b>	10%	10%
Careem Company	3	Virgin Islands, Britain	<b>8.87%</b>	9.68%	-
Oger Telecom Limited ("OTL")	4	United Arab Emirates	<b>35%</b>	35%	35%

- 1) Arab Satellite Communications Organisation ("Arabsat") was established on April 1976 by the members of the League of Arab States. Arabsat offers a number of services to these member states, as well as to all public and private sectors within its coverage area, and principally in the Middle East. Current services offered include: Regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. In April 1999, Saudi Telecom Company acquired 36.66% of Arabsat's US\$ 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. Although the Group holds less than 20% of ownership interest and voting control in VMSC, the Group has the ability to exercise significant influence through its membership in VMSC board of directors by virtue of the partners' agreement and the amended article of association of VMSC.

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**19. ASSOCIATES AND JOINT VENTURES (CONTINUED)**

*19.1 Associates (continued)*

*19.1.1 Details of associates (continued)*

- 3) Careem was founded in July 2012 and it is offering innovative, fast and convenient transportation services through its website and smart phone applications. In January 2017, the Company completed the purchase of 10% of Careem shares for USD 100 million (equivalent to SR 375 million). During the year 2018, the Company's share decreased to 8.87% (2017: 9.68%) as a result of Careem Company capital increase through the entrance of new shareholders. Although the Group holds less than 20% of ownership interest and voting control in Careem, the Group has the ability to exercise significant influence without control through its membership in Careem board of directors and the 8.9% ownership in Careem by the venture funds established by the Group.
- 4) Oger Telecom Limited ("OTL") is a holding company registered in Dubai, the United Arab Emirates. In April 2008, STC through one of its subsidiaries (STC Turkey Holding) acquired 35% of OTL's share capital amounting to US\$ 3.6 billion, equivalent to approximately SR 13.5 billion at the exchange rate as at that date. On 1 January 2016, the Group's investment in OTL was completely extinguished and the Group discontinued recognising its share of further losses. OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with the financial covenants agreed with lenders. During 2018, OTL has completed necessary procedures to liquidate its main subsidiaries and restructure its investments in Turkey and South Africa in order to meet the financial obligations of the lenders. In addition, OTL is expected to commence its liquidation process in the foreseeable future.

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

<b>Arabsat</b>	<b>31 December 2018</b>	<b>31 December 2017 (Restated)</b>	<b>1 January 2017 (Restated)</b>
<i>Statement of financial position</i>			
Current assets	<b>1,110,572</b>	917,399	962,214
Non-current assets	<b>6,096,520</b>	6,696,704	6,935,708
Current liabilities	<b>(490,799)</b>	(849,855)	(1,221,185)
Non-current liabilities	<b>(1,633,181)</b>	(1,782,393)	(1,840,899)

	<b>For the year ended in 31 December</b>	
	<b>2018</b>	<b>2017</b>
<i>Statement of income and other comprehensive income</i>		
Revenue	<b>997,308</b>	855,437
Profit for the year	<b>316,028</b>	500,361
Other comprehensive (loss)/income for the year	<b>(55,358)</b>	147,038
Total comprehensive income for the year	<b>260,670</b>	647,399

*19.1.2 Details of material associates*

Reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat:

	<b>31 December 2018</b>	<b>31 December 2017 (Restated)</b>	<b>1 January 2017 (Restated)</b>
Net assets of the associate	<b>5,083,112</b>	4,981,855	4,835,218
Proportion of the Group's ownership interest in Arabsat	<b>36.66%</b>	36.66%	36.66%
Carrying amount of the Group's interest in Arabsat	<b>1,863,469</b>	1,826,348	1,772,591



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**19. ASSOCIATES AND JOINT VENTURES (CONTINUED)**

*19.1 Associates (continued)*

*Aggregate information of associates that are not individually material for the year ended:*

	2018	2017
The Group's share of loss from continued operations	<b>61,988</b>	43,484
Aggregate carrying amount of the Group's interests in these associates	<b>269,809</b>	331,798
<b>Total carrying amount of the Group's interest in associates</b>	<b>2,133,278</b>	2,158,146

*19.2 Joint ventures*

*19.2.1 Details of joint ventures*

Below is the detail of joint ventures as at:

<i>Name of joint venture</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest/voting rights</i>		
		<b>31 December 2018</b>	<i>31 December 2017</i>	<i>1 January 2017</i>
Arab Submarine Cables Company Limited	1 Kingdom of Saudi Arabia	<b>50%</b>	50%	50%
Contact Centres Company ("CCC")	2 Kingdom of Saudi Arabia	<b>49%</b>	49%	49%
Binariang GSM Holding ("BGSM")	3 Malaysia	<b>25%</b>	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 of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country.

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

- 2) Contact Centres Company was established to provide call centre services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom of Saudi Arabia, with a share capital of SR 4.5 million. The Company acquired 50% of its share capital. During the fourth quarter of 2015, the Company sold 1% of its stake in CCC to the other partners according to the terms of the partners' agreement. Thus making the Company's share 49%.
- 3) Binariang group GSM is an investment holding group registered in Malaysia which owns 62% (2017: 65%) of Maxis Malaysian Holding Group ("Maxis"), a major telecom operator in Malaysia. BGSM also had indirect investments in India, Aircel Limited ("Aircel") which were eliminated in 2018.

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

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

During the second quarter of 2017, a subsidiary of Binariang group GSM (joint venture) issued an additional share capital for its non-controlling interests. STC Group share of the gain from this increase was SR 141 million recognized in other reserves.

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**19. ASSOCIATES AND JOINT VENTURES (CONTINUED)**

*19.2 Joint ventures (continued)*

*19.2.2 Details of material joint ventures (continued)*

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

<i>Binariang group Holding GSM</i>	<b>31 December 2018</b>	31 December 2017 (Restated)	1 January 2017 (Restated)
<i>Statement of financial position</i>			
Current assets	<b>3,273,483</b>	18,324,419	20,081,520
Non-current assets	<b>25,851,745</b>	25,936,669	23,710,427
Current liabilities	<b>(4,547,699)</b>	(21,756,437)	(21,832,724)
Non-current liabilities	<b>(12,946,453)</b>	(12,762,038)	(13,883,338)

The above amounts of assets and liabilities include the following:

	<b>31 December 2018</b>	31 December 2017	1 January 2017
Cash and cash equivalents	<b>1,374,852</b>	1,399,929	1,024,317
Current financial liabilities (excluding trade and other payables and provisions)	<b>(1,164,892)</b>	(591,156)	(1,171,373)
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>(12,339,736)</b>	(12,031,079)	(13,006,198)

*For the year ended 31 December*

	<b>2018</b>	2017 (Restated)
<i>Statement of income and other comprehensive income</i>		
Revenue	<b>8,087,147</b>	8,717,567
Profit from continuing operations	<b>1,192,434</b>	1,270,735
Profit (Loss) from discontinued operations	<b>600,723</b>	(2,717,893)
Profit (Loss) for the year	<b>1,793,157</b>	(1,447,158)
Other comprehensive income for the year	<b>167,949</b>	271,614
Total comprehensive income/(loss) for the year	<b>1,961,106</b>	(1,175,544)
Depreciation and amortisation	<b>(1,032,504)</b>	(1,050,312)
Finance income	<b>48,264</b>	92,238
Finance cost	<b>(884,317)</b>	(1,094,206)
Income tax expense	<b>(556,003)</b>	(638,438)

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

	<b>31 December 2018</b>	31 December 2017 (Restated)	1 January 2017 (Restated)
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	<b>(5,192)</b>	(224,098)	(460,436)
Proportion of the Group's ownership interest in the joint venture	<b>(1,298)</b>	(56,024)	(115,109)
Goodwill and fair value adjustments	<b>1,352,070</b>	1,352,070	1,352,070
Impairment loss provision	<b>(168,000)</b>	-	-
Others: the carve-out of Aircel Group	<b>3,208,024</b>	3,392,741	3,189,353
Carrying amount of the Group's interest in the joint venture	<b>4,390,796</b>	4,688,787	4,426,314

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**19. ASSOCIATES AND JOINT VENTURES (CONTINUED)**

*19.2 Joint ventures (continued)*

*19.2.2 Details of material joint ventures (continued)*

*Aggregate information of joint ventures that are not individually material for the year ended 31 December:*

	2018	2017
The Group's share of profit from operations	<b>8,806</b>	18,203
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	<b>8,806</b>	18,203
Aggregate carrying amount of the Group's interests in these joint ventures	<b>57,659</b>	61,720
<b>Total carrying amount of the Group's share in the joint ventures</b>	<b>4,448,455</b>	4,750,507

**20. ISSUED CAPITAL**

	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>1 January 2017</u>
<i>Issued and fully paid capital comprises</i>			
2 billion fully paid ordinary shares	<b>20,000,000</b>	20,000,000	20,000,000

**21. 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 approved to cease the transfer to statutory. Although the recent change in the companies law, appropriations can ceased when the reserve reaches 30% as minimum instead of 50% of the share, the Company maintained the accumulated reserve at 50%. This reserve is not available for distribution to the Company's shareholders.

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**22. OTHER RESERVES**

	<i>Foreign currency translation</i>	<i>Cash flow hedge</i>	<i>Investments at FVTOCI reserve</i>	<i>Other Reserves</i>	<i>Total</i>
<b>As at 1 January 2018</b>	<b>(41,582)</b>	<b>(140,865)</b>	<b>312,431</b>	<b>(1,905,374)</b>	<b>(1,775,390)</b>
Fair value of investments at FVTOCI	-	-	<b>113,543</b>	-	<b>113,543</b>
Re-measure the end of service benefit obligation	-	-	-	<b>13,414</b>	<b>13,414</b>
Exchange difference on translation of foreign operations	<b>(8,128)</b>	-	-	-	<b>(8,128)</b>
Company's Share of other comprehensive income of joint ventures and associates	-	-	-	<b>(247,317)</b>	<b>(247,317)</b>
<b>As at 31 December 2018</b>	<b>(49,710)</b>	<b>(140,865)</b>	<b>425,974</b>	<b>(2,139,277)</b>	<b>(1,903,878)</b>
<b>As at 1 January 2017 – Restated</b>	<b>(41,732)</b>	<b>(140,865)</b>	<b>221,874</b>	<b>(1,974,750)</b>	<b>(1,935,473)</b>
Acquisition of non-controlling interest in a subsidiary	-	-	-	<b>67,474</b>	<b>67,474</b>
Fair value of investments at FVTOCI	-	-	<b>90,557</b>	-	<b>90,557</b>
Re-measurement of end of service benefit obligation	-	-	-	<b>(117,361)</b>	<b>(117,361)</b>
Exchange difference on translation of foreign operations	<b>150</b>	-	-	-	<b>150</b>
Company's Share of other comprehensive income of joint ventures and associates	-	-	-	<b>(30,603)</b>	<b>(30,603)</b>
Others	-	-	-	<b>149,866</b>	<b>149,866</b>
<b>As at 31 December 2017</b>	<b>(41,582)</b>	<b>(140,865)</b>	<b>312,431</b>	<b>(1,905,374)</b>	<b>(1,775,390)</b>

**23. BORROWINGS**

Total loans paid during the year ended 31 December 2018 amounted to SR 636 million (31 December 2017: SR 3,299 million). Total loans received during the year ended 31 December 2018 amounted to SR 304 million (31 December 2017: SR 1,924 million). A list of the loans are as follows:

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**23. BORROWINGS (CONTINUED)**

Nature of borrowing	Date of borrowing	Date of final instalment	Currency	Profit rate	Current portion			Non-current portion		
					Balance as at 31 December 2018	Balance as at 31 December 2017	Balance as at 1 January 2017	Balance as at 31 December 2018	Balance as at 31 December 2017	Balance as at 1 January 2017
Murabaha (1)	1 Apr 2008	1 April 2018	SAR	3 months SAIBOR + 0.25%	-	530,311	1,057,637	-	-	526,427
Sukuk (2)	9 Jan 2014	9 Jun 2024	SAR	3 months SAIBOR + 0.70%	-	-	-	<b>2,000,000</b>	2,000,000	2,000,000
Murabaha	1 May 2009	1 Mar 2021	BHD	1 month BIBOR + 0.25%	<b>26,891</b>	5,379	5,370	<b>53,781</b>	80,672	86,716
Murabaha (3)	1 Jul 2017	1 May 2022	BHD	1 month BIBOR + 1.60%	<b>58,280</b>	-	-	<b>521,281</b>	527,393	-
Murabaha	1 Dec 2009	1 Dec 2017	BHD	1 month BIBOR + 0.25%	-	-	144,550	-	-	-
Murabaha	1 Dec 2009	1 Dec 2017	BHD	1 month BIBOR + 0.75%	-	-	223,395	-	-	-
Murabaha	Dec 2018	Nov 2025	BHD	2.10%	<b>2,863</b>	-	-	<b>21,786</b>	-	-
Murabaha	Dec 2018	Jan 2019	SAR	LIBOR + 0.55%	<b>232,499</b>	-	-	-	-	-
Tawaruq	Jan 2011	Dec 2017	KWD	3.25%	-	155	184,271	-	-	-
Murabaha	Jun 2013	Jun 2018	KWD	3.10%	-	60,307	108,767	-	-	78,038
Murabaha	Jun 2013	Jun 2018	KWD	3.50%	-	51,611	143,230	-	-	64,905
Murabaha (4)	Dec 2017	Dec 2022	MYR	6 months KLIBOR + 0.65%	-	-	-	<b>1,368,631</b>	1,397,915	-
Murabaha	Dec 2007	Dec 2017	MYR	6 months KLIBOR + 0.45%	-	-	-	-	-	1,261,145
Total					<b>320,533</b>	647,763	1,867,220	<b>3,965,479</b>	4,005,980	4,017,231

- (1) The Company has obtained financing facilities on Murabaha basis with a term of ten years. Average finance cost of 2.14% (31 December 2017: 2.38%) was paid by the Company during the year. The Murabahas were repayable in quarterly instalments with the final instalment paid in April 2018.
- (2) The Company has issued Sukuk Program up to a maximum of SR 5 billion. Sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of ten years.
- (3) VIVA Bahrain has murabaha facilities secured by a land and a building. A substantial portion of these Murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are: restriction of financial indebtedness, limitation on disposal of assets and limitations on granting of loans and guarantees. Additional undertakings under these loans relate to certain specific financial ratios and satisfaction of financial position tests. The carrying values of the Murabaha facilities are not materially different from their fair values as the impact of discounting, credit risk and other market risk is not considered significant.
- (4) This facility is secured by a letter of guarantee provided by the Company.

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**24. PROVISIONS**

	<i>31 December 2018</i>	<i>31 December 2017</i>	<i>1 January 2017</i>
Legal and regulatory provisions (i)	<b>7,336,057</b>	8,392,198	6,417,649
Decommissioning provisions (ii)	<b>382,510</b>	442,933	389,880
Other provisions	<b>2,794</b>	1,301	1,021
	<b>7,721,361</b>	8,836,432	6,808,550
Current	<b>6,829,451</b>	7,633,280	5,686,284
Non-current	<b>891,910</b>	1,203,152	1,122,266
	<b>7,721,361</b>	8,836,432	6,808,550
	<i>Legal and regulatory provision (i)</i>	<i>Decommissioning and other provisions (ii)</i>	
Balance as at 1 January 2017	6,417,649	390,901	
Additions	2,460,427	28,573	
Reductions / adjustment resulting from re-measurement and others	7,412	2,038	
Payment / settlements	(493,290)	22,722	
Balance as at 31 December 2017	8,392,198	444,234	
Balance as at 1 January 2018	<b>8,392,198</b>	<b>444,234</b>	
Additions	<b>1,298,823</b>	<b>7,079</b>	
Reductions / adjustment resulting from re-measurement and others	<b>(1,945)</b>	<b>(66,009)</b>	
Payment / settlements	<b>(2,353,019)</b>	<b>-</b>	
<b>Balance as at 31 December 2018</b>	<b>7,336,057</b>	<b>385,304</b>	

- (i) The Company is considered a party of number of legal and regulatory claims. The Group, after taking independent legal advice, has established provisions after taking into account the facts for each case. The timing of the cash outflows associated with the majority of the legal claims are typically more than one year, however, for some legal claims the timing of cash flows may be short term in nature.
- (ii) In the course of Company's normal activities, a number of sites and other assets are utilised which are expected to have costs associated with restoration of the assets to how it was upon removing the assets. The associated cash outflows are expected to occur primarily in years up to ten years from the date when the assets are brought in use.

**25. DEFERRED INCOME**

	<i>31 December 2018 (Restated - note 3)</i>	<i>31 December 2017</i>	<i>1 January 2017 (Restated - note 3)</i>
Government grants (i)	<b>2,138,098</b>	984,082	661,888
Others	<b>47,333</b>	102,624	89,905
	<b>2,185,431</b>	1,086,706	751,793
Current	<b>41,141</b>	96,431	81,654
Non-current	<b>2,144,290</b>	990,275	670,139
	<b>2,185,431</b>	1,086,706	751,793

- (i) The government grants represent grants provided by Communication and Information Technology Commission ("CITC") to the Company to build telecommunication network in remote areas (see note 4.6).

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**26. RETIREMENT BENEFIT PLANS**

**26.1 Defined contribution plans**

The Group is participating in a pension schemes for its employees which are managed by government institutions in the countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2018 is SR 401 million (31 December 2017: SR 411 million).

**26.2 End of service benefit provision**

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service year, 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 year of employment.

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

Discount risk	A decrease in the discount rate will increase the plan liability.
Salary 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 salary of the plan participants will increase the plan's liability.

The most recent actuarial valuation of the present value of the end of service benefit obligation was carried out as at 31 December 2018. During the financial year, there were no material fluctuations or events affecting the actuarial assumptions used as at 31 December 2017.

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 2018, used in determining the end of service benefit obligation represent the discount rates of (4.25% - 5%) and the expected increase in salary (3.2% - 5%) (2017: between 4% - 5% and the expected increase 2%-5%).

The net expenses recognized in the consolidated statement of profit or loss are as follows:

	<u>2018</u>	<u>2017</u>
Cost of services	<b>354,101</b>	348,874
Interest cost	<b>176,477</b>	176,629
	<b><u>530,578</u></b>	<u>525,503</u>

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

	<u>2018</u>	<u>2017</u>
<b>Balance at beginning of the year</b>	<b>3,922,065</b>	3,776,269
Expenses recognized in the consolidated statement of profit or loss	<b>530,578</b>	525,503
Actuarial losses recognised in the consolidated statement of comprehensive income	<b>(13,414)</b>	117,361
paid during the year	<b>(521,861)</b>	(499,614)
Exchange differences on foreign plans	<b>1,994</b>	2,546
<b>Balance at end of the year</b>	<b><u>3,919,362</u></b>	<u>3,922,065</u>

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**26. RETIREMENT BENEFIT PLANS (CONTINUED)**

*26.2 End of service benefit provision (continued)*

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the financial year, while holding all other assumptions constant.

- If the discount rate is increases (decreases) by 50 basis points, the end of service benefit provision would (decrease) increase by SR 176 million (31 December 2017: (decrease) increase by SR 180 million).
- If the expected salary growth increases (decreases) by 0.5%, the end of service benefit provision would increase (decrease) by SR 191 million (31 December 2017: increase (decrease) by SR 190 million).

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.

**27. CONTRACT LIABILITIES**

	<b>31 December 2018</b>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Deferred revenue from services	<b>3,192,688</b>	3,894,060	3,599,678
Customer loyalty programme	<b>118,167</b>	140,800	137,849
	<b>3,310,855</b>	4,034,860	3,737,527
Current	<b>2,538,940</b>	3,261,695	2,961,889
Non-current	<b>771,915</b>	773,165	775,638
	<b>3,310,855</b>	4,034,860	3,737,527

**28. OTHER FINANCIAL LIABILITIES**

	<b>31 December 2018</b>	<i>31 December 2017</i> <i>(Restated-note 3)</i>	<i>1 January 2017</i> <i>(Restated-note 3)</i>
Financial liabilities related to telecom licenses	<b>1,528,923</b>	56,604	198,985
Dividends due	<b>81,927</b>	48,570	37,662
Derivative liabilities	<b>6,140</b>	9,221	16,454
	<b>1,616,990</b>	114,395	253,101
Current	<b>90,731</b>	54,640	44,138
Non-current	<b>1,526,259</b>	59,755	208,963
	<b>1,616,990</b>	114,395	253,101



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**29. OTHER LIABILITIES**

	<b>31 December 2018</b>	<b>31 December 2017 (Restated-note 3)</b>	<b>1 January 2017 (Restated-note 3)</b>
Government charges	<b>3,699,077</b>	6,871,643	3,784,284
Statutory dues and Other	<b>411,226</b>	496,840	432,698
	<b>4,110,303</b>	7,368,483	4,216,982
Current	<b>4,077,577</b>	7,281,256	4,126,095
Non-current	<b>32,726</b>	87,227	90,887
	<b>4,110,303</b>	7,368,483	4,216,982

**30. TRADE AND OTHER PAYABLES**

	<b>31 December 2018</b>	<b>31 December 2017 (Restated-note 3)</b>	<b>1 January 2017 (Restated-note 3)</b>
Accrued expenses	<b>10,901,180</b>	8,558,799	9,448,353
Trade payables	<b>3,050,348</b>	1,841,443	1,247,279
Employee accruals	<b>1,424,912</b>	1,532,933	1,504,891
Other trade payables	<b>1,031,981</b>	707,093	1,164,380
Capital supplier dues and retentions	<b>234,630</b>	346,165	418,279
Customer refundable deposits	<b>27,907</b>	169,494	125,206
	<b>16,670,958</b>	13,155,927	13,908,388

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.

**31. ZAKAT AND TAX LIABILITIES**

	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>1 January 2017</b>
Zakat (a)	<b>1,443,224</b>	1,488,001	1,361,590
Income taxes (b)	<b>22,551</b>	19,880	17,370
	<b>1,465,775</b>	1,507,881	1,378,960

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**31. ZAKAT AND TAX LIABILITIES (CONTINUED)**

*a. Zakat*

The Group calculates and records the zakat provision based on the zakat base in its consolidated statements in accordance with the zakat rules and principles in the Kingdom of Saudi Arabia:

	<i>31 December 2018</i>	<i>31 December 2017</i>
Share capital – beginning of the year	<b>20,000,000</b>	20,000,000
<i>Additions:</i>		
Retained earnings, reserves and provisions – beginning of the year	<b>60,377,908</b>	54,087,010
Borrowings and payables	<b>4,589,524</b>	4,911,130
Adjusted net income	<b>10,097,775</b>	13,412,664
	<hr/>	<hr/>
Adjusted total shareholders' equity	<b>95,065,207</b>	92,410,804
	<hr/>	<hr/>
<i>Deductions:</i>		
Net property (adjusted) and investments	<b>58,050,032</b>	56,061,670
Dividends paid	<b>8,000,000</b>	8,000,000
Deferred expenses and other balances	<b>326,064</b>	558,782
	<hr/>	<hr/>
Total adjusted deductions	<b>66,376,096</b>	64,620,452
	<hr/>	<hr/>
Zakat base	<b>28,689,111</b>	27,790,352
	<hr/>	<hr/>
Zakat on wholly owned companies	<b>717,228</b>	694,758
Add: Zakat on partially owned companies	<b>6,718</b>	6,011
	<hr/>	<hr/>
Total zakat provision for the year	<b>723,946</b>	700,769
	<hr/>	<hr/>

*Zakat provision*

	<i>31 December 2018</i>	<i>31 December 2017</i>
Balance at beginning of the year	<b>1,488,001</b>	1,361,590
Charge for the year	<b>723,946</b>	700,769
Adjustment during the year	<b>(99,535)</b>	55,875
Amounts paid during the year	<b>(669,188)</b>	(630,233)
	<hr/>	<hr/>
Balance at end of the year	<b>1,443,224</b>	1,488,001
	<hr/>	<hr/>

The Company submitted its zakat returns since its inception through 2017. Effective from the year 2009, the Company started the submission of consolidated zakat return for the Company and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company received Zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total Zakat differences for these objections amounted to SR 625 million. The Company has reached a partial settlement for the years 2010-2011 and GAZT is in the process of issuing an amended zakat assessment for those years. The objections related to the years 2008-2009 remain before the appeals committee until the date of preparation of these consolidated financial statements. The majority of the zakat differences subject for objections are for the years 2008-2009 in relation to the comparison between the Zakat base and the adjusted profit whichever is higher. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H; upholding the Company's appeal for the year 2007 which cancels the process of GAZT comparison between the Zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before the Appeals Committee. Accordingly, The Company believes that the results of these objections will be in its favour and will not result in any additional provisions.

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**31. ZAKAT AND TAX LIABILITIES (CONTINUED)**

*a. Zakat (Continued)*

Zakat declarations for the years 2012 to 2017 are still pending with the GAZT until the date of preparation of these consolidated financial statements.

*b. Income tax*

The Group's share of income tax payable by subsidiaries is in accordance with the prevailing tax regulations in their countries. Income tax expense for the year ended 31 December 2018 amounts to SR 23 million (2017: SR 20 million).

**32. REVENUES**

	<i>For the year ended 31 December</i>	
	2018	2017 (Restated-note 3)
Rendering of services	<b>43,142,069</b>	44,700,972
Sale of goods	<b>8,372,850</b>	5,686,282
Others	<b>448,324</b>	274,081
	<b>51,963,243</b>	50,661,335

**33. COST OF REVENUES**

	<i>For the year ended 31 December</i>	
	2018	2017 (Restated-note 3)
Network access charges	<b>4,998,609</b>	5,830,410
Government charges (*)	<b>4,482,144</b>	3,973,084
Cost of devices sold	<b>4,386,167</b>	2,337,133
Employees' costs	<b>2,968,010</b>	2,134,816
Repair and maintenance	<b>2,275,012</b>	2,493,319
Cards recharge and printing cost	<b>1,532,359</b>	1,702,615
Amortisation and impairment of contract costs	<b>373,644</b>	388,470
Others	<b>400,983</b>	3,246,079
	<b>21,416,928</b>	22,105,926

“Others” mainly comprise various expenses mainly related to rent of property, equipment and vehicles, telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

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

	<i>For the year ended 31 December</i>	
	2018	2017
Commercial service provisioning fees	<b>3,716,740</b>	3,381,036
License fees	<b>398,250</b>	295,573
Frequency spectrum fees	<b>367,154</b>	296,475
	<b>4,482,144</b>	3,973,084

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**34. SELLING AND MARKETING EXPENSES**

	<i>For the year ended 31 December</i>	
	<b>2018</b>	<b>2017</b> <i>(Restated-note 3)</i>
Employees' costs	<b>2,312,609</b>	2,267,221
Impairment loss on trade receivables (see note 10-1)	<b>741,583</b>	848,495
Advertising and publicity	<b>560,114</b>	666,535
Sales commissions	<b>490,623</b>	438,682
Call centre expenses	<b>268,534</b>	327,281
Impairment on contract assets	<b>206,503</b>	135,562
Repairs and maintenance	<b>195,201</b>	197,266
Sport activities sponsorship cost	<b>142,414</b>	117,480
Postage and courier	<b>57,998</b>	20,780
Printing of telephone cards and office supplies	<b>44,856</b>	79,834
Amortisation and impairment of contract costs	<b>42,989</b>	55,436
Consultancy, legal and professional fees	<b>20,304</b>	32,957
Others	<b>379,484</b>	421,105
	<b>5,463,212</b>	5,608,634

“Others” comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

**35. GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>For the year ended 31 December</i>	
	<b>2018</b>	<b>2017</b> <i>(Restated-note 3)</i>
Employees' costs	<b>2,620,501</b>	2,291,117
Repair and maintenance	<b>986,591</b>	855,596
Operating lease costs	<b>359,351</b>	279,216
Consultancy, legal and professional fees	<b>247,202</b>	221,527
Utilities expenses	<b>179,683</b>	133,998
Security and safety expenses	<b>140,311</b>	120,091
Others	<b>713,709</b>	614,484
	<b>5,247,348</b>	4,516,029

“Others” comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

**36. FINANCE INCOME**

	<i>For the year ended 31 December</i>	
	<b>2018</b>	<b>2017</b> <i>(Restated-note 3)</i>
Income from murabaha	<b>378,307</b>	421,528
Income from sukuk	<b>173,493</b>	145,545
Others	<b>3,109</b>	17,609
	<b>554,909</b>	584,682

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**37. FINANCE COST**

	<i>For the year ended 31 December</i>	
	<i>2018</i>	<i>2017</i> <i>(Restated-note 3)</i>
Financing costs relating to Murabaha	<b>63,325</b>	95,941
Financing costs relating to Sukuk	<b>59,104</b>	50,774
Other finance cost	<b>7,885</b>	2,293
Unwinding of discounts on provisions and financial obligations	<b>268,500</b>	204,534
	<b>398,814</b>	353,542

**38. OTHER GAINS AND LOSSES, NET**

	<i>For the year ended 31 December</i>	
	<i>2018</i>	<i>2017</i> <i>(Restated-note 3)</i>
Net gain arising on financial assets designated as FVTPL	<b>7,465</b>	216,923
Loss on sale/disposal of property, plant and equipment	<b>(291,431)</b>	(248,965)
Net foreign exchange gain	<b>68,473</b>	9,959
Net gain on derivatives	-	3,678
	<b>(215,493)</b>	(18,405)

**39. EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of shares for the year ended 31 December as follows:

	<i>2018</i>	<i>2017</i> <i>(Restated-note 3)</i>
Profit for the year attributable to owners of the Company	<b>10,779,771</b>	10,015,576
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>2,000,000</b>	2,000,000
Basic and Diluted earnings per share (in Saudi Riyal)	<b>5.39</b>	5.01

The Group does not have potentially dilutive shares and accordingly, dilutive earnings per share equals basic earnings per share.

**40. FINANCIAL INSTRUMENTS**

**40.1 Capital management**

The Group manages its capital to ensure that:

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

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

The Group is not subject to any externally imposed capital requirement. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2018.

The Group's Capital Management Department reviews the capital structure of the company on annual basis to evaluate the cost of capital and the risks associated with capital. The Group has the following target ratios:

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

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**40. FINANCIAL INSTRUMENTS (CONTINUED)**

*40.1 Capital management (continued)*

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

	<b>2018</b>	2017 <i>(Restated-note 3)</i>
Debt (i)	<b>4,286,012</b>	4,653,743
EBITDA (ii)	<b>19,835,755</b>	18,430,746
Debt to EBITDA	<b>0.22</b>	0.25
Debt	<b>4,286,012</b>	4,653,743
Debt + Equity (iii)	<b>70,947,610</b>	68,455,324
Debt to (Debt + Equity)	<b>6.04%</b>	6.80%

- i. Debt is defined as current and non-current borrowings as described in note 23.
- ii. EBITDA is defined as operating profit for the year adjusted for depreciation and amortization expenses.
- iii. Equity is defined as total equity including issued capital, reserves, non-controlling interest and retained earnings.

*40.2 Fair value of financial instruments*

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity 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 the asset or liability.

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**40. FINANCIAL INSTRUMENTS (CONTINUED)**

*40.2 Fair value of financial instruments*

	<i>31 December 2018</i>		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Fair value measurement using</i>
<i>Financial assets (Note 15):</i>			
<i>At fair value through profit or loss</i>	<b>3,115,185</b>	<b>3,115,185</b>	<b>Level 2</b>
<i>At amortised cost:</i>			
Sukuk	1,490,137	1,490,137	Level 2
Murabahas	2,250,746	2,250,746	Level 2
Loans to employees	524,417	524,417	Level 2
Others loans and receivables	86,174	86,174	Level 2
<i>At fair value through other comprehensive income</i>	<b>1,394,602</b>	<b>1,394,602</b>	<b>Level 3</b>
	<b>8,861,261</b>	<b>8,861,261</b>	
<i>Financial liabilities (Note 28):</i>			
<i>At amortised cost:</i>			
<i>Borrowings:</i>			
Murabahas – unsecured	605,052	605,052	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,680,960	1,680,960	Level 2
Other financial liabilities	1,528,923	1,528,923	Level 2
Dividends payable	81,927	81,927	Level 2
<i>At fair value through profit or loss</i>			
Derivative liabilities	6,140	6,140	Level 2
	<b>5,903,002</b>	<b>5,903,002</b>	

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**40. FINANCIAL INSTRUMENTS(CONTINUED)**

*40.2 Fair value of financial instruments*

	<i>Carrying amount</i>	<i>Fair value</i>	<i>Fair value measurement using</i>
<b><i>Financial assets (Note 15):</i></b>			
<i>At fair value through profit or loss</i>	4,148,368	4,148,368	Level 2
<i>At amortised cost:</i>			
Sukuk	1,559,371	1,559,371	Level 2
Murabahas	1,186,173	1,186,173	Level 2
Loans to employees	612,918	612,918	Level 2
Others loans and receivables	86,314	86,314	Level 2
<i>At fair value through other comprehensive income</i>	535,634	535,634	Level 3
	<u>8,128,778</u>	<u>8,128,778</u>	
<b><i>Financial liabilities (Note 28):</i></b>			
<i>At amortised cost:</i>			
<i>Borrowings:</i>			
Murabahas – unsecured	1,175,156	1,175,156	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,478,587	1,478,587	Level 2
Other financial liabilities	56,604	56,604	Level 2
Dividends payable	48,570	48,570	Level 2
<i>At fair value through profit or loss</i>			
Derivative liabilities	9,221	9,221	Level 2
	<u>4,768,138</u>	<u>4,768,138</u>	



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**40. FINANCIAL INSTRUMENTS(CONTINUED)**

*40.2 Fair value of financial instruments*

	1 January 2017		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Fair value measurement using</i>
<b><i>Financial assets (Note 15):</i></b>			
<i>At fair value through profit or loss</i>	3,986,104	3,986,104	Level 2
<i>At amortised cost:</i>			
Sukuk	1,422,602	1,422,602	Level 2
Murabahas	1,309,312	1,309,312	Level 2
Loans to employees	632,726	632,726	Level 2
Others loans and receivables	68,362	68,362	Level 2
<i>At fair value through other comprehensive income</i>	415,005	415,005	Level 3
	7,834,111	7,834,111	
	7,834,111	7,834,111	
<b><i>Financial liabilities (Note 28):</i></b>			
<i>At amortised cost:</i>			
<i>Borrowings:</i>			
Murabahas – unsecured	2,536,589	2,536,589	Level 2
Sukuk – unsecured	2,000,000	2,000,000	Level 2
Murabahas – secured	1,347,862	1,347,862	Level 2
Other financial liabilities	198,985	198,985	Level 2
Dividends payable	37,662	37,662	Level 2
<i>At fair value through profit or loss</i>			
Derivative liabilities	16,454	16,454	Level 2
	6,137,552	6,137,552	
	6,137,552	6,137,552	

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**40. FINANCIAL INSTRUMENTS (CONTINUED)**

**40.3 Profit rate risk**

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

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

The sensitivity analyses below have been determined based on the exposure to profit rates for non-derivative instruments at the end of the financial year. These show the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the year were outstanding for the whole year. A 20-basis point increase or decrease represents management's assessment of the reasonably possible change in profit rates. If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SR 4.5 million. This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities.

**40.4 Foreign currency risk management**

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

**40.5 Credit risk management**

The Group has approved guidelines and policies that allows it to only deal with creditworthy counter parties and limits counter party exposure. The guidelines and policies allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limits the exposure to a single counter party by stipulation that the exposure should not exceed 30% of the counterparty's shareholders' equity. Further, the Group exposure to an investment/issue should not exceed 20% of the total outstanding investment issued by that counter party. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in note 10, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consists of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms.

On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for impairment loss (see note 10).

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

**40.6 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.

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**40. FINANCIAL INSTRUMENTS (CONTINUED)**

**40.6 Liquidity risk management (continued)**

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

	<i>Carrying amount</i>	<i>1 year or less</i>	<i>Above 1 – 5 years</i>	<i>Above 5 years</i>
<b><u>31 December 2018</u></b>				
Trade and other payables (note 30)	<b>4,082,329</b>	<b>4,082,329</b>	-	-
Borrowings (note 23)	<b>4,286,012</b>	<b>320,533</b>	<b>1,965,479</b>	<b>2,000,000</b>
Dividends payable	<b>81,927</b>	<b>81,927</b>	-	-
Other financial liabilities	<b>1,528,923</b>	-	<b>1,528,923</b>	-
Derivative liabilities	<b>6,140</b>	<b>1,876</b>	<b>4,264</b>	-
	<b>9,985,331</b>	<b>4,486,665</b>	<b>3,498,666</b>	<b>2,000,000</b>
<b><u>31 December 2017</u></b>				
Trade and other payables (note 30)	2,548,536	2,548,536	-	-
Borrowings (note 23)	4,653,743	647,763	2,249,509	1,756,471
Dividends payable	48,570	48,570	-	-
Other financial liabilities	56,604	-	56,604	-
Derivative liabilities	9,221	6,265	2,956	-
	7,316,674	3,251,134	2,309,069	1,756,471
<b><u>1 January 2017</u></b>				
Trade and other payables (note 30)	2,411,659	2,411,659	-	-
Borrowings (note 23)	5,884,451	1,867,220	1,804,523	2,212,708
Dividends payable	37,662	37,662	-	-
Other financial liabilities	198,985	-	198,985	-
Derivative liabilities	16,454	12,924	3,530	-
	8,549,211	4,329,465	2,007,038	2,212,708

The Group has unused financing facilities amounting to SR 1,072 million. In addition, The Group has secured a 75% LTV (loan to value) readily available borrowing facility against its diversified investment portfolio (see Note 15-1).

The Group expects to meet its obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

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**40. FINANCIAL INSTRUMENTS (CONTINUED)**

**40.6.1 Fair value measurement of financial assets and liabilities (continued)**

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

	<i>Gross amounts</i>	<i>Amounts set off</i>	<i>Net amounts</i>
<b>31 December 2018</b>			
<b><u>Financial assets</u></b>			
Trade and other receivables	<b>16,981,559</b>	<b>(2,559,381)</b>	<b>14,422,178</b>
<b><u>Financial liabilities</u></b>			
Trade payables	<b>19,230,339</b>	<b>(2,559,381)</b>	<b>16,670,958</b>
<b>31 December 2017 (Restated-note 3)</b>			
<b><u>Financial assets</u></b>			
Trade and other receivables	22,097,651	(1,729,120)	20,368,531
<b><u>Financial liabilities</u></b>			
Trade payables	14,885,047	(1,729,120)	13,155,927
<b>1 January 2017 (Restated-note 3)</b>			
<b><u>Financial assets</u></b>			
Trade and other receivables	15,916,179	(1,580,668)	14,335,511
<b><u>Financial liabilities</u></b>			
Trade payables	15,489,056	(1,580,668)	13,908,388

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.

**40.6.2 Changes in liabilities arising from financial activities**

Changes in liabilities arising from financial activities are as follows:

	<b>1 January 2018</b>	<b>Cash flows</b>	<b>Others</b>	<b>31 December 2018</b>
Borrowings – current portion	<b>647,763</b>	<b>(460,840)</b>	<b>133,610</b>	<b>320,533</b>
Borrowings – non-current portion	<b>4,005,980</b>	<b>-</b>	<b>(40,501)</b>	<b>3,965,479</b>
Total	<b>4,653,743</b>	<b>(460,840)</b>	<b>93,109</b>	<b>4,286,012</b>
<hr/>				
	<b>1 January 2017</b>	<b>Cash flows</b>	<b>Others</b>	<b>31 December 2017</b>
Borrowings – current portion	1,867,220	(1,852,033)	632,576	647,763
Borrowings – non-current portion	4,017,231	328,467	(339,718)	4,005,980
Total	5,884,451	(1,523,566)	292,858	4,653,743

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**41. OPERATING LEASE ARRANGEMENTS**

*41.1.1 Leasing arrangements*

Operating leases mainly relate to leases of land with lease terms of between 5 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Group does not have an option to purchase the leased land at the expiry of the lease term.

*41.1.2 Payments recognised as an expense for the year ended 31 December:*

	<u>2018</u>	<u>2017</u>
Minimum lease payments	<u><b>460,313</b></u>	<u>455,876</u>

*41.1.3 Non-cancellable operating lease*

	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>1 January 2017</u>
Less than a year	<b>750,565</b>	574,398	523,303
1 to 5 years	<b>1,388,672</b>	1,146,870	1,087,329
Later than 5 years	<b>362,585</b>	309,493	381,254
	<u><b>2,501,822</b></u>	<u>2,030,761</u>	<u>1,991,886</u>

**42. CAPITAL COMMITMENTS**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

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**43. CONTINGENT LIABILITIES**

- (a) The Group has outstanding letters of guarantee amounting to SR 6,597 million as at 31 December 2018 (31 December 2017: SR 3,712 million).
- (b) The Group has outstanding letters of credit as at December 31 2018 amounting to SR 655 million (31 December 2017: SR 420 million).
- (c) On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounted to SR 742 million related to construction of a fibre optic network. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (d) The Group, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have any material impact on the Company's financial position or on the results of its operations as reflected in these consolidated financial statements.
- (e) The Company has submitted an objection to the appeal committee with respect to GAZT withholding tax assessment on international operators' networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 2.9 billion. The management believes that this service should not be subject to withholding tax as the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income is outside Saudi Arabia. Based on the opinions of tax specialists, the nature of the services and existing similar cases where the decision was in the favour of the companies in the telecom sector, the Company's management believes that this assessment will not result into any additional provisions.
- (f) The agreement signed with government agencies during the fourth quarter of 2018 (see Note 42) includes detailed mechanisms relating to the performance indicators that the Company is required to achieve within three years starting from the current year. The Company has re-evaluated the related provisions in line with the expectations of the target performance indicators which shall be reviewed periodically.

**44. SUBSEQUENT EVENTS**

- In its meeting held on 4 Jumada Al-Awal 1440H (corresponding to 10 January 2019), the Board of Directors approved to acquire an additional (39%) stake in Virgin Mobile Saudi Arabia for SR 151 million. The legal procedures and regulatory approvals concerning the transaction are expected to be completed during 2019 after which the Company's shareholding in Virgin Mobile Saudi Arabia will increase to (49%).
- During February 2019, the Group has subscribed for government sukuk issuances amounting to SR 1.772 million.

**Saudi Telecom Company**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
**(All Amounts in Saudi Riyals thousands unless otherwise stated)**

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**45. DIVIDENDS**

**Dividends declared and paid**

During the year of 2018, the company distributed cash dividends to its shareholders for the fourth quarter of 2017 and for the first, second and third quarters of 2018 with an amount of SR 2,000 million for each quarter representing SR 1 per share which is in line with the company's previous dividends policy for the three-year period starting from the fourth quarter of 2015, approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015) and approved by the General Assembly on 4 April 2016. The total dividends distributed during 2018 was SR 4 per share (2017: SR 4 per share).

**Dividends proposed**

On 9 Rabi Thani 1440 H (corresponding to December 16, 2018) the Board of Directors have approved the Company's dividend policy for the next three years starting from the fourth quarter of 2018, which will be presented at the next General Assembly meeting for approval. The objective of the dividend policy is to maintain a minimum level of dividend of SR 1 per share on quarterly basis. The Company will consider and pay additional dividend subject to the Board approval after assessment and determination of the Company's financial situation, outlook and capital expenditure requirements. Additional dividends are likely to vary on quarterly basis depending on the company's performance. The dividends policy will remain subject to:

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

In line with the above policy, the Company's Board of Directors recommended to distribute cash dividends to the shareholders of the Company for the fourth quarter of 2018, amounting to SR 2,000 million, at a rate of SR 1 per share. Furthermore, after evaluating the financial position, future expectations and capital requirements of the Company, the Board of Directors has recommended to distribute an amount of SR 4,000 million for each share as an additional one-time special dividends for the year 2018.

**46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

At its meeting held on 13 Rajab 1440 H (corresponding to 20 March 2019), the Board of Directors approved the consolidated financial statements for the year 2018.



**Saudi Telecom Company**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**



Saudi Telecom Company  
(A Saudi Joint Stock Company)  
Consolidated financial statements  
For the year ended 31 December 2017

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### **Independent auditor's report**

To the shareholders of Saudi Telecom Company  
(A Saudi joint stock company)

#### **Opinion**

We have audited the accompanying consolidated financial statements of Saudi Telecom Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise of the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss, comprehensive income, cash flows and 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 2017, 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 issued by the Saudi Organization for Certified Public Accountants.

#### **Basis for opinion**

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

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming an auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter listed 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 listed below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p><b>Revenue recognition</b></p> <p>The Group's revenue consist primarily of subscription fees in telecommunication and data packages and use of the network totalling SR 47 billion for the year ended 31 December 2017.</p> <p>We have considered this as a key audit matter as the application of accounting standards for revenue recognition in the telecommunications sector includes a number of key judgments and estimates. There are inherent risks about the accuracy of revenues recorded due to the complexity associated with the network environment and significant dependency on IT applications, as well as the impact of changing pricing techniques and hierarchy on the revenue recognition process.</p> <p>Further, there are risks associated with registration and subscription of telecommunication services and the difficulty of verifying the existence of such operations, in addition to the materiality of the amount and volume of transactions involved.</p> <p><i>Please refer to the significant accounting policies in note 3.3 for revenue recognition policy, and note 33 for more detail of revenue.</i></p>	<p>Our audit procedures performed on the revenue recognition process included, among others, the following:</p> <ul style="list-style-type: none"> <li>• We involved our IT specialists to assist in testing the design, implementation and effectiveness of internal controls systems related to revenue recognition, particularly those related to subscription fees for telecom and data packages, network usage, and billing to customers.</li> <li>• On sample basis, we reviewed revenue reconciliation prepared by management between the primary billing systems and the general ledger.</li> <li>• We performed analytical procedures by comparing expectations of revenue and analysed the variances from the actual revenues on a monthly basis. We assessed these variances through discussion with relevant business unit managers.</li> <li>• On sample basis, we analysed prepaid revenue and deferred revenue based on expectations developed from internal and external data. Further, we have reviewed related revenue recognition criteria applicable to the Group.</li> <li>• We assessed the adequacy of the Group's disclosures regarding accounting policies for revenue recognition.</li> </ul>



**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<b>Accounting for zakat and withholding tax claims from the General Authority of Zakat and Tax (GAZT)</b>	
<p>The Group received claims from the GAZT as at 31 December 2017 relating to Zakat and withholding tax as follows:</p> <p><b>Zakat:</b> The Group received the zakat assessments from its inception until 2011, which resulted in additional exposure. The Group has challenged the claims and submitted its appeal is underway before the relevant committee.</p> <p><b>Withholding tax:</b> The Group received withholding tax assessment from the GAZT for the service of the rental of networks of international operators 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 appealed against such assessment, which still underway before the relevant committee.</p> <p>We consider this as a key audit matter as accounting for zakat and withholding tax involve significant management estimates and the materiality of the additional amounts claimed.</p> <p><i>Refer to the significant accounting policies related to zakat and withholding taxes in note 3.9 and notes 29, and 44-C which disclose the Group's zakat and withholding tax.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Obtained and reviewed correspondences between the Group, the GAZT and the Group's independent external zakat and withholding tax consultants to determine the amount of the additional assessments made by the GAZT.</li> <li>• Held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat and withholding tax matters and the results of their interactions with the relevant appellate committees.</li> <li>• Used our specialist to assess the appropriateness of the exposures disclosed for both zakat and withholding tax for the years assessed by the GAZT and the appropriateness of management's judgement in light of the facts and circumstances of the Group.</li> <li>• Obtained and reviewed related decisions from the Appellate Committee on zakat assessment.</li> <li>• We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.</li> </ul>

**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)

(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p><b>Accounts Receivable</b></p> <p>As at 31 December 2017, the Group's trade receivables amounted to SR 22.7 billion against which a specific and collective allowance for doubtful debts of SR 2.7 billion was maintained.</p> <p>We have considered this as a key audit matter as the Group performs complex and subjective judgments and makes assumptions to determine the allowance and the timing of recognition of such allowance.</p> <p>In particular, the determination of the allowance of doubtful debts includes:</p> <ul style="list-style-type: none"> <li>• The identification of doubtful events and judgments used to calculate allowance against specific receivables; and</li> <li>• The use of assumptions underlying the calculation of collective allowance for portfolio of receivables and the use of methods to make those calculations.</li> </ul> <p><i>Refer to the significant accounting policies in note 3-17-6, and note 10 for the related movement of allowance balance of the group.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• We assessed the design and implementation, and tested the operating effectiveness of the key controls over the following: <ul style="list-style-type: none"> <li>- Identification of impaired receivables; and</li> <li>- Management processes for establishing and monitoring both specific and collective allowance.</li> </ul> </li> <li>• We tested sample of receivables in order to assess whether doubtful event had occurred and to assess whether an allowance for doubtful debts had been identified and recorded in a timely manner.</li> </ul> <p>Where an allowance was individually assessed, we tested, on sample basis, the calculation of such allowance performed by the management. Obtained an understanding of the latest developments with respect to the customer and the basis of measuring the allowance and considered whether key judgments were appropriate given the customer circumstances.</p> <p>For collective doubtful debts allowance used by the Group, on sample basis, we:</p> <ul style="list-style-type: none"> <li>• Tested the completeness and accuracy of the underlying information used in the allowance model by agreeing the inputs to the Group's source documents.</li> <li>• Tested the historical data used in the models from underlying systems and records.</li> <li>• Evaluated the assumptions used by management, which includes collection rates, recovery rates and bad debts ratios.</li> <li>• Tested mathematical accuracy of the allowance for doubtful debts model.</li> </ul>



**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)

(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p><b>Capitalization and asset lives</b></p> <p>The Group has a substantial capital expenditure plan and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure assets and assets in relation to network and related equipment.</p> <p>Costs related to upgrading or enhancing networks are treated as capital expenditures. Expenses spent to maintain the network's operating capacity are recognized as expenses on the same year in which they are incurred. Capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore the distribution of costs between capital and operation depends heavily on management estimates.</p> <p>Further, there are a number of areas where management, judgment impacts the carrying value and depreciation of property and equipment, which include:</p> <ul style="list-style-type: none"> <li>• Decision to capitalize or expense costs;</li> <li>• Review of the annual lives of property, plant, and equipment including the impact of changes in the Group's strategy; and</li> <li>• The timing of assets transfer when they are ready for their intended use.</li> </ul> <p>We have considered this as a key audit matter since it highly depends on management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies for property, plant and equipment in notes 3.10, and note 7 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• We tested the effectiveness of the key controls in place over the capitalization of property and equipment and evaluated the Group's capitalisation policies.</li> </ul> <p>In addition to the above, we also performed the following procedures on cost capitalized:</p> <ul style="list-style-type: none"> <li>• Evaluated the Group's capitalisation policy for compliance with relevant accounting standards;</li> <li>• Tested the internal control system for the implementation of the expenditure policy during the year, including access to minutes of meetings where the capital expenditure plan was approved, and the compliance of actual expenditure with it.</li> <li>• On a sample basis, we performed review of capitalisation of projects expenses against the Group's capitalisation policy, with emphasis on those where the actual costs differed significantly from the expenditure plan.</li> </ul>

**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)

(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<b>Provisions and contingencies related to government fees</b>	
<p>There is a dispute between the Group and the Communications and Information Technology Commission (CITC) regarding the basis of government fees calculation, which has resulted in additional claim from CITC as at 31 December 2017.</p> <p>Management believes, based on independent legal opinions and similar judgments in the Saudi telecom market, that those additional claims are not eligible for payment.</p> <p>We considered this as a key audit matter due to management's judgment and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies in note 3.14 relating to provision, and notes 24 and 44.b which disclose the group's related provisions.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Tested the effectiveness of the Group's internal control for recording and estimating the government fees. We evaluated the Group's correspondence with CITC and reviewed the completeness of all related claims.</li> <li>• We reviewed the external legal advice received by the management, and discussed the matter with the Group's legal and regulatory officers.</li> <li>• We tested the Group's calculation by comparing the inputs used in the calculation against the balances in the trial balance and evaluated the assumptions used in the calculation.</li> <li>• We evaluated and reviewed similar cases and compared related assumptions and results with that of the Group.</li> <li>• We assessed the adequacy of the disclosures in the Group's consolidated financial statements.</li> </ul>

**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<b>Assets Valuation – Property and equipment, and intangible assets</b>	
<p>As at 31 December 2017, the Group's consolidated financial position included property and equipment amounting to SR 39.9 billion and intangible assets amounting to SR 7.8 billion.</p> <p>The assessment of the recoverable value of these assets, or the relevant cash-generating unit ('CGU'), <b>involves significant judgment in respect of factors such as</b> technological change, challenging economic conditions and changing regulatory environment and restrictions, operating/capital costs and other economic assumptions of the Group and the investee companies.</p> <p>We have considered this as a key audit matter as it highly depends on management's assumptions and estimates as well as the materiality of the amounts involved.</p> <p><i>Refer to the significant accounting policies in note 3.12, and note 4.1.2 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> <li>• Tested the design and implementation of the internal controls procedures to assess the Group's determination of impairment of assets, if any.</li> <li>• Evaluated management's assumptions and estimates used to determine the recoverable value of the assets through the involvement of our independent valuation specialists in comparing these assumptions against external benchmarks (for example, market tariffs and discount rates) and based on our knowledge of the Group and its industry.</li> <li>• Reviewed the management's method in the identification of individual CGUs.</li> <li>• Validated the mathematical accuracy of cash flow models and agreeing relevant data to the latest approved balance.</li> <li>• Performed sensitivity analysis on assets with a higher risk of impairment.</li> <li>• Assessed the adequacy of the Group's disclosures regarding the carrying value and evaluating the impairment.</li> </ul>



**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

Key audit matter	How our audit addressed the key audit matter
<p><b>First time IFRS adoption</b></p> <p>As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and that are endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA").</p> <p>For all years up to and including the year ended 31 December 2016, the Group had prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA ("SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first consolidated financial statements prepared in accordance with IFRS, as endorsed in KSA and other standards and pronouncements that are issued by SOCPA.</p> <p>Accordingly, the Group has for the first time applied IFRS, as endorsed in KSA, for the preparation of its consolidated financial statements for the year beginning 1 January 2017. In compliance with the requirements of IFRS 1, as endorsed in KSA, the Group's consolidated statement of financial position as at 1 January 2016 was prepared after incorporating the required adjustments to reflect the transition to IFRS as endorsed in KSA. The Group has assessed the impact of the transition from SOCPA GAAP to IFRS, as endorsed in KSA and significant adjustments have been made in the consolidated financial statements of the Group as at 1 January 2016 and 31 December 2016.</p> <p>We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from a recognition measurement and disclosure perspective.</p> <p><i>Refer to note 47 to the consolidated financial statements for the details of transition and the reconciliation adjustments between SOCPA GAAP and IFRS, as endorsed in KSA.</i></p>	<p>We performed the following procedures in respect of the transition to IFRS as endorsed in KSA:</p> <ul style="list-style-type: none"> <li>• Assessed the appropriateness of the implementation of IFRS, as endorsed in KSA, in accordance with the provisions of IFRS 1 as endorsed in KSA.</li> <li>• Assessed the appropriateness of the accounting policies adopted.</li> <li>• Evaluated the position papers on technical matters, detailed implementation plans (DIPs) and GAAP differences identified by the Group's management.</li> <li>• Tested a sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA.</li> <li>• Assessed the appropriateness of disclosures made for the impact of the transition from SOCPA GAAP to IFRS, as endorsed in KSA.</li> <li>• Assessed the appropriateness of exceptions to retrospective application of certain IFRSs, as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs, as endorsed in KSA, in preparing the consolidated financial statements.</li> </ul>

### **Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

### **Other information included in the Group's 2017 annual report**

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### **Responsibilities of management and those charged with Governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and the Company's By-laws, and for such internal controls 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.



### **Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

#### **Auditor's responsibilities for the audit of the 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.
- Obtain an understanding of internal controls 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 controls.
- 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 controls 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, related safeguards.

**Independent auditor's report**

To the shareholders of Saudi Telecom Company (continued)  
(A Saudi joint stock company)

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



Rashid S. AlRashoud  
Certified Public Accountant  
License No. 366



Riyadh: 4 Rajab 1439  
(21 March 2018)

Saudi Telecom Company  
(A Saudi Joint Stock Company)

Consolidated statement of financial position as at 31 December 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	31 December 2017	31 December 2016	1 January 2016
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	7	39,940,616	39,418,554	37,960,520
Intangible assets and goodwill	8	7,773,839	7,840,443	7,555,857
Investments in associates and joint ventures	19	6,927,303	6,301,641	6,253,461
Other non-current assets	12	8,657,822	7,652,195	7,733,876
<b>TOTAL NON-CURRENT ASSETS</b>		<b>63,299,580</b>	<b>61,212,833</b>	<b>59,503,714</b>
<b>CURRENT ASSETS</b>				
Inventories	9	460,431	466,766	923,214
Trade and other receivables	10	25,549,424	19,768,149	12,740,745
Short term murabahas	13	14,465,364	15,004,490	16,803,421
Other current assets	14	1,770,961	1,693,448	2,324,482
Cash and cash equivalents	17	2,567,044	3,631,202	4,487,827
<b>TOTAL CURRENT ASSETS</b>		<b>44,813,224</b>	<b>40,564,055</b>	<b>37,279,689</b>
<b>TOTAL ASSETS</b>		<b>108,112,804</b>	<b>101,776,888</b>	<b>96,783,403</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Issued capital	20	20,000,000	20,000,000	20,000,000
Statutory reserves	21	10,000,000	10,000,000	10,000,000
Other reserves	22	(1,769,028)	(1,935,833)	(709,624)
Retained earnings		34,010,412	31,877,188	30,978,331
<b>Equity attributable to owners of the Parent Company</b>		<b>62,241,384</b>	<b>59,941,355</b>	<b>60,268,707</b>
Non-controlling interests		1,003,289	1,336,976	1,420,842
<b>TOTAL EQUITY</b>		<b>63,244,673</b>	<b>61,278,331</b>	<b>61,689,549</b>
<b>LIABILITIES</b>				
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings	23	4,005,980	4,017,231	5,744,076
Provisions	24	1,202,448	1,158,654	1,050,030
Provision for end of service benefits	26	3,922,769	3,775,668	3,678,290
Deferred revenues	25	1,763,440	1,445,777	1,590,681
Other non-current liabilities	27	145,543	292,530	418,041
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,040,180</b>	<b>10,689,860</b>	<b>12,481,118</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	28	13,827,806	13,885,561	13,200,276
Short-term borrowings	23	647,763	1,867,220	1,905,482
Provisions	24	7,633,984	5,682,808	1,551,492
Tax and zakat liabilities	29	1,623,423	1,460,129	1,679,138
Deferred revenues	25	2,872,083	2,816,841	1,926,777
Other current liabilities	30	7,222,892	4,096,138	2,349,571
<b>TOTAL CURRENT LIABILITIES</b>		<b>33,827,951</b>	<b>29,808,697</b>	<b>22,612,736</b>
<b>TOTAL LIABILITIES</b>		<b>44,868,131</b>	<b>40,498,557</b>	<b>35,093,854</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>108,112,804</b>	<b>101,776,888</b>	<b>96,783,403</b>

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

These financials were originally prepared in Arabic and the Arabic version should prevail.

Saudi Telecom Company  
(A Saudi Joint Stock Company)

Consolidated statement of profit or loss for the year ended 31 December 2017

(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<b><u>2017</u></b>	<b><u>2016</u></b>
Revenues	33	<b>50,746,675</b>	52,673,659
Cost of revenues	34	<b>(21,255,477)</b>	(23,985,878)
<b>GROSS PROFIT</b>		<b><u>29,491,198</u></b>	<u>28,687,781</u>
<b>OPERATING EXPENSES</b>			
Selling and marketing	35	<b>(5,726,280)</b>	(6,327,144)
General and administration	36	<b>(4,471,573)</b>	(4,331,428)
Depreciation and amortisation	7,8	<b>(8,208,360)</b>	(8,078,118)
<b>TOTAL OPERATING EXPENSES</b>		<b><u>(18,406,213)</u></b>	<u>(18,736,690)</u>
<b>OPERATING PROFIT</b>		<b>11,084,985</b>	9,951,091
<b>OTHER INCOME AND EXPENSES</b>			
Cost of early retirement		<b>(600,000)</b>	(401,703)
Finance income	37	<b>584,681</b>	722,732
Finance cost	38	<b>(354,199)</b>	(379,062)
Other income/ (expenses), net		<b>85,075</b>	(62,565)
Share of profit from investments in associates and joint ventures, net		<b>308,384</b>	116,246
Other losses, net	39	<b>(18,091)</b>	(70,110)
<b>TOTAL OTHER INCOME AND EXPENSES</b>		<b><u>5,850</u></b>	<u>(74,462)</u>
<b>NET PROFIT BEFORE ZAKAT, TAX AND NON-CONTROLLING INTEREST</b>		<b>11,090,835</b>	9,876,629
Zakat and income tax	29	<b>(720,700)</b>	(750,797)
<b>NET PROFIT</b>		<b><u>10,370,135</u></b>	<u>9,125,832</u>
<i>Net profit attributable to:</i>			
Equity holders of the parent		<b>10,133,224</b>	8,898,857
Non-controlling interests		<b>236,911</b>	226,975
		<b><u>10,370,135</u></b>	<u>9,125,832</u>
Basic and diluted earnings per share (in Saudi Riyals)	40	<b><u>5.07</u></b>	<u>4.45</u>

The accompanying notes from 1 to 48 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 2017  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Note</i>	<u><b>2017</b></u>	<u><b>2016</b></u>
<b>NET PROFIT</b>		<u><b>10,370,135</b></u>	<u>9,125,832</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Re-measurement of end of service benefits provision	26	<b>(117,361)</b>	(64,011)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation differences		<b>(15,367)</b>	(46,315)
Fair value changes on available-for-sale financial assets, net		<b>90,557</b>	196,241
Fair value changes from cash flow hedges, net		<b>(2,595)</b>	(8,678)
<i>Total items that may be reclassified subsequently to profit or loss</i>		<u><b>72,595</b></u>	<u>141,248</u>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>		<u><b>(44,766)</b></u>	<u>77,237</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u><b>10,325,369</b></u>	<u>9,203,069</u>
<i>Total comprehensive income attributable to:</i>			
Equity holders of the parent		<b>10,082,689</b>	8,980,444
Non-controlling interests		<b>242,680</b>	222,625
		<u><b>10,325,369</b></u>	<u>9,203,069</u>

The accompanying notes from 1 to 48 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 2017  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit before zakat, tax and non-controlling interests		<b>11,090,835</b>	9,876,629
<i>Adjustments for:</i>			
Depreciation and amortisation	7,8	<b>8,208,360</b>	8,078,118
Doubtful debts allowance	10	<b>870,614</b>	775,050
Finance income	37	<b>(584,681)</b>	(722,732)
Finance costs	38	<b>354,199</b>	379,062
Provision for employee end of service benefits and other provisions		<b>2,808,241</b>	4,954,866
Share of gain from investments in associates and joint ventures, net		<b>(308,384)</b>	(116,246)
Other losses, net	39	<b>18,091</b>	70,110
		<b>22,457,275</b>	23,294,857
<i>Movements in working capital:</i>			
Trade and other receivables		<b>(6,772,947)</b>	(7,460,010)
Inventories		<b>6,334</b>	456,449
Other assets		<b>(573,167)</b>	853,544
Trade and other payables		<b>(263,130)</b>	709,707
Deferred revenues		<b>411,999</b>	745,160
Other liabilities		<b>2,582,832</b>	908,210
<b>Cash generated from operations</b>		<b>17,849,196</b>	19,507,917
Less: Income taxes and zakat paid	29	<b>(649,427)</b>	(680,701)
Less: Employee end of service benefits paid	26	<b>(499,614)</b>	(452,120)
<b>Net cash from operating activities</b>		<b>16,700,155</b>	18,375,096
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		<b>(6,576,858)</b>	(7,607,416)
Additions to intangible assets		<b>(2,143,417)</b>	(2,414,905)
Proceeds from sale of property, plant and equipment		<b>13,375</b>	36,136
Purchase of interest in an associate		<b>(375,095)</b>	-
Dividends received from associates		<b>41,077</b>	26,062
Proceeds from finance income		<b>752,261</b>	555,023
Proceeds and payments related to financial assets, net		<b>498,916</b>	1,677,396
<b>Net cash used in investing activities</b>		<b>(7,789,741)</b>	(7,727,704)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		<b>(8,019,234)</b>	(8,031,468)
Acquisition of non-controlling interests in a subsidiary	16-2	<b>(437,382)</b>	(1,619,339)
Repayment of borrowings		<b>(3,298,573)</b>	(1,711,564)
Proceeds from borrowings		<b>1,924,461</b>	-
Finance costs paid		<b>(149,454)</b>	(148,195)
<b>Net cash used in financing activities</b>		<b>(9,980,182)</b>	(11,510,566)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,069,768)</b>	(863,174)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>3,631,202</b>	4,487,827
Net foreign exchange difference		<b>5,610</b>	6,549
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	17	<b>2,567,044</b>	3,631,202

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

These financials were originally prepared in Arabic and the Arabic version should prevail.



Saudi Telecom Company  
(A Saudi Joint Stock Company)

Consolidated statement of changes in equity for the year ended 31 December 2017  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Attributable to equity holders of the Parent Company				Total equity holders	Non-controlling interests (note 16.2)	Total equity
		Issued capital (note 20)	Statutory reserves (note 21)	Other reserves (note 22)	Retained earnings			
<i>As at 1 January 2017</i>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,935,833)</b>	<b>31,877,188</b>	<b>59,941,355</b>	<b>1,336,976</b>	<b>61,278,331</b>
Net profit		-	-	-	<b>10,133,224</b>	<b>10,133,224</b>	<b>236,911</b>	<b>10,370,135</b>
Other comprehensive income		-	-	<b>(50,535)</b>	-	<b>(50,535)</b>	<b>5,769</b>	<b>(44,766)</b>
Total comprehensive income		-	-	<b>(50,535)</b>	<b>10,133,224</b>	<b>10,082,689</b>	<b>242,680</b>	<b>10,325,369</b>
Dividends paid to shareholders	46	-	-	-	<b>(8,000,000)</b>	<b>(8,000,000)</b>	-	<b>(8,000,000)</b>
Acquisition of non-controlling interest	2-16	-	-	<b>67,474</b>	-	<b>67,474</b>	<b>(546,772)</b>	<b>(479,298)</b>
Dividends paid to non-controlling interests		-	-	-	-	-	<b>(29,595)</b>	<b>(29,595)</b>
Other reserves	22	-	-	<b>149,866</b>	-	<b>149,866</b>	-	<b>149,866</b>
<i>As at 31 December 2017</i>		<b>20,000,000</b>	<b>10,000,000</b>	<b>(1,769,028)</b>	<b>34,010,412</b>	<b>62,241,384</b>	<b>1,003,289</b>	<b>63,244,673</b>
<i>As at 1 January 2016</i>		20,000,000	10,000,000	(709,624)	30,978,331	60,268,707	1,420,842	61,689,549
Net profit		-	-	-	8,898,857	8,898,857	226,975	9,125,832
Other comprehensive income		-	-	81,587	-	81,587	(4,350)	77,237
Total comprehensive income		-	-	81,587	8,898,857	8,980,444	222,625	9,203,069
Dividends paid to shareholders	46	-	-	-	(8,000,000)	(8,000,000)	-	(8,000,000)
Acquisition of non-controlling interest		-	-	(1,312,848)	-	(1,312,848)	(306,491)	(1,619,339)
Other reserves	22	-	-	5,052	-	5,052	-	5,052
<i>As at 31 December 2016</i>		20,000,000	10,000,000	(1,935,833)	31,877,188	59,941,355	1,336,976	61,278,331

The accompanying notes from 1 to 48 form an integral part of these consolidated financial statements

These financials were originally prepared in Arabic and the Arabic version should prevail.

## 1. GENERAL INFORMATION

### A) ESTABLISHMENT OF THE COMPANY

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

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

### B) GROUP ACTIVITIES

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

- a) Establish, manage, operate and maintain fixed and mobile telecommunication networks, systems and infrastructure.
- b) Deliver, provide, maintain and manage diverse telecommunication and information technology (IT) services to customers.
- c) Prepare the required plans and necessary studies to develop, implement and provide the telecom and IT services covering all technical, financial and administrative aspects. In addition, prepare and implement training plans in the field of telecommunications and IT, and provide consultancy services.
- d) 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.
- e) Provide integrated communication and information technology solutions for instance (telecom, IT services, managed services, and cloud services, etc.).
- f) Provide information-based systems and technologies to customers including preparing, printing and distributing phone and commercial directories, information bulletins, and provide the telecommunication means for the transfer of internet services.
- g) Wholesale and retail trade, import, export, purchase, own, lease, manufacture, promote, sell, develop, design, setup and maintain of devices, equipment, and components of different telecom networks including fixed, moving and private networks. Also, computer programs and the other intellectual properties, in addition to providing services and executing contracting works that are related to different telecom networks.
- h) Real estate investment and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.
- i) Acquire loans and own fixed and movable assets for intended use.
- j) Provide financial and managerial support and other services to subsidiaries.
- k) Provide development, training, assets management and other related services.
- l) Provide solutions for decision support, business intelligence and data investment.
- m) Provide supply chain and other related services.

## 1. GENERAL INFORMATION (CONTINUED)

### B) GROUP ACTIVITIES (CONTINUED)

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

The consolidated financial statements for the year ended 31 December 2017 are the first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 (*First-time Adoption of International Financial Reporting Standards*) endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by SOCPA. For all periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by SOCPA. Note (47) provides an explanation for the transition impact to IFRS.

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

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.

### 2.2 Basis of consolidation

The consolidated financial statements of the Group comprises the financial information of the Company and its subsidiaries (refer to note 16). Control is achieved when the Group has:

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

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

- Arrangement(s) with other voting rights holders in the investee company.
- Rights arising from other contractual arrangements.
- Group 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 three elements of control.

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 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 owners 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.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***2.2 Basis of consolidation (Continued)***

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, unrealised gains, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group shares in subsidiaries that do not lessen the control over subsidiaries are treated as equity transactions. The carrying amounts of the Group shares and non-controlling interests are adjusted to reflect changes in the relative shares of subsidiaries. Any difference between non-controlling interest amount and the fair value of the consideration paid or received will be directly recognized in equity rights.

When the Group loses control over a subsidiary, any gain or loss is recognized in the consolidated statement of profit or loss and is calculated as the difference between (1) the total fair value of the consideration received added to the fair value of any held interest; and (2) the total of carrying amount for those assets (including Goodwill), and the liabilities of the subsidiary and any non-controlling interests. All previously recognized amounts are recognized in other comprehensive income relating to that subsidiary as if the Group had disposed of the assets and liabilities of the subsidiary directly (reclassified to profit or loss or transferred to another category of equity as defined / permitted in the IFRS). The fair value of any investment held in the former subsidiary at the date of losing the control is considered to be the fair value at initial recognition of subsequent accounting under (IAS 39), if any, and is considered the initial recognition cost of the investment in an associate or a joint venture company.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***3.1 Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. That is when the control is being transferred to the Group, the considered amount then is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in 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 by the acquirer.

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

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value 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 Group previously held interest in the acquiree (if any), The Group then assesses whether all assets acquired, liabilities assumed and the procedures used are properly recognized at the date of acquisition. If the revaluation result continues to show an increase in the net assets acquired over the total transferred consideration, the excess shall be recognised immediately in profit or loss as resulted from the bargain purchase.

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 that are expected to benefit from the consolidation regardless of whether the other assets or liabilities acquired have been allocated to those units.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***3.1 Business combinations (continued)***

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

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

The share value to be paid is measured at its fair value at the date of acquisition and is classified either as equity or as a financial liability. The amounts classified as a financial liability are subsequently re-measured at fair value with changes in fair value recognized in the consolidated statement of profit or loss. The other amounts which classified as an equity are not to be re-measured but accounted for under equity.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to 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 reviews 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. If it is determined that this will affect the measurement of amounts recognized as of that date, the Group recognizes additional assets or liabilities accordingly. The measurement period ends once the group obtains those information or as soon as it becomes sure of the lack of access to more information.

#### ***3.2 Investments in associates and joint ventures***

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

A joint venture is a joint arrangement whereby the Group have a control of the arrangement and also have 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 parties sharing control. The considerations made in determining significant influence or joint control are retaining - directly or indirectly - a percentage of the right to vote for the investee company, 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 Group and its investee; interchange of managerial personnel; or provision of essential technical information.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2 *Investments in associates and joint ventures (continued)*

Investments in associates or joint ventures are accounted for in the Group's consolidated statements using the equity method. The Group initially recognises investment in associates or joint ventures at cost and adjusted thereafter to recognise the Group's share of the profit and loss and other comprehensive income of the associate or joint venture less any impairment in the value of net investments. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture). The Group discontinues recognising its share of further losses. Additional losses are recognised as a liability only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the year in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture (refer to note 3-17-6).

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 profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Revenue represents the fair value of the consideration received or receivable for telecommunication services and equipment sales, net of discounts. Revenue from rendering services and device sales is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue and associated costs can be measured reliably.

Revenue from services provided to customers managed on behalf of content providers is accounted for net of the content providers' fees when the provider is responsible for the content and setting the prices payable by customers.

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

Arrangements involving multiple deliverables are separated into individual elements and revenue is recognised on the basis of the fair value (standalone selling prices) of the individual elements by allocating the total arrangement consideration among the individual elements based on their relative standalone selling prices. Elements are considered separable if the individual element has value to the customer on a standalone basis.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.3 Revenue recognition**

Revenue and related expenses associated with the sale of handsets is recognised when the handsets are delivered and accepted by the customers. Revenues from post-paid plans are recognised as the entitlement to the fees accrues with unbilled revenue resulting from services already provided accrued at the end of each reporting period. Revenue from pre-paid plans and use of services above the entitlements for post-paid plans are recognised based upon usage. Revenue from the sale of prepaid top up cards is deferred until such time the customer uses the credit, or the credit period expires whichever is earlier.

Revenues from linking voice services, roaming and data with local and international telecom operators is recognized at the time rendering services on the basis of actual registration and in accordance with the agreed tariff.

Revenue from interconnect fees is recognised at the time the service is performed. Connection fees are deferred and recognised over the period in which services are expected to be provided to the customer.

When an arrangement contains a lease, the lease is accounted for in accordance with the policy described in note 3.5 below.

Recognition of revenue from long-term service contracts is according to the policy described in note 3.4 below.

#### **3.3.1 Dividend and finance income**

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life or shorter period, where appropriate, of the financial asset to that asset's net carrying amount on initial recognition.

#### **3.3.2 Customer loyalty scheme**

The Group has a customer loyalty program that offers various rewards to retain customers that grants participating customers with credit point balances at the time of post-paid invoice collection or prepaid recharge. The credit point balances are then exchanged for various rewards. The allocated amount of the credit point balances is estimated using the fair value of the right to exchange them on receiving a discount for the Group's products or for products and services provided by third parties. The fair value is estimated using the historical weighted average value of the points redeemed. The allocated amount is deferred and recognized as revenues when the credit points are redeemed or expired.

#### **3.4 Long-term service contracts**

When the outcome of a long-term service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the financial year, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, Claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a long-term service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.5 Leasing**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership. If the contract does not transfer it substantially, the contract is classified as an operating lease.

Group as a lessee:

Finance leases are recognized at the commencement of the lease as assets and liabilities in the statement of financial position at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and then lease payments are apportioned between finance charges and a reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the consolidated statement of profit or loss.

At the beginning of the contract or when reviewed, the Group separates payments and other amounts required under the contract into lease payments and payments to other items based on the relative fair value.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The benefits received and accrued are also allocated as an incentive to enter into an operating lease on a straight-line basis over the lease term. The total benefit from the incentive is recognized as a reduction of the lease expense on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Group as a lessor:

Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. The benefits granted as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term. The aggregate benefit from the incentive is recognized as a reduction of rental income on a straight-line basis unless another basis better represents the period during which the economic benefits of the leased asset are exhausted.

Amounts due from finance leases are recognized as receivables in an amount equal to the Group's net investment in the lease. The rental payment receivable is treated as a payment of the original amount as financing income to compensate the Group for its investment and services. The incremental costs which are directly associated with the lease negotiation process are included in the amounts due and the amount of financing income recognized over the period of the contract is reduced.

In case the Group considers the lease as a manufacturer or a seller at the beginning of the contract, sales proceeds are recognized at the fair value of the asset or the present value of the outstanding lease payments and the cost of the sales is recognized and the gain or loss resulting from the sale is recognized directly. Additional costs directly associated with the negotiation of the lease contract incurred by the Group as a manufacturer or seller are recognized as an expense at the beginning of the lease term.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.6 Foreign currencies**

The information and disclosures of foreign currencies are presented in Saudi Riyals (the functional currency for Saudi Telecom, the mother company). For each subsidiary, the Group determines the functional currency, which is the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each entity are measured using that functional currency.

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

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except in limited circumstances.

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

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 arrangement 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 owners of the Company are reclassified to profit or loss.

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

#### **3.7 Government grants**

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### **3.8 Employee benefits**

##### **3.8.1 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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.8 *Employee benefits (continued)*

Provision for employees' end of service benefits is calculated annually by an actuarial expert in accordance with the projected unit cost method taking into consideration the labour law of the respective country in which the subsidiary operates. The provision is recognised based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference Saudi Arabia interest rate swap curve or another basis, if applicable.

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

The cost of past services (if any) is recognized in the statement of income before:

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

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

- Costs of services that include the costs of current services, past service costs, profits and losses resulting from labour downsizing and non-routine payments.
- Net financing cost/income.

#### 3.8.2 *Short-term employee benefits*

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

### 3.9 *Zakat and Taxation*

#### 3.9.1 *Zakat*

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

#### 3.9.2 *Current and deferred taxes*

Tax relating to investee companies outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in those countries.

Deferred income tax provision for foreign entities is calculated using the liability method for the temporary differences at the end of the financial year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities and 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.9 Zakat and Taxation (continued)**

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

The current income tax is recognized in the consolidated statement profit or loss.

#### **3.10 Property, plant and equipment**

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

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

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

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

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

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss within other operating income or expenses. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

#### **3.11 Intangible assets other than goodwill**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

The useful lives of intangible assets are assessed as either specific or indefinite. Intangible assets with finite lives are amortized over their economic useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

##### **3.11.1 Software**

Computer software licenses are capitalised based on the cost incurred to acquire and bring into use the specific software. 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.

##### **3.11.2 Licence and spectrum fees**

Amortisation periods for licence and 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 from the commencement of related network services.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***3.11 Intangible assets other than goodwill (continued)***

Licences with indefinite useful lives are not amortised 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.

##### ***3.11.3 Subscriber acquisition cost***

The cost arising from the acquisition of a service subscriber is capitalized and amortized on a straight-line basis over the estimated useful lives of the estimated customer relationship from the date of commencement of service.

##### ***3.11.4 Indefeasible Rights of Use (“IRU”)***

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

##### ***3.11.5 De-recognition of intangible assets***

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

#### ***3.12 Impairment of tangible and intangible assets other than goodwill***

At the end of each reporting period, 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 or the present value of the expected future cash flows from the use of the asset, whichever is higher. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

#### ***3.13 Inventories***

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.14 Provisions**

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

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

#### **3.15 Assets' Decommissioning Liabilities**

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

The Group calculates the provision of future costs relating to the removal and decommissioning of network and other assets. Upon initial recognition of the obligation, the present value of the expected costs (using the cash flow discount rate) is added to the value of the network in question and other assets.

Changes in the timing and cost of removing and decommissioning assets are accounted prospectively by adjusting the carrying amount of network and other assets.

#### **3.16 Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statement of profit or loss.

#### **3.17 Financial assets**

Financial assets are classified into the following specified categories: (i) financial assets 'at fair value through profit or loss' ("FVTPL"), (ii) 'held-to-maturity' investments, (iii) 'available-for-sale' ("AFS") financial assets and, (iv) 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are recognized initially on the date on which they arise. But other financial assets are recognized initially in the trading date as the Group becomes a party to the contractual terms of the instrument.

##### **3.17.1 Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.17 *Financial assets (continued)*

##### 3.17.2 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, or (ii) it is designated as at FVTPL upon initial recognition.

Financial assets at FVTPL are stated at fair value, any gain or loss arising from the re-measurement of changes in fair value is recognized in the consolidated statement of profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or finance income earned on the financial asset and is included in the 'Other gains and losses' line item.

##### 3.17.3 Held-to-maturity investments

It's a non-derivative financial assets with fixed or determinable payments that have fixed maturities. Held to maturity assets are classified at initial recognition if the Group has the intention and ability to hold them to maturity. These assets are initially recognized at fair value plus any directly attributable transaction costs. After initial recognition, held to maturity assets are measured at amortized cost using the effective interest method less any impairment in value.

Finance income is recognised by applying the effective interest rate, except for short-term loans and receivables when the effect of discounting is immaterial.

##### 3.17.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment in value.

##### 3.17.5 Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity assets or (c) financial assets at fair value through profit or loss.

AFS financial assets are stated at fair value at the end of each reporting period. Fair value is determined in the manner described in note 41. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), finance income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Changes other than due to foreign currency, finance income and dividends in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated as part of other reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

##### 3.17.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.17 *Financial assets (continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

##### 3.17.7 Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers all the risks and rewards of ownership of the asset to another party or transferred control of such assets to a third party.

#### 3.18 *Financial liabilities and equity instruments*

##### 3.18.1 Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### 3.18.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

##### 3.18.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

###### 3.18.3.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when it is (i) held for trading, or (ii) it is designated as at FVTPL.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any finance cost paid on the financial liability and is included in the 'other gains and losses' line item.

#### *3.18.3.2 Other financial liabilities*

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

#### *3.18.3.3 Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### *3.18.3.4 Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **3.19 Derivative financial instruments**

The Group uses derivatives to hedge its profit rate risks. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

### **3.20 Hedge accounting**

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.



### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.20 Hedge accounting (continued)**

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

#### **3.21 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.

#### **3.22 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 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 purposes is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity 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 directly or indirectly.

#### **3.23 Discontinued operations**

It's a component of the Group's business whose operations and cash flows can be clearly distinguished from the rest of the Group:

- A separate main business line or geographical area for separate operations.
- Part of a single coordinated plan to exclude a separate main work line or geographic area of operations, or,
- A subsidiary acquired exclusively for the purpose of resale.

When an operation is classified as discontinued, the comparative figures for the consolidated statement of profit or loss or other comprehensive income are presented as if the transaction had been discontinued since the beginning of the year of the comparison.

#### **3.24 Segmental information**

The specific operational 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)

#### **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and the accompanying disclosures that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

##### ***4.1 Significant estimates when applying accounting policies***

The significant estimates, except those involving uncertain estimates (see Note 4-2 below), which the management has adopted in applying the Group's accounting policies and which have the most significant effect on the amounts recognized in the consolidated financial statements are as follow:

###### ***4.1.1 Revenue recognition***

###### ***Principal versus agent presentation***

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

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

###### ***4.1.2 Impairment of non-financial assets***

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years including an estimate of the exit or terminal value anticipated at the end of the projection period 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.

##### ***4.2 Key sources of uncertainty estimates***

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

###### ***4.2.1 Arrangements with multiple deliverables***

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. The fair values determined for deliverables may impact the timing of the recognition of revenue. 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.

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### 4.2 Key sources of uncertainty estimates (continued)

##### 4.2.2 Customer activation service fees

Customer activation service fees are deferred and recognised over the estimated average customer retention period. 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.

##### 4.2.3 Financial instruments designated at FVTPL

The Group has established a diversified investment portfolio which has been designated at FVTPL. In estimating the fair value of the investments, the Group uses market-observable data to the extent available.

##### 4.2.4 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 24).

##### 4.2.5 Useful lives for property, plant and equipment, software and other intangible assets

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

##### 4.2.6 Allowance for doubtful debts

The Group maintains an allowance for doubtful receivables. When evaluating the adequacy of the allowance, the Group bases its estimate on the Group's past experience of collecting payments, an increase in the number of delayed payments in the receivables past the average credit period. If the financial condition of customers were to deteriorate actual write offs might be higher than expected.

##### 4.2.7 Discount rate used to determine the carrying amount of the Group's defined benefit obligation

The Group's end of service benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on Saudi Arabia profit rate swap curve for a similar maturity, as there is no deep bonds market with similar long term maturities.

#### 5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

##### *International Financial Reporting Standards (IFRSs) and its interpretations and amendments which are in force as of 1 January 2017*

The consolidated financial statements were prepared in accordance International Financial Reporting Standards (IFRSs) and its interpretations and amendments which are in force as of 1 January 2017.

##### *New and revised IFRSs in issue but not yet effective*

The Group has not applied any of the new and revised IFRSs that have been issued but are not yet effective.

The Group plans to adopt these standards when they become effective. Below are the key standards which are reasonably expected to have an impact on the Group:

IFRS 9	<i>Financial Instruments<sup>1</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
IFRS 16	<i>Leases<sup>2</sup></i>

<sup>1</sup>Effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.

## **5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)**

### ***IFRS 9 Financial Instruments***

IFRS 9 (and the amended versions in 2010, 2013 and 2014), which supersedes IAS 39, addresses the requirements for classifying, measuring and derecognising financial assets and liabilities and introduces new rules on hedge accounting and impairment requirements for financial assets. The Group is in the final stage of evaluating and reviewing the impact of application of this standard on the consolidated financial statements.

### ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 "Revenue from Contracts with Customers" issued in May 2014 sets out principles to provide users of financial statements with useful information on the nature, value, timing and uncertainties relating to the income and cash flows arising from the entity's contracts with customers. IFRS 15 replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and related interpretations IFRIC 13, 15 and 18 and SIC No. 31.

The basic principle of IFRS 15 is that an entity must recognize revenue to reflect the transfer of goods or services provided to customers in an amount that reflects the consideration for which the entity expects to have a right in return for such goods or services.

The standard is based on a five-step revenue recognition approach and also provides specific principles for application when modifying a contract, accounting for contract costs and accounting for recoveries and guarantees. Disclosures are likely to increase when the Standard is applied. The Standard includes principles for disclosing the nature, value, timing and uncertainties of revenue and cash flows arising from contracts with customers by providing qualitative and quantitative information. The Group is in the final stage of evaluating and reviewing the impact of application of this standard on the consolidated financial statements.

### ***IFRS 16 Leases***

IFRS 16 defines the recognition, measurement, presentation and disclosure of leases. It introduces a single accounting model for the lessee where it requires the lessee to recognize the assets (right to use underlying leased assets) and liabilities (obligation to make lease payments) for all leases with a term of more than 12 months, unless the underlying is of low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is currently assessing the impact of this standard on the consolidated financial statements of the Group.

## **6. SEGMENT INFORMATION**

The Group is engaged mainly in providing telecommunication services and related products. Majority of the Group's revenues, profits and assets relate to its operations in the Kingdom (STC KSA and STC Channels). Outside of the Kingdom, the Group operates through its subsidiaries and associates in several countries.

Revenue is attributed to an operating segment based on the legal 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".

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**6. SEGMENT INFORMATION (CONTINUED)**

The following is an analysis of revenues and group results by reportable segment for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
<b><u>Revenues (a)</u></b>		
Saudi Telecom Company	41,456,673	46,198,023
STC Channels (formerly: Sale Advanced Co.)	3,055,095	3,028,657
Other operating segments (a)	8,418,027	8,206,062
Eliminations/adjustments	<u>(2,183,120)</u>	<u>(4,759,083)</u>
<b>Total revenue</b>	<b>50,746,675</b>	52,673,659
Cost of operations (excluding depreciation and amortisation)	<b>(31,453,330)</b>	(34,644,450)
Depreciation and amortisation	<b>(8,208,360)</b>	(8,078,118)
Cost of early retirement	<b>(600,000)</b>	(401,703)
Finance income	<b>584,681</b>	722,732
Finance cost	<b>(354,199)</b>	(379,062)
Other income/(expenses), net	<b>85,075</b>	(62,565)
Share of profit from investments in associates & joint ventures, net	<b>308,384</b>	116,246
Other losses, net	<b>(18,091)</b>	(70,110)
Zakat and income tax	<b>(720,700)</b>	(750,797)
<b>Net profit</b>	<b><u>10,370,135</u></b>	<b><u>9,125,832</u></b>

(1) Segment revenue reported above represents revenue generated from external and internal customers. There were SR 2,183 million for the year ended 31 December 2017 (31 December 2016: SR 4,759 million) inter-segment sales and adjustments in the current period eliminated at consolidation.

(2) Others include: Viva Kuwait, Viva Bahrain, Intigral, STC Specialized and STC Solutions, Sapphire and Aqalat.

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

	<u>2017</u>	<u>2016</u>
Saudi Telecom Company	24,615,686	23,669,197
STC Channels	698,456	946,131
Other operating segments	4,410,749	4,150,826
Eliminations/adjustments	<u>(233,693)</u>	<u>(78,373)</u>
<b>Gross profit</b>	<b><u>29,491,198</u></b>	<b><u>28,687,781</u></b>

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**6. SEGMENT INFORMATION (CONTINUED)**

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.

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

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>1 January</u> <u>2016</u>
<b><u>Assets</u></b>			
Saudi Telecom Company	115,459,581	108,468,698	102,021,056
STC Channels	2,595,865	2,192,516	2,273,889
Other operating segments	17,968,014	16,666,130	16,143,335
Eliminations/adjustments	(27,910,656)	(25,550,456)	(23,654,877)
<b>Total Assets</b>	<b>108,112,804</b>	<b>101,776,888</b>	<b>96,783,403</b>
<b><u>Liabilities</u></b>			
Saudi Telecom Company	41,288,221	35,885,233	30,085,267
STC Channels	1,544,043	926,047	1,022,660
Other operating segments	8,869,091	8,893,552	8,876,595
Eliminations/adjustments	(6,833,224)	(5,206,275)	(4,890,668)
<b>Total Liabilities</b>	<b>44,868,131</b>	<b>40,498,557</b>	<b>35,093,854</b>

Following are the additions to non-current assets on a segment basis for the year ended 31 December:

***Other segment information***

	<u>2017</u>	<u>2016</u>
<b><i>Additions to non-current assets</i></b>		
Saudi Telecom Company	7,487,442	8,385,931
STC Channels	59,715	48,793
Other operating segments	1,628,442	1,563,834
	<b>9,175,599</b>	<b>9,998,558</b>

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**6. SEGMENT INFORMATION (CONTINUED)**

The following is an analysis of the Group's revenue from operations from its major products and services for the year ended 31 December:

	<i>STC KSA</i>	<i>STC Channels</i>	<i>Other Op. Segments</i>	<i>Eliminations/ Adjustments</i>	<i>Total</i>
<b>2017</b>					
Mobile	25,495,506	-	3,047,830	(972,852)	27,570,484
Data	5,749,007	-	4,007,263	(1,210,268)	8,546,002
Landline	5,947,882	-	-	-	5,947,882
Managed services and others	4,264,280	3,055,095	1,362,932	-	8,682,307
	<u>41,456,675</u>	<u>3,055,095</u>	<u>8,418,025</u>	<u>(2,183,120)</u>	<u>50,746,675</u>
<b>2016</b>					
Mobile	28,784,490	-	3,244,500	(3,597,429)	28,431,561
Data	5,184,039	-	3,711,328	(1,161,654)	7,733,713
Landline	6,326,890	-	-	-	6,326,890
Managed services and others	5,902,604	3,028,657	1,250,234	-	10,181,495
	<u>46,198,023</u>	<u>3,028,657</u>	<u>8,206,062</u>	<u>(4,759,083)</u>	<u>52,673,659</u>

**Information about major customers**

Included in revenues arising from sales are revenues of approximately SR 5,355 million for the year ended 31 December 2017 (31 December 2016: SR 5,877 million) that arose from sales to the Government and Government entities (see note 18-2). No other single customers contributed 10% or more to the Group's revenue.

**Information on a geographical basis**

Geographical segmentation of revenues and non-current assets are as follows:

	<i>Revenues for the year ended</i>		<i>Non-current assets as at</i>		
	<i>31 December 2017</i>	<i>31 December 2016</i>	<i>31 December 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Kingdom of Saudi Arabia	46,209,736	47,906,060	59,343,883	57,327,621	55,508,963
Others	4,536,939	4,767,599	3,955,697	3,885,212	3,994,751
	<u>50,746,675</u>	<u>52,673,659</u>	<u>63,299,580</u>	<u>61,212,833</u>	<u>59,503,714</u>

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**7. PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
<b>Cost</b>					
As at 1 January 2017	14,540,020	72,976,726	7,454,850	3,365,652	98,337,248
Additions	4,486	57,223	49,248	6,853,665	6,964,622
Disposals / transfers	137,094	4,560,753	368,818	(6,553,729)	(1,487,064)
Effect of foreign currency exchange differences	229	32,509	573	1,515	34,826
Balance as at 31 December 2017	<u>14,681,829</u>	<u>77,627,211</u>	<u>7,873,489</u>	<u>3,667,103</u>	<u>103,849,632</u>
<b>Accumulated Depreciation</b>					
Balance at 1 January 2017	8,112,372	45,856,742	4,949,580	-	58,918,694
Depreciation	354,885	5,152,426	376,586	-	5,883,897
Disposals / transfers	(86,079)	(735,316)	(113,282)	-	(934,677)
Effect of foreign currency exchange differences	299	41,638	(835)	-	41,102
Balance as at 31 December 2017	<u>8,381,477</u>	<u>50,315,490</u>	<u>5,212,049</u>	<u>-</u>	<u>63,909,016</u>
<b>Net book value as at 31 December 2017</b>	<u><u>6,300,352</u></u>	<u><u>27,311,721</u></u>	<u><u>2,661,440</u></u>	<u><u>3,667,103</u></u>	<u><u>39,940,616</u></u>

These financials were originally prepared in Arabic and the Arabic version should prevail.



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**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<i>Cost</i>	<i>Land and buildings</i>	<i>Telecommunication network and equipment</i>	<i>Other assets</i>	<i>Capital work in progress</i>	<i>Total</i>
As at 1 January 2016	14,167,478	67,102,556	6,785,853	3,493,149	91,549,036
Additions	99,968	22,866	55,221	7,405,598	7,583,653
Disposals / transfers	272,499	5,868,699	614,802	(7,530,385)	(774,385)
Effect of foreign currency exchange differences	75	(17,395)	(1,026)	(2,710)	(21,056)
Balance as at 31 December 2016	14,540,020	72,976,726	7,454,850	3,365,652	98,337,248
<i>Accumulated Depreciation</i>					
Balance at 1 January 2016	7,710,678	41,217,253	4,660,585	-	53,588,516
Depreciation	450,116	5,115,492	385,661	-	5,951,269
Disposals / transfers	(48,498)	(466,402)	(96,383)	-	(611,283)
Effect of foreign currency exchange differences	76	(9,601)	(283)	-	(9,808)
Balance as at 31 December 2016	8,112,372	45,856,742	4,949,580	-	58,918,694
<i>Net book value as at 31 December 2016</i>	6,427,648	27,119,984	2,505,270	3,365,652	39,418,554
<i>Net book value as at 1 January 2016</i>	6,456,800	25,885,303	2,125,268	3,493,149	37,960,520

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

Buildings	20 - 50 years
Telecommunication network and equipment	3 - 25 years
Other assets	2 - 20 years

These financials were originally prepared in Arabic and the Arabic version should prevail.

## 7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- Land and buildings include land of SR 2,177 million as at 31 December 2017 (31 December 2016: SR 2,173 million and 1 January 2016: SR 2,091 million).
- Pursuant to Royal Decree No. M/35 Dated 24 Dhu al-Hijjah 1418 (corresponding to April 21, 1998), referred to in Note 1-A, the ownership of the Contracting Assets was transferred on 2 May 1998, but the transfer of legal title for some lands are still ongoing. Legally transferred properties up to 31 December 2017 are amounted to SR 1,879 million (2016: SR 1,879 million), Ownership transfer of the remaining properties is ongoing with total value of SR 144 million (2016: SR 144 million).
- During the year, the Group disposed of assets with a net book value of SR 262 million (31 December 2016: SR 163 million) resulting in a loss on sale of property, plant and equipment amounting to SR 249 million for the year ended 31 December 2017 (31 December 2016: SR 127 million) (see note 39).
- Depreciation expense during the year ended 31 December 2017 amounted to SR 5,884 million (31 December 2016: SR 5,951 million).

Following is the allocation of depreciation expense based on operations costs items for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Cost of revenues	4,888,994	5,120,496
Selling and marketing expenses	35,250	41,110
General and administrative expenses	959,653	789,663
	<u>5,883,897</u>	<u>5,951,269</u>

### 7.1 Assets pledged as security

Property, plant and equipment include land and buildings owned by a subsidiary that are pledged against the subsidiary's murabaha borrowings amounting to SR 108 million as at 31 December 2017 (31 December 2016: SR 93 million and 1 January 2016: SR 96 million).

### 7.2 Capital work in progress

Capital work in progress includes fiber optics network expansion projects for one of the major customers amounting to SR 537 million as at 31 December 2017 (31 December 2016: SR 537 million and 1 January 2016: SR 537 million) (see note 44)

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**8. INTANGIBLE ASSETS AND GOODWILL**

	<i>Computer software</i>	<i>Subscriber acquisition costs</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
<b>Cost</b>					
As at 1 January 2017	8,112,281	2,761,415	4,969,812	2,057,579	17,901,087
Additions	1,252,929	876,555	-	81,493	2,210,977
Disposals	(4,370)	(20,550)	-	(176,250)	(201,170)
Effect of foreign currency exchange differences/others	131,959	(121,418)	1,391	(26,564)	(14,632)
Balance at 31 December 2017	9,492,799	3,496,002	4,971,203	1,936,258	19,896,262
<b>Accumulated amortisation and impairment</b>					
As at 1 January 2017	5,333,222	2,180,120	1,697,346	849,956	10,060,644
Amortisation for the year	1,101,994	806,267	201,289	214,913	2,324,463
Disposals	(4,370)	(20,550)	-	(176,250)	(201,170)
Effect of foreign currency exchange differences/others	29,680	(69,099)	397	(22,492)	(61,514)
Balance at 31 December 2017	6,460,526	2,896,738	1,899,032	866,127	12,122,423
<b>Net book value at 31 December 2017</b>	<b>3,032,273</b>	<b>599,264</b>	<b>3,072,171</b>	<b>1,070,131</b>	<b>7,773,839</b>

These financials were originally prepared in Arabic and the Arabic version should prevail.

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**8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)**

	<i>Computer software</i>	<i>Subscriber acquisition costs</i>	<i>Telecommunication Licenses</i>	<i>Others (1)</i>	<i>Total</i>
<b>Cost</b>					
As at 1 January 2016	6,614,563	2,088,123	4,969,342	1,882,404	15,554,432
Additions	1,377,718	741,722	-	295,465	2,414,905
Transfers	120,000	-	-	(120,000)	-
Effect of foreign currency exchange differences/others	-	(68,430)	470	(290)	(68,250)
Balance at 31 December 2016	8,112,281	2,761,415	4,969,812	2,057,579	17,901,087
<b>Accumulated amortisation and impairment</b>					
As at 1 January 2016	4,470,093	1,464,363	1,495,952	568,167	7,998,575
Amortisation for the year	863,129	780,371	201,278	282,071	2,126,849
Effect of foreign currency exchange differences/others	-	(64,614)	116	(282)	(64,780)
Balance at 31 December 2016	5,333,222	2,180,120	1,697,346	849,956	10,060,644
<i>Net book value at 31 December 2016</i>	<u>2,779,059</u>	<u>581,295</u>	<u>3,272,466</u>	<u>1,207,623</u>	<u>7,840,443</u>
<i>Net book value at 1 January 2016</i>	<u>2,144,470</u>	<u>623,760</u>	<u>3,473,390</u>	<u>1,314,237</u>	<u>7,555,857</u>

(1) Others relate to contractual-based intangible assets, for example under-sea cable network, franchise agreements and goodwill of SR 75.6 million as of 31 December 2017 (31 December 2016: 75.6 million and 1 January 2016: SR 75.6 million).

Intangible assets are amortized using the following estimated useful lives:

Computer software	5 years
Subscriber acquisition costs	1 – 1.5 years
Telecommunication licenses	20 – 30 years
Others	3-5 years

These financials were originally prepared in Arabic and the Arabic version should prevail.

## 8. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The net book value and expiry dates of the most significant mobile operating licences are as follows at:

<i>Country</i>	<i>End of amortisation period</i>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Kuwait	October 2033	<b>2,063,841</b>	2,194,189	2,324,537
Bahrain	February 2038	<b>691,127</b>	723,386	747,964
Saudi Arabia	May 2026	<b>317,203</b>	354,891	400,889
		<u><b>3,072,171</b></u>	<u>3,272,466</u>	<u>3,473,390</u>

The below table shows the allocation of amortisation expense based operations costs for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Cost of revenues	<b>1,325,570</b>	1,202,806
Selling and marketing expenses	<b>120,940</b>	84,881
General and administrative expenses	<b>877,953</b>	839,162
	<u><b>2,324,463</b></u>	<u>2,126,849</u>

## 9. INVENTORIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Goods held for resale	<b>883,743</b>	793,460	1,173,030
Less: Allowance for write-down	<b>(423,312)</b>	(326,694)	(249,816)
	<u><b>460,431</b></u>	<u>466,766</u>	<u>923,214</u>

The movement analysis for allowance for write down is as follows for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	<b>326,694</b>	249,816
Reversal of write downs	<b>(27,869)</b>	(53,627)
Provision for the year	<b>124,487</b>	130,505
Balance at end of the year	<u><b>423,312</b></u>	<u>326,694</u>

## 10. TRADE AND OTHER RECEIVABLES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Trade receivables	<b>22,694,726</b>	16,761,826	10,462,145
Less: Allowance for doubtful debts	<b>(2,743,457)</b>	(3,006,368)	(2,732,088)
	<u><b>19,951,269</b></u>	<u>13,755,458</u>	<u>7,730,057</u>
<i>Other receivables:</i>			
- Unbilled revenue	<b>4,625,696</b>	5,325,082	4,523,180
- Non trade receivables	<b>972,459</b>	687,609	487,508
	<u><b>25,549,424</b></u>	<u>19,768,149</u>	<u>12,740,745</u>

## 10. TRADE AND OTHER RECEIVABLES (CONTINUED)

### 10.1 Trade receivables

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The requirement for impairment in relation to key customers and related parties are analysed on an individual basis. Retail customers and other minor receivables are assessed for impairment on a collective basis.

The Group has recognised an allowance for doubtful debts of 100% against all trade receivables that are aged over 360 days, except related parties based on historical experience for the Group.

Since its inception, the Company has recognized the revenue of services rendered to certain customers upon collection when the Company has a high degree of uncertainty about the possibility of collection. The company is currently seeking to collect these revenues. The uncollected billed revenues for this category for 2017 amounted to SR 73 million (SR 2016: 84 million) with an annual average of SR 149 million for the 18 years prior to 2017.

Trade receivables disclosed include amounts that are past due at the end of the reporting period for which the Group has not recognised an allowance for impairment because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing analysis of trade receivables follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Not past due	<b>2,514,031</b>	3,299,506	1,366,222
Past due:			
1 – 30 days	<b>1,776,110</b>	998,945	835,241
31 – 90 days	<b>1,454,555</b>	1,216,777	710,286
91 – 150 days	<b>1,334,052</b>	1,463,568	1,088,204
151 – 270 days	<b>2,244,392</b>	2,372,517	2,227,128
271 – 365 days	<b>1,300,299</b>	1,574,748	1,119,435
> 365	<b>12,071,287</b>	5,835,765	3,115,629
Total	<b>22,694,726</b>	16,761,826	10,462,145

Movements of doubtful debt allowance for the year ended 31 December are as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	<b>3,006,368</b>	2,732,088
Charged during the year (note 35)	<b>870,614</b>	775,050
Amounts written off during the year	<b>(1,133,525)</b>	(500,770)
Balance at end of the year	<b>2,743,457</b>	3,006,368

### 10.2 Government and government related entities

Trade receivables balance from government and government related entities amounted to SR 18,822 million as at 31 December 2017 (31 December 2016: SR 12,534 million and 1 January 2016: SR 6,546 million) (note 18-2).

No other customers represent more than 10% of the total balance of trade receivables.

## 10. TRADE AND OTHER RECEIVABLES (CONTINUED)

### 10.2 Government and government related entities (continued)

Aging for receivables from government entities and related parties are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Less than a year	7,149,960	6,724,186	3,861,571
More than one year to two years	6,725,278	4,108,432	2,684,397
More than two years	4,946,675	1,701,086	-
	<u>18,821,913</u>	<u>12,533,704</u>	<u>6,545,968</u>

## 11. OTHER ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Advances	1,266,482	495,202	1,080,052
Prepaid expenses	287,614	499,766	351,778
Deferred expenses	251,029	451,152	596,797
Others	189,421	5,154	3,573
	<u>1,994,546</u>	<u>1,451,274</u>	<u>2,032,200</u>
Current (note 14)	1,131,975	1,200,636	1,618,053
Non-current (note 12)	862,571	250,638	414,147
	<u>1,994,546</u>	<u>1,451,274</u>	<u>2,032,200</u>

## 12. OTHER NON-CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial assets (note 15)	7,795,251	7,401,557	7,319,729
Other assets (note 11)	862,571	250,638	414,147
	<u>8,657,822</u>	<u>7,652,195</u>	<u>7,733,876</u>

## 13. SHORT TERM MURABAHAS

The Group invests part of its excess cash in Murabahas that have maturity of 91 days or more with several local banks, with an annual profit rate ranging from (2% to 6%).

## 14. OTHER CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial assets (note 15)	638,986	492,812	706,429
Other Assets (note 11)	1,131,975	1,200,636	1,618,053
	<u>1,770,961</u>	<u>1,693,448</u>	<u>2,324,482</u>

## 15. OTHER FINANCIAL ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Financial assets carried at fair value through profit or loss ("FVTPL") (i)</i>	<b>4,148,368</b>	3,986,104	3,987,662
<i>Loans and receivables carried at amortised cost</i>			
Sukuk (iv)	<b>1,559,371</b>	1,422,602	1,407,623
Murabahas (ii)	<b>1,083,392</b>	1,163,996	1,254,626
Loans to employees (iii)	<b>597,772</b>	625,390	651,674
Others loans and receivables (v)(vi)	<b>509,700</b>	281,272	552,685
	<b>3,750,235</b>	3,493,260	3,866,608
<i>Available for sale investments (vii)</i>	<b>535,634</b>	415,005	171,888
	<b>8,434,237</b>	7,894,369	8,026,158
Current (note 14)	<b>638,986</b>	492,812	706,429
Non-current (note 12)	<b>7,795,251</b>	7,401,557	7,319,729
	<b>8,434,237</b>	7,894,369	8,026,158

- (i) During 2014, The Company established a diversified investment portfolio with high credit rated local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full principal protection. The portfolio has been structured by a mix of murabaha's (fixed profit payable at maturity), Sukuk's (paying fixed coupons) and derivative financial instruments. The portfolio provides a minimum guaranteed return and additional upside return based on performance of the derivative financial instruments.
- (ii) During 2014, The Company has invested SR 1 billion in long term Murabahas with a local bank for a five-year term with an annual profit margin of 3%. The investment is not a past due nor impaired and its carrying value as at 31 December 2017 was SR 1,083 million (31 December 2016: 1,156 million 1 January 2016: SR 1,087 million).
- (iii) The Company has provided its employees interest-free loans to acquire residential housing and motor vehicles for a period of 25 years and 4 years, respectively. The repayment is made in equal instalments over the term of the loan duration while the employee remains in service, otherwise, they are required to be repaid in full upon the employee leaving the Company. Any new loans provided to an employee after June 2016 are being funded through a local commercial bank and are secured by a guarantee issued by the Company. The Company bears loans' finance costs in full.
- (iv) On 31 December 2007, STC Asia Holdings Limited (as subsidiary company) has invested Malaysian Ringgit ("MR") 1,508 million in Sukuk for 50 years (callable after 10 years) with an annual profit margin of 10.75% until 28 December 2017 then 9.25% for subsequent periods. The Sukuk investment was financed by a long term Murabaha financing with a variable commission for ten years denominated in MR, for an equivalent amount. The Murabaha financing was due on 28/12/2017 and was fully paid. On the same date, STC Asia Holding Limited acquired a variable commission Murabaha financing from several banks on a five year repayment period. These instruments are not past due or impaired and their carrying amount is SR 1,559 million as at 31 December 2017 (31 December 2016: SR 1,423 million and 1 January 2016: SR 1,408 million).



## 15. OTHER FINANCIAL ASSETS (CONTINUED)

- (v) A subsidiary of STC Channels (formerly: Sale Advanced Co.) has placed a bank deposit amounting to SR 2 million as at 31 December 2017 (31 December 2016: SR 2 million and 1 January 2016: 7.6 million) with a local commercial bank in Oman.
- (vi) A Group's subsidiary, Telecom Commercial Investment Company, has suppliers' retentions amounting to SR 80 million as at 31 December 2017 (31 December 2016: SR 80 million and 1 January 2016: SR 80 million).
- (vii) The available for sale investment primarily represents the Company's investment in units of 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 Saudi and other global markets. Investment units owned by the Company were valued at SR 501 million as at 31 December 2017 (31 December 2016: SR 409.4 million and 1 January 2016: SR 166.3 million). Available for sale investments also include the Company's investment in Saudi Media Measurement Company, which started its operations in early 2014 and engaged in the business of providing Television Audience Measurement (TAM) in Saudi Arabia. The Company owns 10.42% of its SR 54 million share capital which is equivalent to approximately SR 5.6 million as at 31 December 2017 (31 December 2016: SR 5.6 million and 1 January 2016: SR 5.6 million).

During 2017, the Company established a venture capital investment fund for the purpose of investing in the digital and technology sectors with a total value of USD 500 million (equivalent to SR 1,875 million) to be injected in the future in five equal instalments of USD 100 million (equivalent to SR 375 million). USD 8 million (equivalent to SR 30 million) has been paid to cover the initial and establishment expenses of the fund (note 45).

## 16. SUBSIDIARIES

The Group's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Country of incorporation	Effective shareholding percentage		
		31 December 2017	31 December 2016	1 January 2016
Arabian Internet and Communications Services Company Limited ("STC Solutions")	a Saudi Arabia	100%	100%	100%
Telecom Commercial Investment Company Limited ("TCIC")	b Saudi Arabia	100%	100%	100%
VIVA Bahrain ("Viva Bahrain")	c Bahrain	100%	100%	100%
Aqalat Company Limited ("Aqalat")	d Saudi Arabia	100%	100%	100%
STC Specialized (formerly: Public Telecommunication Company - BRAVO)	e Saudi Arabia	100%	100%	100%
Sapphire Company Limited ("Sapphire")	f Saudi Arabia	100%	100%	100%
STC Turkey Holdings Limited ("STC Turkey")	g British Virgin Islands	100%	100%	100%
STC Asia Holdings Limited ("STC Asia")	h British Virgin Islands	100%	100%	100%
STC Gulf Investment Holding S.P.C. ("STC Gulf")	i Bahrain	100%	100%	100%
STC Channels (formerly: Sale Advanced Company - SaleCo)	j Saudi Arabia	100%	60%	60%
Kuwait Telecom Company ("Viva Kuwait")	k Kuwait	51.8%	51.8%	26%

## 16. SUBSIDIARIES (CONTINUED)

- a. STC Advanced Solutions (“STCS”) was established in the Kingdom in April 2002 and is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Group acquired 100% of share capital of the Company. During the fourth quarter of 2017, STCS established a local subsidiary “Saudi Digital Payments Company Limited” to mainly provide and operate e-commerce and e-trading services.
- b. TCIC was established in the Kingdom in October 2007 and was established for the purpose of operation and maintenance of telecommunication networks, computer systems’ networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs.
- c. Viva Bahrain was established in the Kingdom of Bahrain in February 2009 and operates in the field of 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, Viva Bahrain has fully acquired “MENA Telecom Company Limited” in the Kingdom of Bahrain (as a subsidiary). The main activity of the new subsidiary is to provide Internet services.
- d. Aqalat was established in the Kingdom of Saudi Arabia in March 2013 to operate in the fields 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. Aqalat has not yet commenced commercial operations.
- e. STC Specialized (formerly: Public Telecommunications Company “BRAVO”) was established in February 2002 in the Kingdom. The Company acquired 100% of Bravo’s SR 200 million share capital in January 2014. Bravo 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.
- f. Sapphire was established in the Kingdom of Saudi Arabia in June 2014 and operates in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, advance payment devices, points-of-sale devices, Telecom operator services, establish telecom sales and service centres. In November 2017, the Board of Directors of the Company decided to close down Sapphire and merge its business with the Company as of 1 January 2018 which resulted in writing off all its remaining intangible assets -amounting to SR 78 million. The legal proceedings are expected to be completed in 2018.
- g. STC Turkey is a special purpose company incorporated under the BVI Business Companies Act of the British Virgin Islands (“BVI”). The principal activity of STC Turkey is to provide services and support required in respect of investments activities on behalf of the Company.  
  
In April 2008, STC Turkey acquired 35% of Oger Telecom Limited (“OTL”) share capital for USD 3.6 billion, equivalent to approximately SR 13.5 billion, at the exchange rate as at that date.  
During 2016, the share of losses in OTL exceeded the Group’s interest in OTL and the Group discontinued recognising its share of further losses (see note 19-1). OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with the financial covenants agreed with lenders. This has casted doubt over OTL ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group’s strategy.

## 16. SUBSIDIARIES (CONTINUED)

- h. STC Asia is a limited liability company was established under the Commercial Companies Law in the British Virgin Islands on 24 July 2007 and is a special purpose company that invests in companies operating primarily in the Malaysia. It holds an investment in STC Malaysia Holdings Limited (“STC Malaysia”), (a wholly owned subsidiary), which was incorporated under the Commercial Companies Law in the British Virgin Islands. STC Malaysia Holdings Limited in turn holds the Group’s 25% stake in Binariang GSM Holdings (“BGSM”). The principal activity of both STC Asia and STC Malaysia is to provide services and support required in respect of investment activities of the Company.
- i. STC Gulf was incorporated in the Kingdom of Bahrain on 12 March 2008. The primary objective is to provide services and support required in respect of investment activities on behalf of the Company. STC Gulf has the following wholly-owned subsidiaries in the Kingdom of Bahrain:
- 1- STC Gulf Investment Holding 1 S.P.C.
  - 2- STC Gulf Investment Holding 2 S.P.C.
  - 3- STC Gulf Investment Holding 3 S.P.C.

STC Gulf 3 holds the investment of 100% (2016: 71%) in Intigral Holding (See Note 16-2), a company was established in the Kingdom of Bahrain in June 2009 with a share capital amounting to BHD 28 million which is equivalent to approximately SR 281 million at the exchange rate as at that date. Intigral is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries.

- j. STC Channels (“STCC”) (Formerly: Sale Advanced Company or ”SaleCo”) was established in Saudi Arabia in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centres’ maintenance and operation. It operates in Saudi Market with subsidiary companies in Bahrain and Oman whom are working in the same field. The Company acquired 60% of STCC SR 100 million share capital in December 2011. On 25 December 2016, the Company’s board of directors provided an offer to acquire Etihad Sale’s stake in STCC, which represent 40% of the STCC shares, for an amount of SR 400 million. On 17 January 2017 the necessary procedures for the purchase and transfer of ownership of the remaining shares in STCC was completed making it a wholly-owned subsidiary of the Company.
- k. In December 2007, the Company acquired 26% share capital of Viva Kuwait Company for amount of Kuwaiti Dinar (“KD”) 50 million, equivalent to approximately SR 687 million at the exchange rate as at that date. Viva 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.

The Group manages Viva Kuwait and treats its investment as a subsidiary due to its control over the Company’s majority representation in Viva Kuwait’s board of directors.

On November 2015, the Company has submitted a voluntary offer to acquire the issued shares of Viva Kuwait not already owned by the Company, which represented 74% of Viva Kuwait issued shares. The offer presented by the Company to Viva Kuwait’s shareholders amounted to KD 1 per share (equivalent to SR 12.37).

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

## 16. SUBSIDIARIES (CONTINUED)

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

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

Name of subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Profit (loss) allocated to non-controlling interests	Accumulated non-controlling interests		
	2017	2016	For the year ended	31 Dec 2017	31 Dec 2016	1 Jan 2016
			31 December 2017			
VIVA Kuwait	48.2%	48.2%	239,746	1,002,234	786,318	850,172
STC Channels	-	40%	-	-	507,122	500,608
Individually immaterial subsidiaries with non-controlling interests			(2,835)	1,055	43,536	70,062
			<u>236,911</u>	<u>1,003,289</u>	<u>1,336,976</u>	<u>1,420,842</u>

### 16.2 Change in the Group's ownership interest in subsidiaries

In January 2017, the purchase and transfer of the remaining shares in STC Channels representing 40% of STC Channels' outstanding shares for SR 400 million was completed. As a result of this purchase, STC Channels became a wholly-owned subsidiary of the Company and the non-controlling interest decreased by SR 546.7 million and other reserves increased by SR 67.5 million.

In April 2017, the purchase and transfer of the remaining shares in Intigral holding company (Intigral) representing 29% of Intigral's outstanding shares for SR 37.5 million was completed. Starting from the date of completion, Intigral became a wholly-owned subsidiary of the Company.

## 17. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Short term murabaha (with 3 months maturity or less)	1,043,615	1,713,740	3,058,393
Cash at banks	1,325,836	1,823,630	1,372,851
Cash on hand	19,638	50,263	11,803
Cheques on hand	177,955	43,569	44,780
	<u>2,567,044</u>	<u>3,631,202</u>	<u>4,487,827</u>

The Group invests a part of its surplus cash in murabaha accounts with original maturity of three months or less with several local banks. The average rate of profit during the year was 1.6% - 3.57% (2016: 2.36%-3.8%)

## 18. RELATED PARTY TRANSACTIONS

### 18.1 Trading transactions and balances with related parties (Associates and Joint Ventures)

The Group entered into the following trading transactions with related parties during the year ended 31 December:

	<u>2017</u>	<u>2016</u>
<i>Telecommunication services provided</i>		
Associates	457,382	267,802
Joint Ventures	17,347	15,344
	<u>474,729</u>	<u>283,146</u>
	<u>2017</u>	<u>2016</u>
<i>Telecommunication services received</i>		
Associates	6,067	16,042
Joint Ventures	18,927	66,968
	<u>24,994</u>	<u>83,010</u>

The following balances were outstanding at the end of the reporting period:

	<i>Amounts owed by related parties</i>			<i>Amounts owed to related parties</i>		
	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Associates	325,069	158,902	44,568	29,283	32,702	12,449
Joint ventures	19,100	6,458	3,376	89,415	81,911	2,215
	<u>344,169</u>	<u>165,360</u>	<u>47,944</u>	<u>118,698</u>	<u>114,613</u>	<u>14,664</u>

### 18.2 Trade transactions and related parties' balances (government and government related entities)

Revenues related to transactions with government and government related entities for the year ended 31 December 2017 amounted to SR 5,355 million (31 December 2016 amounted SR 5,877 million) and expenses related to transactions with governmental parties for the year ended 31 December 2017 (including government charges) amounted to SR 3,973 million (31 December 2016: SR 4,477 million).

As at 31 December 2017, accounts receivable from government and government related entities totalled SR 18,822 million (31 December 2016: SR 12,534 million, 1 January 2016: SR 6,546 million), and as at 31 December 2017, accounts payable to government and government related entities totalled SR 6,872 million (31 December 2016: SR 3,784 million, 1 January 2016: SR 2,010 million). (See Note 10).

### 18.3 Loans to related parties

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Loans to key management personnel	2,093	9,903	2,241

## 18. RELATED PARTY TRANSACTIONS (CONTINUED)

### 18.4 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 was as follows:

	<u>2017</u>	<u>2016</u>
Short-term benefits and remunerations	<b>103,948</b>	92,691
Provision for leaves and end of service benefits	<b>33,000</b>	31,827

## 19. ASSOCIATES AND JOINT VENTURES

### 19.1 ASSOCIATES

#### 19.1.1 Details of associates

Details of each of the Group's material associates at the end of the reporting period are as follows:

<i>Name of Associates</i>	<i>Country of incorporation</i>	<i>Proportion of ownership interest / voting rights</i>		
		<i>31 December 2017</i>	<i>31 December 2016</i>	<i>1 January 2016</i>
Arab Satellite Communications Organisation ("Arabsat")	1 Saudi Arabia	<b>36.66%</b>	36.66%	36.66%
Virgin Mobile Saudi Consortium ("VMSC")	2 Saudi Arabia	<b>10%</b>	10%	10%
Careem Company	3 Virgin Islands, Britain	<b>9.68%</b>	-	-
Oger Telecom Limited ("OTL")	4 United Arab Emirates	<b>35%</b>	35%	35%

- 1) Arab Satellite Communications Organisation ("Arabsat") was established on April 1976 by the members of the League of Arab States. Arabsat offers a number of services to these member states, as well as to all public and private sectors within its coverage area, and principally in the Middle East. Current services offered include: Regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. In April 1999, Saudi Telecom Company acquired 36.66% of Arabsat's US\$ 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. Although the Group holds less than 20% of ownership interest and voting control in VMSC, the Group has the ability to exercise significant influence through its membership in VMSC board of directors by virtue of the partners' agreement and the article of association of VMSC that were amended in 2015.
- 3) In January 2017, the Company completed the purchase of 10% of Careem shares for USD 100 million (SR 375 million). During the year 2017, the company's share decreased to 9.68% as a result of the capital increase of Careem Company. Careem was founded in July 2012 and it is offering innovative, fast and convenient transportation services through its website and smart phone applications.

## 19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

### 19.1.1 Details of associates (continued)

- 4) Oger Telecom Limited (“OTL”) is a holding company registered in Dubai, the United Arab Emirates, having investments in companies operating primarily in the telecommunications sector in Turkey and South Africa. The Company acquired 35% of OTL’s share capital amounting to US\$ 3.6 billion, equivalent to approximately SR 13.5 billion in April 2008 at the exchange rate as at that date. On 1 January 2016, the share of losses in OTL exceeded the Group’s interest in OTL and the Group discontinued recognising its share of further losses. OTL is currently facing financial difficulties to settle its current borrowings dues and its ability to comply with agreed financial commitments with lenders. This has cast doubt over OTL ability to continue as a going concern. The Group is currently studying the available options for this investment in line with the Group’s strategy.

Details of unrecognised share of losses in associates is as follows for the year ended 31 December:

	<u>2017</u>	<u>2016</u>	
Unrecognised share of loss of an associate for the year	<u>541,591</u>	<u>1,092,967</u>	
	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Cumulative share of unrecognized loss of an associate	<u>1,818,218</u>	<u>1,276,590</u>	<u>183,623</u>

All of the above associates are accounted for using the equity method in these consolidated financial statements.

### 19.1.2 Details of material associates

Summarised financial information in respect of each of the Group’s material associates is set out below:

<b>Arabsat</b>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Statement of financial position</i>			
Current assets	917,399	962,214	622,964
Non-current assets	6,697,343	6,935,708	6,250,418
Current liabilities	(849,855)	(1,221,185)	(666,936)
Non-current liabilities	(1,782,393)	(1,840,899)	(1,856,150)
<i>Statement of comprehensive income</i>			
		<u>For the year ended</u>	
		<u>2017</u>	<u>2016</u>
Revenues		855,437	1,211,324
Profit for the year		500,361	462,263
Other comprehensive income for the year		147,038	47,625
Total comprehensive income for the year		647,399	509,888

## 19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

### 19.1.2 Details of material associates (continued)

Reconciliation of the above-summarised financial information to the carrying amount of the Group's interest in Arabsat recognised in the financial statements:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Net assets of the associate	4,982,494	4,835,838	4,350,296
Proportion of the Group's ownership interest in Arabsat	36.66%	36.66%	36.66%
Carrying amount of the Group's interest in Arabsat	<u>1,826,348</u>	<u>1,772,591</u>	<u>1,594,614</u>

Aggregate information of associates that are not individually material for the year ended:

	<u>2017</u>	<u>2016</u>
The Group's share of loss from operations	43,484	1,606
Aggregate carrying amount of the Group's interests in these associates	331,798	866

## 19.2 Joint ventures

### 19.2.1 Details of joint ventures

A summary of the financials of the Group's significant associates is as follows:

Name of joint venture		Country of incorporation	Proportion of ownership interest/ voting rights		
			<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Arab Submarine Cables Company Limited ("Arab Submarine")	1	Saudi Arabia	50%	50%	50%
Contact Centres Company ("CCC")	2	Saudi Arabia	49%	49%	49%
Binariang GSM Holding ("BGSM")	3	Malaysia	25%	25%	25%

- 1) Arab Submarine was established on September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country. The operations of Arabsub started in the month of June 2003 and the Company acquired 50% of its SR 75 million share capital in September 2002. In November 2016, the company's capital was reduced to SR 25 million.
- 2) CCC was established to provide call centre services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom of Saudi Arabia, 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 65% of Maxis, a major telecom operator in Malaysia. BGSM also has indirect investments in India, Aircel Limited ("Aircel"). In September 2007, the Company acquired – through its subsidiaries - STC Asia and STC Malaysia- 25% of BGSM's share capital for MYR 20.7 billion, equivalent to approximately SR 23 billion at the exchange rate as at that date.



## 19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

### 19.2 Joint ventures (continued)

#### 19.2.1 Details of joint ventures (continued)

During 2013, the Company conducted a review of its foreign investment in BGSM, including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result of the review, the Company signed an amendment to the shareholders' agreement with other shareholders of BGSM with respect to certain operational matters of Aircel. Consequently, it has been concluded that the Company shall cease to account for its investment in Aircel using the equity method effective from the second quarter 2013.

During the second quarter of 2017, a subsidiary of BGSM issued an additional share capital for its non-controlling interests. The Group share of the gain from this increase was SR 141 million recognized in other reserves.

#### 19.2.2 Details of material joint ventures

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

<i>BGSM</i>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Statement of financial position</i>			
Current assets	19,259,207	19,882,272	6,886,921
Non-current assets	26,254,447	24,002,773	42,610,788
Current liabilities	(21,790,611)	(21,832,696)	(11,347,007)
Non-current liabilities	(12,790,767)	(13,905,912)	(28,240,144)

The above amounts of assets and liabilities include the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Cash and cash equivalents	1,399,929	1,024,317	3,313,130
Current financial liabilities (excluding trade and other payables and provisions)	(591,156)	(1,171,373)	(3,847,989)
Non-current financial liabilities (excluding trade and other payables and provisions)	(12,031,079)	(13,006,198)	(26,146,381)

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
<i>Statement of comprehensive income</i>		
Revenues	8,057,279	7,315,647
Profit from continuing operations	1,281,250	1,095,220
Loss from discontinued operations	(1,630,885)	(2,402,661)
Loss for the year	(349,635)	(1,307,440)
Other comprehensive loss for the year	269,628	(183,167)
Total comprehensive loss for the year	(80,007)	(1,490,607)
Depreciation and amortisation	1,402,082	1,238,435
Finance income	(92,536)	(129,020)
Finance cost	1,094,206	982,059
Income tax expense	642,092	654,948

## 19. ASSOCIATES AND JOINT VENTURES (CONTINUED)

### 19.2 Joint ventures (continued)

#### 19.2.2 Details of material joint ventures (continued)

Reconciliation of the above summarised financial information to the carrying amount of the Group's interest in Binariang GSM Holding ("BGSM"):

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Net assets of BGSM (excluding non-controlling interest share and share of other shareholders in Aircel)	<u>(149,502)</u>	<u>(397,010)</u>	<u>1,533,137</u>
Proportion of the Group's ownership interest in the joint venture	(37,375)	(99,253)	383,284
Add: Goodwill	1,253,114	1,253,114	1,253,114
Add: Fair value adjustments and Others	<u>3,491,698</u>	<u>3,288,309</u>	<u>2,929,742</u>
Carrying amount of the Group's interest in the joint venture	<u><u>4,707,437</u></u>	<u><u>4,442,170</u></u>	<u><u>4,566,140</u></u>

*Aggregate information of joint ventures that are not individually material for the year ended 31 December:*

	<u>2017</u>	<u>2016</u>
The Group's share of profit from operations	18,203	23,065
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	18,203	23,065
Aggregate carrying amount of the Group's interests in these joint ventures	61,720	86,014

## 20. ISSUED CAPITAL

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<i>Issued and fully paid capital comprises</i>			
2 billion fully paid ordinary shares	20,000,000	20,000,000	20,000,000

## 21. STATUTORY RESERVE

In accordance with the regulations for companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of the net income until the statutory reserve equalled 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 approved to cease the transfer to statutory. Following a recent change in the regulations for companies, appropriations can cease when the reserve equals 30% instead of 50% of the share capital although the Company continues to maintain this at 50%. This reserve is not available for distribution to the Company's shareholders.

## 22. OTHER RESERVES

Movement and breakdown of other reserves as follows:

	<i>Foreign currency translation</i>	<i>Cash flow hedge</i>	<i>AFS Investment revaluation</i>	<i>Others</i>	<i>Total</i>
<b>As at 1 January 2017</b>	<b>(41,965)</b>	<b>(140,865)</b>	<b>221,874</b>	<b>(1,974,877)</b>	<b>(1,935,833)</b>
Acquisition of non-controlling interests in a subsidiary (Note 16.2)	-	-	-	67,474	67,474
Fair value of AFS assets	-	-	90,557	-	90,557
Re-measurement of end of service obligation	-	-	-	(117,361)	(117,361)
Exchange difference on translation of foreign operations	(21,136)	-	-	-	(21,136)
Net losses on cash flow hedges	-	(2,595)	-	-	(2,595)
Others	-	-	-	149,866	149,866
<b>As at 31 December 2017</b>	<b>(63,101)</b>	<b>(143,460)</b>	<b>312,431</b>	<b>(1,874,898)</b>	<b>(1,769,028)</b>
	<i>Foreign currency translation</i>	<i>Cash flow hedge</i>	<i>AFS Investment revaluation</i>	<i>Others</i>	<i>Total</i>
<b>As at 1 January 2016</b>	-	(132,187)	25,633	(603,070)	(709,624)
Acquisition of non-controlling interest in a subsidiary	-	-	-	(1,312,848)	(1,312,848)
Fair value of AFS assets	-	-	196,241	-	196,241
Re-measurement of end of service benefit obligation	-	-	-	(64,011)	(64,011)
Exchange difference on translation of foreign operations	(41,965)	-	-	-	(41,965)
Net losses on cash flow hedges	-	(8,678)	-	-	(8,678)
Others	-	-	-	5,052	5,052
<b>As at 31 December 2016</b>	<b>(41,965)</b>	<b>(140,865)</b>	<b>221,874</b>	<b>(1,974,877)</b>	<b>(1,935,833)</b>

## 23. BORROWINGS

Total loans paid during the year ended 31 December 2017 amounted to SR 3,299 million (31 December 2016: SR 1,712 million). Total loans received during the year ended 31 December 2017 amounted to SR 1,924 million (31 December 2016: null). Borrowings summarized as follow:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
<b><i>Unsecured – at amortised cost</i></b>			
Murabahas (i) (ii) (iii)	1,175,156	2,536,589	4,236,725
Sukuk (iv)	2,000,000	2,000,000	2,000,000
	<b>3,175,156</b>	<b>4,536,589</b>	<b>6,236,725</b>
<b><i>Secured – at amortised cost</i></b>			
Murabahas (v) (vi)	1,478,587	1,347,862	1,412,833
	<b>4,653,743</b>	<b>5,884,451</b>	<b>7,649,558</b>
Current	647,763	1,867,220	1,905,482
Non-current	4,005,980	4,017,231	5,744,076
	<b>4,653,743</b>	<b>5,884,451</b>	<b>7,649,558</b>

- (i) The Company has obtained financing facilities - in the form of murabaha - with a term of ten years and a floating rate of 3 months SAIBOR plus 25 basis points. Average finance cost of 2.38% was paid by the Company during the year. The murabahas are repayable in quarterly instalments with the final instalment due in April 2018. One of the murabahas has a covenant under which the ratio of total liabilities to tangible equity, should not exceed a maximum of two.

### 23. BORROWINGS (CONTINUED)

Tangible equity is defined as shareholders' equity minus intangible assets. As at 31 December 2017, the Company is in compliance with this covenant. The carrying value of these facilities amounted to SR 530 million as at 31 December 2017 (31 December 2016: SR 1,584 million and 1 January 2016: SR 2,638 million).

- (ii) Viva Bahrain has obtained unsecured financing facilities - in the form of murabaha - with a term of five years and a floating rate of 3 months LIBOR plus 1.6%. The carrying value of these facilities amounted to SR 532 million as at 31 December 2017 (31 December 2016: SR 373 million and 1 January 2016: SR 704 million).
- (iii) Viva Kuwait has obtained financing facilities - in the form of murabaha- with terms ranging from 3 to 5 years and profit rate margins of 2.7% and 3.5%. The carrying value of these facilities amounted to SR 112 million as at 31 December 2017 (31 December 2016: SR 579 million and 1 January 2016: SR 895 million)
- (iv) The Company has issued sukuk program up to a maximum of SR 5 billion. As of 31 December 2017, an amount of SR 2 billion was issued. sukuk certificates have a face value of SR 1 million each and were issued at face value with a term of ten years. The sukuk certificates are profit bearing and are calculated on the basis of three months SAIBOR plus 70 basis points payable every three months. The sukuk certificates mature on 9 June 2024. The carrying value of these sukuk amounted to SR 2,000 million as at 31 December 2017 (31 December 2016: 2,000 million and 1 January 2016: SR 2,000 million).
- (v) In December 2017, STC Malaysia acquired financing facilities - in the form of murabaha- with a term of five years and a floating rate of 6 months KLIBOR plus 65 basis points. The murabaha is secured against by a letter of guarantee provided by the Company. The carrying value of these facilities amounted to SR 1,398 million as at 31 December 2017 (31 December 2016: SR 1,261 million and 1 January 2016: SR 1,315 million).
- (vi) VIVA Bahrain has murabaha facilities secured by a land and a building with a profit margin rate of one month BIBOR plus 0.75%. A substantial portion of these murabaha facilities has been hedged for profit rate risk. Subject to certain exceptions, materiality tests and carve-outs, the significant covenants of these facilities are: 1) restriction of financial indebtedness 2) limitation on disposal of assets; and 3) limitations on granting of loans and guarantees. Additional undertakings under these loans relate to certain specific financial ratios and satisfaction of financial position tests. The carrying values of the murabaha facilities are not materially different from their fair values as the impact of discounting, credit risk and other market risk is not considered significant by management. The carrying value of these facilities amounted to SR 80.7 million as at 31 December 2017 (31 December 2016: SR 87 million and 1 January 2016: SR 97 million).

### 24. PROVISIONS

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Legal and regulatory provisions (i)	<b>8,392,198</b>	6,417,649	2,183,616
Decommissioning provisions (ii)	<b>442,933</b>	422,792	416,899
Other provisions (ii)	<b>1,301</b>	1,021	1,007
	<b>8,836,432</b>	6,841,462	2,601,522
Current	<b>7,633,984</b>	5,682,808	1,551,492
Non-current	<b>1,202,448</b>	1,158,654	1,050,030
	<b>8,836,432</b>	6,841,462	2,601,522

These financials were originally prepared in Arabic and the Arabic version should prevail.

## 24. PROVISIONS (CONTINUED)

	<i>Legal and regulatory provision (i)</i>	<i>Decommissioning and other provisions (ii)</i>
Balance as at 1 January 2017	6,417,649	423,813
Additions	2,460,427	28,573
Changes from re-measurement	7,412	(30,874)
Payment / settlements	(493,290)	22,722
<b>Balance as at 31 December 2017</b>	<b>8,392,198</b>	<b>444,234</b>

- (i) The Company is involved in a number of legal and regulatory claims. The management of the Company, after taking legal advice, has established provisions after taking into account the facts for each case. The timing of the cash outflows associated with the majority of the legal claims are typically more than one year, however, for some legal claims the timing of cash flows may be short term in nature.
- (ii) In the course of Company's operations, a number of sites and other assets are utilised which are expected to have decommissioning costs. The associated cash outflows are expected to occur primarily in ten years from the date when the assets are brought in use.

## 25. DEFERRED REVENUES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Deferred revenues from services	3,454,988	3,438,754	2,672,400
Government grants (i)	984,082	661,888	639,140
Customer loyalty programme (ii)	140,800	137,849	200,287
Others	55,653	24,127	5,631
	<u>4,635,523</u>	<u>4,262,618</u>	<u>3,517,458</u>
Current	2,872,083	2,816,841	1,926,777
Non-current	1,763,440	1,445,777	1,590,681
	<u>4,635,523</u>	<u>4,262,618</u>	<u>3,517,458</u>

- (i) The government grants represent grants provided by Communication and Information Technology Commission ("CITC") to the Company to build telecommunication network in remote areas (see note 3.7).
- (ii) The deferred revenue arises in respect of the Group's Qitaf Scheme recognised in accordance with IFRIC 13 *Customer Loyalty Programmes*.

## 26. RETIREMENT BENEFIT PLANS

### 26.1 Defined contribution plans

The Group is participating in pension schemes for its employees which are managed by government institutions in the respective countries concerned. The amount recognised as an expense for defined contribution plans for the year ended 31 December 2017 is SR 411 million (31 December 2016: SR 377 million).

### 26.2 End of service benefit plans

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, provided that a minimum period of service is completed. The entitlement is calculated according to 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.

## 26. RETIREMENT BENEFIT PLANS (CONTINUED)

### 26.2 End of service benefit plans (continued)

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

Discount risk	A decrease in the discount rate will increase the plan liability.
Salary 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 salary of the plan participants will increase the plan's liability.
Withdrawal risk	Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment.

The most recent actuarial valuation of the present value of the end of service benefit obligation was carried out as at 31 December 2017. During the financial year, there were no material fluctuations or events affecting the actuarial assumptions used as at 31 December 2016.

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 used in determining the end of service benefit obligation represent the discount rates of (4% - 5%) and the expected increase in salary (2% - 5%) and employees turnover (0% - 5%) as at 31 December 2017 (2016: discount rate: 3.7%-5%, the expected increase: 3.2%-5% and employees turnover: 0%-5%).

The net expenses recognized in the consolidated statement of profit or loss are as follows:

	<u>2017</u>	<u>2016</u>
Cost of revenues	348,874	321,570
Finance cost	176,629	164,157
	<u>525,503</u>	<u>485,727</u>

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

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	3,775,668	3,678,290
Costs recognized in the consolidated statement of profit or loss	525,503	485,727
Actuarial gains and losses recognized in other comprehensive income	117,361	64,011
Benefits paid	(499,614)	(452,120)
Exchange differences on foreign plans	3,851	(240)
	<u>3,922,769</u>	<u>3,775,668</u>

The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the end of service benefit obligation would decrease by SR 180 million (increase by SR 180 million) (31 December 2016: decrease by SR 200 million, increase by SR 200 million).

## 27. RETIREMENT BENEFIT PLANS (CONTINUED)

### 26.2 End of service benefit plans (continued)

- If the expected salary growth increases (decreases) by 0.5%, the end of service benefit obligation would increase by SR 190 million (decrease by SR 190 million) (31 December 2016: increase by SR 190 million, decrease by SR 190 million).
- If the employee turnover increases (decreases) by 10%, the end of service benefit obligation would increase by SR 180 million (decrease by SR 180 million) (31 December 2016: increase by SR 210 million, decrease by SR 210 million).

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

## 27. OTHER NON-CURRENT LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Financial liabilities (note 32)	56,602	201,643	358,344
Other liabilities (note 31)	88,941	90,887	59,697
	<u>145,543</u>	<u>292,530</u>	<u>418,041</u>

## 28. TRADE AND OTHER PAYABLES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Accrued expenses	9,131,857	9,504,311	7,982,572
Trade payables	1,909,223	1,142,592	1,885,024
Employee accruals	1,535,454	1,508,368	1,496,516
Other trade payables	750,994	1,180,360	1,242,866
Suppliers retentions	330,784	418,279	517,495
Customer refundable deposits	169,494	131,651	75,803
	<u>13,827,806</u>	<u>13,885,561</u>	<u>13,200,276</u>

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.

## 29. TAX AND ZAKAT LIABILITIES

Tax and zakat liabilities in the consolidated statement of financial position comprise the following:

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Zakat (a)	1,488,001	1,361,590	1,573,496
Taxes (b)	135,422	98,539	105,642
	<u>1,623,423</u>	<u>1,460,129</u>	<u>1,679,138</u>

## 29. TAX AND ZAKAT LIABILITIES (CONTINUED)

### a. Zakat

The Group calculates and records the zakat provision based on the zakat base in its consolidated statements in accordance with the zakat rules and principles in the Kingdom of Saudi Arabia:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Share capital – beginning of the year	20,000,000	20,000,000
<i>Additions:</i>		
Retained earnings, statutory reserve and provisions – beginning of the year	54,087,010	49,958,594
Borrowings and payables	4,911,130	5,715,473
Adjusted net income	13,412,664	14,205,053
Adjusted total shareholders' equity	<u>92,410,804</u>	<u>89,879,120</u>
<i>Deductions:</i>		
Net property (adjusted) and investments	56,061,670	53,917,279
Dividends paid	8,000,000	8,031,468
Deferred expenses and other balances	558,782	812,077
Total adjusted deductions	<u>64,620,452</u>	<u>62,760,824</u>
Zakat base	<u>27,790,352</u>	<u>27,118,296</u>
Zakat on fully owned subsidiaries	694,758	677,957
Add: Zakat on partially owned subsidiaries	6,011	54,295
Total zakat expense for the year	<u>700,769</u>	<u>732,252</u>
<i>Zakat provision</i>		
	<u>31 December 2017</u>	<u>31 December 2016</u>
Balance at beginning of the year	1,361,590	1,573,496
Charge for the year	700,769	732,252
Adjustment during the year	55,875	(263,538)
Amounts paid during the year	(630,233)	(680,620)
Balance at end of the year	<u>1,488,001</u>	<u>1,361,590</u>

Final zakat declarations were submitted for the years since inception through 2016. Effective from the year 2009, the Group started the submission of one zakat declaration for the Group and its wholly owned subsidiaries (whether directly or indirectly) in accordance with the Ministerial Decree No.1005 dated 28/4/1428H.

The Company calculates its zakat dues based on the zakat base. The Company received zakat assessments from inception until 2011. The Company has submitted objections for the years 2008 to 2011. The total zakat differences for these objections amounted to SR 1 billion. These objections remain with the General Authority for Zakat and Income Tax (GAZT) and the Appeals Committee until the date of preparation of these consolidated financial statements. On 28/2/1438H, the Appeals Committee passed its decision No. (1642)/1438H that supported the Company's appeal for the year 2007 by cancelling the comparison process between zakat base and the adjusted profit whichever is higher, reinforcing the position of the Company in the objections for subsequent years pending before to the Appeals Committee. Accordingly, during the fourth quarter 2016, the Company has settled the provision amounting to SR 294 million.



## 29. TAX AND ZAKAT LIABILITIES (CONTINUED)

### a. Zakat

The differences resulting from comparison between the zakat base and the adjusted profit represent majority of the zakat differences objected to. The Group's management believes that the results of these objections will be in its favour and will not result in any additional provisions.

Zakat declarations for the years 2012 to 2016 are still pending with GAZT until the date of preparation of these consolidated financial statements.

### b. Tax

The Group's share of income tax payable by subsidiaries is in accordance with the prevailing tax regulations in their countries. Income tax expense for the year ended 31 December 2017 amounts to SR 20 million (2016: SR 18.5 million).

## 30. OTHER CURRENT LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Other liabilities (note 31)	7,165,619	4,044,680	2,245,850
Financial liabilities (note 32)	57,273	51,458	103,721
	<u>7,222,892</u>	<u>4,096,138</u>	<u>2,349,571</u>

## 31. OTHER LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Government charges	6,871,643	3,784,284	2,015,872
Statutory dues and Other	382,917	351,283	289,675
	<u>7,254,560</u>	<u>4,135,567</u>	<u>2,305,547</u>
Current (note 30)	7,165,619	4,044,680	2,245,850
Non-current (note 27)	88,941	90,887	59,697
	<u>7,254,560</u>	<u>4,135,567</u>	<u>2,305,547</u>

## 32. FINANCIAL LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Other financial liabilities	56,084	198,985	355,070
Dividends payable	48,570	37,662	69,130
Derivative liabilities (Profit rate swaps)	9,221	16,454	37,865
	<u>113,875</u>	<u>253,101</u>	<u>462,065</u>
Current (note 30)	57,273	51,458	103,721
Non-current (note 27)	56,602	201,643	358,344
	<u>113,875</u>	<u>253,101</u>	<u>462,065</u>

### 33. REVENUES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Revenues from rendering of services	46,899,035	49,169,739
Revenues from sale of goods	3,573,559	2,962,182
Other revenues	274,081	541,738
	<u>50,746,675</u>	<u>52,673,659</u>

### 34. COST OF REVENUES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Access charges	5,843,390	8,602,847
Government charges (1)	3,973,084	4,476,745
Repair and maintenance	2,637,255	2,723,091
Employees' costs	2,108,163	2,323,726
Cards recharge and printing cost	1,702,615	1,767,886
Cost of devices sold	1,746,755	982,605
Rents of equipment, property and vehicles	750,524	948,171
Others	2,493,691	2,160,807
	<u>21,255,477</u>	<u>23,985,878</u>

“Others” mainly comprise expenses related to telecommunication services, postage, courier, security and safety expenses, premises expenses, and consultancy.

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

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Commercial service provisioning fees	3,381,036	3,842,326
License fees	295,573	327,694
Frequency spectrum fees	296,475	306,725
	<u>3,973,084</u>	<u>4,476,745</u>

### 35. SELLING AND MARKETING EXPENSES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Employees' costs	2,357,039	2,451,962
Doubtful debts allowance(note 10-1)	870,614	775,050
Advertising and publicity	665,728	777,636
Sales commissions	634,851	883,606
Call centres' expenses	327,281	364,195
Repairs and maintenance	197,266	249,209
Sport activities sponsorship cost	117,480	126,171
Printing of telephone cards and office supplies	79,834	128,712
Consultancy, legal and professional fees	32,957	52,410
Postage and courier	20,780	79,905
Others	422,450	438,288
	<u>5,726,280</u>	<u>6,327,144</u>

“Others” comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone and utility expenses.

### 36. GENERAL AND ADMINISTRATIVE EXPENSES

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Employees' costs	2,237,733	2,061,513
Repair and maintenance	857,232	953,071
Operating lease costs	279,488	343,960
Consultancy, legal and professional fees	223,510	307,538
Utilities expenses	133,998	111,893
Security and safety expenses	120,091	93,022
Others	619,521	460,431
	<u>4,471,573</u>	<u>4,331,428</u>

“Others” comprises various items, the main ones are: insurance premiums, office equipment, freight, handling, postage and courier expenses.

### 37. FINANCE INCOME

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Income from murabaha	421,528	576,754
Income from sukuk	145,545	145,978
Other income	17,608	-
	<u>584,681</u>	<u>722,732</u>

### 38. FINANCE COST

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Financing costs relating to murabaha	96,245	144,519
Financing costs relating to sukuk	50,774	53,241
Other finance cost	5,489	4,757
Unwinding of discounts on provisions and financial liabilities	201,691	176,545
	<u>354,199</u>	<u>379,062</u>

### 39. OTHER GAINS AND LOSSES, NET

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Net gain from financial assets designated as FVTPL	216,923	52,780
Loss on disposal of property, plant and equipment	(248,756)	(126,966)
Net foreign exchange gain	10,064	4,180
Net gain (loss) on derivatives	3,678	(104)
	<u>(18,091)</u>	<u>(70,110)</u>

### 40. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of shares for the year ended 31 December as follows:

	<u>2017</u>	<u>2016</u>
Profit for the year attributable to equity holders of the parent	10,133,224	8,893,957
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,000,000	2,000,000
	<u>5.07</u>	<u>4.45</u>

The Group does not have potentially dilutive shares and accordingly, diluted earnings per share equals basic earnings per share.

### 41. FINANCIAL INSTRUMENTS

#### 41.2 Capital management

The Group manages its capital to ensure that:

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

#### 41. FINANCIAL INSTRUMENTS (CONTINUED)

##### 41.1 Capital management (continued)

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 of the Group.

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 2017.

The Group's Capital Management Department reviews the capital structure of the Group on annual basis to evaluate the cost of capital and the risks associated with capital.

The Group has the following target ratios:

- i. Debt to EBITDA level of 2 or below
- ii. Debt to (Debt + Equity) level of 50% or below

The ratios at the end of the reporting year were as follows:

	<i>For the year ended 31 December</i>	
	<u>2017</u>	<u>2016</u>
Debt (i)	4,653,743	5,884,451
Adjusted EBITDA (ii)	19,293,345	18,029,209
Debt to EBITDA	<u>0.24</u>	<u>0.33</u>
Debt	4,653,743	5,884,451
Debt + Equity (iii)	67,898,416	67,162,782
Debt to (Debt + Equity)	<u>6.85%</u>	<u>8.76%</u>

- i. Debt is defined as current and non-current borrowings as described in note 23
- ii. Adjusted EBITDA is defined as net income for the year adjusted for depreciation, amortization.
- iii. Equity is defined as total equity including issued capital, reserves, non-controlling interest and retained earnings

#### 41. FINANCIAL INSTRUMENTS (CONTINUED)

##### 41.1 Capital management (continued)

##### Categories of financial instruments

	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2016</u>	<u>1 January</u> <u>2016</u>
<b><u>Financial assets</u></b>			
<i>Loans and receivables</i>			
Trade and other receivables	<b>25,549,424</b>	19,768,149	12,740,745
Short term murabahas (maturity greater than 90 days)	<b>14,465,364</b>	15,004,490	16,803,421
Cash and cash equivalents	<b>2,567,044</b>	3,631,202	4,487,827
Other loans and receivables	<b>3,750,235</b>	3,493,260	3,866,608
Total loans and receivables	<b>46,332,067</b>	41,897,101	37,898,601
<i>Financial assets at fair value through profit or loss</i>			
Financial asset	<b>4,148,369</b>	3,986,104	3,987,662
<i>Financial assets at fair value through OCI</i>			
Available for sale financial assets	<b>535,634</b>	415,005	171,888
	<b>51,016,070</b>	46,298,210	42,058,151
<b><u>Financial liabilities</u></b>			
Trade and other payables	<b>2,660,217</b>	2,322,952	3,127,890
Borrowings	<b>4,653,743</b>	5,884,451	7,649,558
Dividends payable	<b>48,570</b>	37,662	69,130
Other financial liabilities	<b>56,084</b>	198,985	355,070
Derivative financial liabilities	<b>9,221</b>	16,454	37,865
	<b>7,427,835</b>	8,460,504	11,239,513

Loans and receivables are non-derivative financial assets carried at amortised cost which generate a fixed or variable finance income for the Group. The carrying value may be affected by changes in the credit risk of the counterparties. The Group's financial risk management department manages financial risks relating to Group's activities in accordance with the adopted policies and affecting its financial position, cash flows and expected core transactions including profit rate risk, credit risk and liquidity risk.

The Group aims to minimize the impact and exposure to these risks using internal and external hedging strategies, including the use of derivative and non-derivative financing strategies and financial instruments. The use of derivatives is subject to the Group's adopted policies, which provide documented policies on foreign exchange risk, profit rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of excess liquidity. The Group does not enter into financial instruments or derivatives for trading or speculative purposes.

The financial risk department reports to finance management and financial risk management committee to monitor the risks and policies applied to minimize exposure to risks.

## **41. FINANCIAL INSTRUMENTS (CONTINUED)**

### **41. 2 Profit rate risk**

The Group's main profit rate risk arises from borrowings and financial assets with variable profit margin rates. The Group through the use of profit swap contracts manages the profit rate risk. There has been no change to the Group's exposure to profit risks or the manner in which these risks are managed and measured.

The sensitivity analysis below has been determined based on the exposure to profit rates for non-derivative instruments at the end of the reporting period. It shows the effects of changes in market profit rates on profit and loss. For floating rate asset and liabilities, the analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 20-basis point increase or decrease represents management's assessment of the reasonably possible change in profit rates.

If profit rates had been 20 basis points higher (lower) and all other variables were held constant, the impact on profit of the Group would have been lower (higher) by SR 5 million. This hypothetical effect on profit of the Group primarily arises from the potential effect of variable profit financial liabilities.

### **41. 3 Foreign currency risk management**

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

### **41. 4 Credit risk management**

The Group has approved guidelines from its board of directors that allows it to only deal with creditworthy counter parties and limits counter party exposure. The board's guidelines allow the Group to invest only with those counterparties that have high investment grade credit rating issued by international credit rating agencies and limits the exposure to a single counter party by stipulation that the exposure should not exceed 30% of the counterparty's shareholders' equity. Further, the Group exposure to an investment/issue should not exceed 20% of the total outstanding investment issued by that counter party. The Group's credit risk is monitored on a quarterly basis.

Other than the concentration of credit risk disclosed in note 10, concentration of credit risk with respect to trade receivables are limited given that the Group's customer consists of a large number of unrelated customers. Payment terms and credit limits are set in accordance with industry norms. On-going evaluation is performed on the financial condition of trade receivable and management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables (see note 10).

In addition, the Group is exposed to credit risk in relation to financial guarantees given to some subsidiaries. The Group's maximum exposure in this respect is the maximum amount the Group may have to pay if the guarantee is called on. There is no indication and instance that the Group will incur any loss with respect to its financial guarantees as on reporting date.

### **41. 5 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.

#### 41. FINANCIAL INSTRUMENTS (CONTINUED)

##### 41.5 Liquidity risk management (continued)

The Group determines its liquidity requirements by continuously monitoring short and long term cash forecasts in comparison to actual cash flows.

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

In addition, the Group's unused facilities are reducing the liquidity risks that described below.

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

	Carrying amount	1 year or less	Above 1 – 5 years	Above 5 years
<b><u>31 December 2017</u></b>				
Trade and other payables (note 28)	2,660,217	2,660,217	-	-
Borrowings (note 23)	4,653,743	647,763	2,249,509	1,756,471
Dividends payable (note 32)	48,570	48,570	-	-
Other financial liabilities	56,084	-	56,084	-
Derivative liabilities (note 32)	9,221	6,265	2,956	-
	<u>7,427,835</u>	<u>3,362,815</u>	<u>2,308,549</u>	<u>1,756,471</u>
<b><u>31 December 2016</u></b>				
Trade and other payables (note 28)	2,322,952	2,322,952	-	-
Borrowings (note 23)	5,884,451	1,867,220	1,804,523	2,212,708
Dividends payable (note 32)	37,662	37,662	-	-
Other financial liabilities	198,985	-	198,985	-
Derivative liabilities (note 32)	16,454	12,924	3,530	-
	<u>8,460,504</u>	<u>4,240,758</u>	<u>2,007,038</u>	<u>2,212,708</u>
<b><u>1 January 2016</u></b>				
Trade and other payables (note 28)	3,127,890	3,127,890	-	-
Borrowings (note 23)	7,649,558	1,905,482	4,076,515	1,667,561
Dividends payable (note 32)	69,130	69,130	-	-
Other financial liabilities	355,070	-	355,070	-
Derivative liabilities (note 32)	37,865	32,671	5,194	-
	<u>11,239,513</u>	<u>5,135,173</u>	<u>4,436,779</u>	<u>1,667,561</u>

The Group has financing facilities amounting to SR 1,470 million, of which SR 1,387 million has been utilized for letter of guarantees. The Group expects to meet its other obligations from operating cash flows, cash and cash equivalents and proceeds of maturing financial assets.

The Group has also secured a 75% LTV (loan to value) readily available borrowing facility against its diversified investment portfolio of SR 4 billion.



#### 41. FINANCIAL INSTRUMENTS (CONTINUED)

##### 41.5.1 Fair value measurement

Management assessed that the fair values of trade and other receivables, short term murabahas, cash and cash equivalents, other loans and receivables, trade and other payables, dividends payable, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of financial assets has been determined based on quoted prices for sukuk and the future cash flows estimated based on contracted rates and forward rates of commodities from observable forward curves at the end of the reporting period for other assets in the portfolio which have been discounted at a rate that reflects the credit risk of various counterparties. The fair value is within level 2 of the fair value hierarchy. There were no transfers between Level 1 and 2 in the year. The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the end of the reporting period.

The available for sale investments fair values are obtained from the Net Asset Value ("NAV") reports received from the fund manager. The fair value is within level 3 of the fair value hierarchy.

The movement of available for sale investments during the year ended 31 December is as follows:

	<i>For the year ended</i>	
	<i>31 December</i>	
	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	415,005	171,888
Additions	30,072	46,876
Re-measurement recognised in other comprehensive income	90,557	196,241
Balance at end of the year	<u>535,634</u>	<u>415,005</u>

The management believe that the carrying amounts of other financial assets and financial liabilities recognised in the financial statements approximate their fair values.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset as of:

#### 41. FINANCIAL INSTRUMENTS (CONTINUED)

##### 41.5.1 Fair value measurement (Continued)

	<i>Effect of offsetting in the statement of financial position</i>		
	<i>Gross amounts</i>	<i>Amounts set off</i>	<i>Net amounts</i>
<i>At 31 December 2017</i>			
<i>Financial assets</i>			
Trade and other receivables	27,278,544	(1,729,120)	25,549,424
<i>Financial liabilities</i>			
Trade and other payables	15,556,926	(1,729,120)	13,827,806
<i>At 31 December 2016</i>			
<i>Financial assets</i>			
Trade and other receivables	21,311,690	(1,543,541)	19,768,149
<i>Financial liabilities</i>			
Trade and other payables	15,429,102	(1,543,541)	13,885,561
<i>At 1 January 2016</i>			
<i>Financial assets</i>			
Trade and other receivables	13,807,368	(1,066,623)	12,740,745
<i>Financial liabilities</i>			
Trade and other payables	12,266,899	(1,066,623)	13,200,276

Under the terms of the operator agreements, trade receivables and payables in relation to call routing and roaming fees are offset and only the net amounts are settled. The relevant amounts have been presented net in the consolidated statement of financial position.

##### 41.6 Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities are as follows:

	<i>1 January 2017</i>	<i>Cash flows</i>	<i>Others</i>	<i>31 December 2017</i>
Borrowings – current portion	1,867,220	(1,852,033)	632,576	647,763
Borrowings–non-current portion	4,017,231	328,467	(339,718)	4,005,980
Total	5,884,451	(1,523,566)	292,858	4,653,743

#### 42. OPERATING LEASE ARRANGEMENTS

##### 42.1.1 Leasing arrangements

Operating leases includes leases of land with lease terms of between 5 and 10 years. All operating lease contracts that exceeds 5 years are reviewed with market rentals. The Group does not have an option to purchase the leased land at the end of the lease period.

#### 42. OPERATING LEASE ARRANGEMENTS

##### 42.1.2 Payments recognised as an expense for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Minimum lease payments	<u>455,876</u>	<u>1,211,099</u>

##### 42.1.3 Non-cancellable operating lease

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Less than a year	574,398	523,303	588,107
1 to 5 years	1,146,870	1,087,329	1,157,259
Later than 5 years	309,493	381,254	454,996
	<u>2,030,761</u>	<u>1,990,886</u>	<u>2,200,362</u>

#### 43. CAPITAL COMMITMENT

- (a) The Group enters into commitments in the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 3,802 million as at 31 December 2017 (31 December 2016: SR 4,424 million and 1 January 2016: SR 3,501 million).
- (b) One of the subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment for US \$300 million (equivalent to SR 1,125 million).
- (c) On 12 Ramadan 1438 H (corresponding to 7 June 2017), the Company received a letter from the Communications and Information Technology Commission (CITC) notifying the Company of its winning in the frequency auction organised and supervised by the CTIC. The license for the radio frequencies in the bands range of (700) and (1800) MHz covers a period of (15 years) starting 1 January 2018, for a total value of SR 2,507 million of which 30% (approximately SR 752 million) was paid during the third quarter of 2017 and the remaining to be paid in 10 equal annual instalments starting from 2019.

#### 44. CONTINGENT LIABILITIES

- (a) The Group has outstanding letters of guarantee amounting to SR 3,712 million (31 December 2016: SR 3,224 million and 1 January 2016: SR 3,159 million).
- (b) On 18 January 2017, the Company received a confirmation request letter from the CITC for an amount of SR 8,987 million. This amount includes government charges required to be paid by the Company on a regular basis in addition to other material amounts that are under dispute between the Company and CITC in relation to the calculation method of government charges. The dispute relates to the telecommunications sector as a whole in the Kingdom and does not pertain to the Company only. Based on independent legal opinions and similar judicial rulings in the telecommunications sector in the Kingdom, the Company's management believes that the CITC claim will not be sustained upon judicial examination. Furthermore, the Company is currently claiming to refund of material government fees paid for previous years to CITC that is also related to the same method of calculation of government charges. Accordingly, the Company's management does not believe that this dispute will result in any additional material outflow in the future.

#### 44. CONTINGENT LIABILITIES (CONTINUED)

- (c) The Company received a letter on 16/05/1437H (corresponding to 25 February 2016) from the GAZT with respect to a withholding tax assessment on international operators networks rentals outside Saudi Arabia for the years from 2004 to 2015 for an amount of SR 3.1 billion. As the Saudi tax regulations do not cover withholding tax on the rental of international operators' networks as well as recognition of source of income outside Saudi Arabia, management believes that this service should not be subject to withholding tax. Accordingly, the Company has submitted its objection to the withholding tax assessment. Based on the opinions of tax specialists, the nature of the services and existing provisions of the Saudi tax regulations, the Company's management believes that this assessment will not result in an outflow on examination based on technical merits of the tax position.
- (d) One of the subsidiaries of the Group has an agreement with one of its key customers to construct a fibre optic network for which capital work completed amounted to SR 537 million (31 December 2016: SR 537 million) and amounts received from the key customer amounted to SR 742 million and recorded as 'deferred revenues' in the Group's statement of financial position (31 December 2016: SR 742 million). On 21 December 2016, the Company received a letter from the customer requesting a refund for all paid balances. Based on the independent legal opinions obtained, the management believes that the customer's claims have no merit and therefore this dispute has no material impact on the financial results of the Group.
- (e) The Group has outstanding letter of credits amounted to SR 420 million as at 31 December 2017 (31 December 2016: SR 505 million and 1 January 2016: SR 536 million).
- (f) The Company, 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 neither on the Company's financial position nor on the results of its operations as reflected in these consolidated financial statements.

#### 45. EVENTS AFTER THE REPORTING PERIOD

- A) During the first quarter of 2018, the Company signed a memorandum of understanding with the Saudi Football Federation and the General Sport Authority to obtain the exclusive rights of sponsorship and broadcast of the local football competitions in Saudi Arabia which are owned by the Saudi Football Federation. The duration of the contract is ten years, and the value of the rights is six hundred and sixty million Saudi riyals (SR 660 million) paid annually for a period of ten years with a total value of six billion six hundred million Saudi riyals (SR 6,600 million).  
The two parties agreed that the duration of the memorandum of understanding will be two calendar months starting from the date of signing the memorandum. The parties will discuss and agree on the detailed terms and conditions of the basic contract during this period.
- B) During the first quarter of 2018, the Company acquired frequencies in "700 and 1800 MHz" bands by winning the CITC auction for a period of 15 years starting in 2018 for a total amount of SR 1,560 million, paid in equal instalments over 14 years starting in 2019.
- C) During the first quarter of 2018, the Company established a fully owned limited liability company, Communication Towers Co. Ltd, with a share capital of SR 200 million. Communication Towers Co. Ltd will be responsible for owning, constructing, operating, leasing and commercializing telecom towers. Communication Towers Co. Ltd has not started commercial activities until obtaining the necessary licenses from the relevant authorities.
- D) During first quarter of 2018, the Company increased the share capital of Intigral Holding Company by US \$65 million (equivalent to SR 244 million).
- E) During the first quarter of 2018, the Company has paid the first instalment tranche of the new venture investment fund with a total value of US \$ 100 million equivalent to SR 375 million (see Note 15).

#### **46. DIVIDENDS**

In line with the dividend policy for the three-years period which started from the fourth quarter of 2015, which has been approved by the Company's Board of Directors on 28 Muharram 1437H (corresponding to 10 November 2015), and endorsed by the General Assembly on 4 April 2016, the dividend policy is maintaining a minimum dividend of SR 1 per share on a quarterly basis. The Company will distribute cash dividends to the shareholders for the fourth quarter of year 2017 amounting to SR 2,000 million representing SR 1 per share. During the year, the Company distributed cash dividends to its shareholders for the first, second and third quarter of 2017 amounting to SR 2,000 million for each quarter of SR1 per share. Thus, the total dividends distributed for the year 2017 amount to SR4 per share (2016: SAR 4 per share).

#### **47. TRANSITION TO IFRS**

##### ***A. Basis of preparation of IFRS financial information***

The Group has prepared and issued its audited consolidated financial statements for all prior periods, including the year ended 31 December 2016 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and International Financial Reporting Standard IFRS 1 "Adoption of International Financial Reporting Standards for the First Time" which has been adopted in Saudi Arabia (see note 2 *Basis of Preparation*)

Upon the transition to the International Financial Reporting Standards adopted in Saudi Arabia and other standards and issuances approved by the Saudi Organization of Certified Public Accountants, the Group has made adjustments to the opening balances as of 1 January 2016 and comparative year figures as at 31 December 2016, which was previously presented in the financial statements Standard.

##### ***B. IFRS 1 exemptions***

In accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The following paragraphs contain an explanation of the impact of this transformation. IFRS 1 provides some exemptions from retrospective application of certain IFRS requirements. Based on that, the Group has applied the following exemptions:

##### ***Goodwill***

The Group elected not to apply IFRS 3 *Business combinations* to business combinations that were recognised on or before 1 January 2016. As a result, the carrying amount of goodwill recognised as an asset under SOCPA was used in the consolidated opening statement of financial position. In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2016.

##### ***Property, plant and equipment***

On transition to IFRS, the Group elected to apply the optional exemption to use the fair value of property, plant and equipment received free of cost recorded in accordance with SOCPA standards amounting to SR 128 million as at 1 January 2016 as the deemed cost of these assets.

Prior to 2 May 1998, the operations of the Company were part of the telegraphs and telephones division of MoPTT. Accordingly, all property, plant and equipment were transferred and recorded at their fair values (assumed deemed cost) at that date. On transition to IFRS, the Group elected to apply the optional exemption to use event-driven fair value as deemed cost under IFRS. The aggregate fair value of property, plant and equipment at 2 May 1998 was SR 15,137 million. This exemption had no impact on the opening consolidated statement of financial position and the comparative statement of profit or loss for the year ended 31 December 2016.

#### 47. TRANSITION TO IFRS (CONTINUED)

##### B. IFRS 1 exemptions

###### *Leases*

The Group has assessed all arrangements within the scope of IFRIC 4 *Determining whether an Arrangement Contains a Lease* based upon the conditions in place as at 1 January 2016. The Group further assessed whether the agreements should be classified as finance lease or operating lease in accordance with IAS 17 *Leases*.

###### *Cumulative translation differences*

Upon the transition to IFRS, the Group has elected to apply the voluntary exemption on the cumulative translation differences of all foreign operations amounting to SAR 2,565 million, settled in retained earnings on the date of transition to IFRS.

###### *Designation of previously recognised financial instruments*

Upon the transition to IFRS, the Group has elected to classify investments in the Group's diversified investment portfolio at fair value through the profit or loss statement, which are classified at amortized cost in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

###### *Decommissioning liabilities included in the cost of property, plant and equipment*

The Group elected not to apply retrospectively the requirements of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in decommissioning, restoration and similar liabilities that occurred before the date of transition to IFRSs.

The following is a summary of the effects of the differences between IFRS and SOCPA on the Group's total equity shareholders' funds and profit for the financial year for the years previously reported under SOCPA following the date of transition to IFRS.

	<i>For the year ended 31 Dec 2016</i>
Net income before non-controlling interest under SOCPA	8,757,805
<i>Adjustments</i>	
- Defined benefit plans, net	1 92,860
- Settlement of investment balance in an associate	2 315,920
- Free of cost assets	3 28,346
- Decommissioning liability	4 (33,505)
- Revenue-related adjustments	5 (18,707)
- Other adjustments	6 (16,887)
Net income for the year under IFRS	9,125,832
<i>Adjustments for measurement, recognition differences</i>	
- Re-measurement of end of service benefit obligation	1 (64,011)
- Reversal equity accounting share – OTL	2 170,736
<i>Differences in the presentation of OCI</i>	
- Exchange differences arising during the year on translating foreign operations	(169,422)
- Fair value changes on available-for-sale financial assets	196,241
- Fair value changes due to cash flow hedges	(56,307)
Total comprehensive income for the year under IFRS	9,203,069

#### 47. TRANSITION TO IFRS (CONTINUED)

##### C. Impact of transition to IFRS

<b>Property rights in accordance with SOCPA</b>		<u>31 December 2016</u>	<u>1 January 2016</u>
Total equity under SOCPA		61,076,395	61,962,243
<i>Adjustments</i>			
- Defined benefit plans, net	1	426,184	397,335
- Settlement of investment balance in an associate	2	-	(486,656)
- Free of cost assets	3	156,142	127,796
- Decommissioning liability	4	(173,193)	(139,688)
- Revenue-related adjustments	5	(139,982)	(121,275)
- Other adjustments	6	(67,215)	(50,206)
Total equity under IFRS		<u>61,278,331</u>	<u>61,689,549</u>

There are no material differences between IFRS and the previously recognized accounting standards in the Kingdom of Saudi Arabia SOCPA regarding the Group's cash flow statement for the year ended 31 December 2016.

##### 1. Defined benefit plans

Under SOCPA (the previously recognized accounting standards in Saudi Arabia), the Group recognised the cost related to its defined benefit plans based upon the undiscounted amount of the benefit expected to be paid. Under IFRS, defined benefits plans are recognised on an actuarial basis.

The impact arising from this change is a decrease in EOS provision and an increase in equity amounting to SR 426 million as at 31 December 2016 (1 January 2016: SR 397 million). A decrease in expense of SR 93 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 and a decrease in OCI for the same period by SR 64 million.

##### 2. Settlement of investment balance in an associate

Upon the transition to IFRS, the Group re-calculated its share in OTL net assets taking into account its share in the service concession agreement, resulting in a total write-down of OTL investment of SAR 487 million with a corresponding reduction in equity as of 1 January 2016. As the share of losses in OTL exceeded the Group's interest in OTL, the Group discontinued accounting for its investment using the equity method this resulted in an increase in the consolidated statement of profit or loss by SR 316 million and OCI by SR 171 million for the year ended 31 December 2016.

##### 3. Free of cost assets

The Group receives certain items of property, plant and equipment free of cost from vendors. Under SOCPA (the previously recognized accounting standards in Saudi Arabia), the Group recorded such items of property, plant and equipment at fair value with a credit to deferred income.

From the date of transition to IFRS, the Group adopted an accounting policy to recognise such assets received free of cost at a nominal value of one Saudi Riyal. As a result of adoption of this policy, equity increased by SR 128 million and SR 156 million respectively as at 1 January 2016 and 31 December 2016. This also resulted in an increase in the consolidated statement of profit or loss by SR 28 million.

##### 4. Decommissioning liability

The Group has an obligation to restore certain sites used by its network operations. Under SOCPA (the previously recognized accounting standards in Saudi Arabia) the cost of restoring the sites was expensed as incurred. In accordance with IFRSs, a provision for site restoration in respect of the sites used by the Group's network operations has been recognised when the obligation arises, which is generally when the installation on the site occurs.

#### **47. TRANSITION TO IFRS (CONTINUED)**

##### ***C. Impact of transition to IFRS (Continued)***

The impact arising from this change is a decrease in equity of SR 173 million as of 31 December 2016 (1 January 2016: SR 139,6 million) and a decrease of SR 33.5 million in the consolidated statement of profit or loss for the year ended 31 December 2016 resulted from the impact of increased depreciation and unwinding of the discount related to the decommission liability.

##### ***5. Revenue recognition***

Bundled arrangements sold by the Group consist of multiple performance obligations. Under SOCPA (the previously recognized accounting standards in Saudi Arabia) revenue from bundled arrangements was allocated to each performance obligation based on the contracted price with the customer for each performance obligation. Under IFRS the contracted price from the bundled arrangements has been allocated to each performance obligation identified in the contract on a relative fair value basis, which has been determined based upon the estimated stand-alone selling price for each performance obligation.

The impact arising from this change is a decrease in equity of SR 140 million as of 31 December 2016 (1 January 2016: SR 121 million). Reduction in revenue from services of SR 19 million has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.

##### ***6. Other adjustments***

Other adjustments pertain to items that are neither individually or collectively material and primarily include the impact of discounting of long term assets and financial liabilities and fair value change of financial assets designated at FVTPL.

##### ***7. Reclassification***

Certain assets relating to computer software and networks have been reclassified from property, plant and equipment to intangible assets to conform with the presentation and disclosure requirements of IAS 38 *Intangible assets* (31 December 2016: SR 3,423 million, 1 January 2016: SR 2,776 million).

#### **48. ENDORSEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

At its meeting held on 4 Rajab 1439H (corresponding to 21 March 2018), the Board of Directors approved the consolidated financial statements for the year 2017.



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