

# Risk Management

The telecommunications sector faces significant challenges, chiefly the diminishing demand for voice services juxtaposed with an exponential increase in data consumption, a trend hastened by the recent pandemic. This rapid digital transition, propelled by disruptive technologies, redefines traditional revenue models and necessitates swift innovation among telecom providers.

In an increasingly saturated market, differentiation through unmatched service offerings becomes paramount. Concurrently, significant investments in infrastructure, rigorous data protection protocols, and adherence to regulatory frameworks are non-negotiable. Telecom enterprises must navigate this transformation by promptly adapting, broadening their service portfolios, and delivering frictionless customer experiences to secure a competitive advantage. stc's risk management is integral to its strategic framework, informing business planning and performance evaluation and embedding risk considerations into critical decision-making processes to maximize impact.

## Enterprise risk management governance

The Board of Directors ensures the highest standard of corporate governance is maintained by regularly reviewing governance development best practices and making certain these are duly adopted. As a result, the Board has established the Board Risk Committee, which plays a key role in overseeing the implementation of the enterprise risk management (ERM) framework, risk strategy and related risk management policies, as well as monitoring stc's risk management system, reviewing the top risks, and the management of those risks. The risk management function is independent and separate from stc's business groups and sectors; it has completed its first wave of measures this year as per the Board-approved risk strategy to uplift current practices and maturity.

## Enterprise risk management framework

The ERM framework provides guiding principles for proactively managing business risks through a comprehensive and dynamic system designed to identify, assess, prioritize and mitigate risks effectively across stc operations. The ERM process is embedded within stc as this allows us to take a holistic approach and make meaningful comparisons to support the delivery of strategic objectives. Quarterly risk assessment is a core part of this process. The risk framework clearly defines roles and responsibilities and sets out a consistent end-to-end process for identifying and managing risks.

stc's approach is continuously enhanced, enabling more dynamic risk detection, modeling of risk interconnectedness, and the use of data, all of which are improving its risk visibility and responses. A standard risk scoring methodology has been devised to provide context and ensure consistency in reporting and evaluating risks. The output from this process is consolidated to determine the principal risks and uncertainties for stc Group.

Emerging risks are considered part of the risk assessment process and identified through horizon scanning, continual dialogue with the business and keeping abreast of market and industry changes. A summary of identified emerging risks is presented to the Board Risk Committee and Board for assessment, and these risks are consistently monitored as part of our ongoing risk management processes. Some of these emerging risks include ESG regulatory changes, technology innovation and business disruption.

## Identifying risks

All stc entities identify and assess their own risks, which could potentially affect our strategy and operations. A consolidated list of these risks is presented to senior leaders and executives, along with the outputs from an external environment scan and related benchmarks. Applying a Group-wide perspective, these executives evaluate and determine critical risks and which emerging threats warrant further exploration. These are defined and agreed upon by the Risk Management Committee before being submitted to the Board Risk Committee and the Board for final review and approval.

## Managing risks

Establishing the context and having a clear understanding of the environment in which it operates is important. Therefore, stc assigns each of its risks to a specific category (i.e. corporate, technology, operational, financial and compliance) and identifies whether the source of the threat is internal or external. This approach enables a better understanding of how it should treat the risk and ensures the right level of oversight and assurance are provided. The assigned executive risk owners are accountable for making sure adequate controls are in place and implementing the necessary treatment plans to bring the risk within an acceptable tolerance. stc continues to monitor the status of risk treatment strategies across the year and hold in-depth reviews of its risks. stc also develops a comprehensive assessment of the related scenarios for each of the top risks, providing additional insight into possible threats and enabling a better risk treatment strategy.

## Monitoring risks

stc risk report, which presents the main risks, is prepared for the Board of Management on a quarterly basis. The Board Risk Committee also examines this report at its meetings. Furthermore, the Board of Management informs the Supervisory Board. In addition, the emerging risks are presented once a year as part of the risk report. Among other benefits, stc risk report ensures transparent monitoring of the development of individual risks, as well as the overall risk situation. It

informs the Board Risk Committee about all of the latest developments and/or changes in the risk management system. With the aim of managing and supervising risks, stc is enhancing its risk management technology tools, which facilitate the reporting, analysis, assessment and management of risk information. These are continuous improvements developed in risk management tools to improve or expand their functionalities.

## Risk mindset and culture

stc engenders a set of behaviors and expectations that drive risk awareness throughout its business activities. It is driven by the tone from the top and supported by its people management systems. It promotes timely and sensible risk interventions and actions that improve operational integrity and help employees make smart choices about risks. It communicates expected behaviors to every colleague to weave risk awareness into the fabric of its culture. It has an ongoing program of training and communication and has defined roles to formalize risk management and continuously integrate risk management procedures into key areas of decision-making.

## Business continuity

stc business continuity, data centers, mobile communications network, other network infrastructure and facilities, and the safety of its employees and customers are among stc's most important priorities. stc implements an immediate and appropriate response to disaster and emergency incidences and carries out business continuity plans (BCP) for critical operations, systematically and periodically, according to the business impact analysis (BIA) to ensure the effectiveness of these plans. stc has recently been recertified for the international standard for business continuity management (ISO 22301:2019); this comes as a testament to the diligent approach taken by stc to implement protocols and guidelines to maintain all business-related operations.

**Risk Management** continued

**Internal control**

stc’s Board of Directors declares that the accounting records have been prepared correctly and that the internal control system and procedures have been properly prepared and effectively implemented without material observations, and that there is little doubt as to stc’s ability to continue its activities. The Audit Committee oversees the compliance and internal and external audits, and regularly reviews the adequacy and effectiveness of the internal control system. One of the objectives of the Board is to obtain reasonable assurance about the soundness of the design and the effectiveness of stc’s internal control system. In this regard, during the fiscal year 2023, the Audit Committee held 11 meetings and discussed a number of topics falling under its competencies, including reviewing financial statements, investments and business units, as well as strategic and organizational affairs, human resources, procurement and IT systems. This meeting is attended by Executive Management and members of the Internal Audit team.

**Risk management highlights**

Throughout the preceding year, stc attained significant milestones within its risk management initiatives, a testament to its unwavering commitment to cultivating a proactive, risk-aware culture, and implementing stringent risk management strategies. Notably, it augmented its risk culture via comprehensive, quarterly training sessions for designated risk champions, equipping them with the requisite knowledge and insight essential for the identification and management of risks pertinent to their domains. Furthermore, specialized training sessions have been conducted under the auspices of the stc Academy, ensuring a universal and thorough grasp of risk management principles and practices across the organization.

A pivotal achievement during this period was the successful deployment of its risk management system. This technological leap forward is designed to automate and streamline the entirety of the risk management process. The system has refined stc’s procedures for risk identification, assessment and mitigation. With

the aid of advanced automation technology, it are now equipped to swiftly address emerging risks and implement mitigation strategies, significantly bolstering its resilience against risk.

In its relentless quest for excellence, stc has made considerable progress in strengthening its control mechanisms and reinforcing its risk mitigation tactics. Over the past year, its concerted efforts have been directed towards refining its risk management framework, enhancing internal controls, and ensuring the robustness of its mitigation plans. Through meticulous alignment of its controls with the pinnacle of industry best practices and regulatory standards, it has not only fortified the organization, but also empowered it to pursue its strategic objectives with heightened confidence and exactitude.

**Principal risks**

As a leading entity in the global telecommunications and information technology arena, stc navigates a landscape rife with uncertainties and rapid change. Success in this dynamic environment is predicated on its proactive anticipation of potential developments and the systematic identification, evaluation and management of the consequent risks and opportunities. stc regards an efficacious risk and opportunity management system as an indispensable component of its value-driven corporate governance. In the risk evaluation phase, it categorizes risks into corporate, technology, operational, financial and compliance domains. This classification enhances its comprehension of each risk’s unique characteristics and informs its management approach, allowing it to craft tailored oversight and assurance strategies.

The material risks that could affect stc are outlined below, including any material exposure to environmental or social risks, and how it seeks to manage them. The risk management process reflects the most significant risks identified at the entity level.

Category	Risks	Mitigation measures
<b>Technology</b>	<p><b>Cybersecurity threats</b></p> <p>The rise of advanced malware and DDOS botnets is reshaping the threat landscape and forcing enterprises to reassess how they protect themselves. This threat exists not only within stc, but upstream through vulnerabilities in its vendors and suppliers; and downstream, where vulnerabilities in stc may be leveraged by cyber-criminals to attack its customers. Third-party access management is a significant matter as it relies heavily on third-party contractors with multiple incidents reported by stc.</p>	<p>stc continues to strengthen the cybersecurity unit. Internal systems and policies are developed, levels of security procedures are raised, awareness is intensified, and the effectiveness of information security plans is tested.</p> <p>stc has established robust cyber assurance practices for information protection and asset management and the Group has established advanced penetration testing and vulnerability management capabilities.</p>
<b>Technology</b>	<p><b>Data privacy</b></p> <p>One of the biggest challenges faced by any organization is managing privacy as data volumes continue to grow and regulatory and customer scrutiny increases. It is more important than ever to be clear on the privacy risks it faces to handle PII, or an individual’s right to determine what kind of data can be collected, stored, protected, and can be shared with third parties.</p>	<p>stc has established a privacy framework containing policies and procedures relating to the privacy of personal information address data classification, record management, retention and destruction, as well as implemented technical solutions to set different permission levels for employees based on what PII they need to access, such as public, private, and restricted access.</p>
<b>Technology</b>	<p><b>Resilience following disaster, crisis or events impacting business continuity</b></p> <p>Global telcos have experienced significantly higher network demand during the COVID-19 crisis, with the initial lockdowns triggering reported traffic spikes, partial or full-scale non-availability or quality degradation of ICT services owing to telecom network failures or business support systems and other key systems. Key considerations include disaster preparedness planning, exchange equipment, undersea cable communications, and fibre-optic cable problems.</p>	<p>stc has established entity-wide written programs that address and validate the continuity of the institution’s mission-critical operations. It has recertified the organization against ISO 22301:2019 and taken all required steps to comply with any relevant regulatory requirements.</p> <p>stc has proposed additional projects to strengthen disaster recovery (DR) systems to ensure business and services continuity, taking into account various possibilities. The Emergency Response team oversees major contingency planning work and periodically conducts virtual experiments.</p>
<b>Compliance</b>	<p><b>Unfavorable regulatory changes impacting its current business model</b></p> <p>Regulations over its current obligations are increasing both in number, frequency and impact and are evolving in their nature. The potential impact of these new regulations could have serious negative implications for stc’s profitability, market position and include penalties or financial liabilities.</p>	<p>stc studies the regulatory legislation on an ongoing basis, coordinates efforts with sectors related to it, inside and outside stc, and applies the best standards to ensure the provision of the best services to its clients in a manner that achieves the objectives of the national plans. A dedicated administrative organization is established for the regulatory affairs sector to contribute to enhancing stc’s capabilities in the regulatory field.</p>
<b>Operational</b>	<p><b>Supply chain disruptions</b></p> <p>Material shortages and supply risks to rare earth minerals and other key components for chip manufacturing may have far-reaching consequences for continued stc technology leadership, including its ability to provide essential services and next-generation mobility, and to meet the demands of infrastructure projects upon which it has engaged.</p>	<p>stc diversifies its supply chains so that it does not depend on limited numbers of suppliers, and it emphasizes in its contracts that the systems are compatible with each other regardless of the supplier. It also reviews the conditions of contracted companies and sets legislation to ensure their financial and operational suitability for stc’s requirements, in line with technological development and the integrity of their business plans.</p>
<b>Corporate</b>	<p><b>Strategy implementation in a dynamic market</b></p> <p>In order to succeed in this highly competitive and dynamic environment, it is essential to have agile strategic development, maintenance and implementation processes capable of providing stc with a strategy for success, but also one with the agility to meet the demands on the markets in which it operates.</p>	<p>stc’s strategy is updated on a 3-yearly basis and refreshed annually to ensure it remains current and relevant. The timing of the annual refresh and 3-yearly updates is flexible in line with context, dynamics and stakeholders’ inputs. It has also conducted a 360-degree environmental scan (i.e. competition, industry trends, regulation, socio-economic and stc performance).</p>

**Risk Management** continued

**Financial risk management**

**Credit risk management**

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

Other than the concentration of credit risk disclosed in Note 18 in the consolidated annual financial statements, 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 telecom industry norms.

Ongoing evaluation is performed on the financial condition of trade receivables and management believes there is no further credit risk provision required in excess of the normal provision for impairment loss (→ for more details, see note 18 in the consolidated annual financial statements).

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

Cash balances and short term investments were deposited with international banks with credit rating of A and above, while investments made with local banks had an investment grade credit rating of Baa3 and above.

The credit rating of the Company's investments in government sukuk and Binariang GSM Sdn Bhd ("BGSM") sukuk are A and Aa3, respectively as at 31 December 2023 (2022 : A and Aa3, respectively) (→ for more details, see note 16.1 in the consolidated annual financial statements).

The carrying value of financial assets represent the maximum exposure to credit risk.

**Foreign currency risk management**

Saudi Riyal is considered as the functional currency of the Group which is pegged against the United States Dollar. Therefore, the Group is only exposed to exchange rate fluctuations from transactions denominated in foreign currencies other than United States dollar mainly euro. The fluctuation in exchange rates against currencies, which are not pegged with Saudi Riyal, are monitored on a continuous basis and risk is assessed via the Value-at-Risk (VaR) measure. The Group's exposure to foreign currency changes for all other currencies is not material. The sensitivity of the changes of SAR/EUR exchange rates by 1% would have impacted equity by SAR 88 million.

**Liquidity risk management**

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

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

Liquidity is reviewed periodically for the Group and stress tested using various assumptions relating to capital expenditure, dividends, trade receivable collections and repayment of loans without refinancing (→ for more details, see note 43.6 in the consolidated annual financial statements).

**Profit rate risk**

The Group's main profit rate risk arises from borrowings with variable profit margin rates.

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 analyses show the effects of changes in market profit rates on profit and loss. For floating rate liabilities, the analysis is prepared assuming the amounts outstanding at the end of the year were outstanding for the whole year. A 100-basis point increase or (decrease) represents management's assessment of the reasonably possible change in profit rates. If profit rates had been 100 basis points higher (lower) and all other variables were held constant, the impact on the profit of the Group would have been lower (higher) by SAR 155 million (2022: the impact on the profit of the Group would have been lower (higher) by SAR 39 million). This hypothetical effect on profit of the Group primarily arises from potential effect of variable profit financial liabilities. The Group periodically monitors the impact of the incremental changes in profit rates and assesses the impact on the Group's profitability.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises different types of risk: interest rate risk, currency risk, and price risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments.

The Group is exposed to changes in the value of equity investments and derivatives associated with such investments. To reduce the risk associated with variations in fair value and share price, the Group acquires derivative instruments that hedge the risk profile of such investments.

The hedge ratio for each designation is established by comparing the quantity of the hedging instrument and the quantity of the hedged item to determine their relative weighting; for Group's existing hedge relationships the hedge ratio has been determined as 1:1.

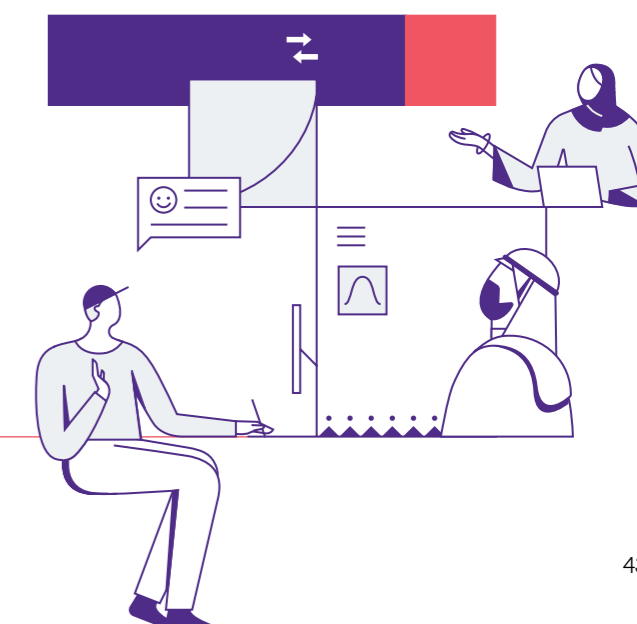
Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

The hedge ineffectiveness can arise from a change in the credit risk of the counterparty with the hedging instrument.

**Fair value of financial instruments**

The Group uses valuation techniques appropriate to current circumstances that provide sufficient data to measure fair value. In addition for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety (→ for more details, see note 4.20 in the consolidated annual financial statements).

The fair values of financial instruments represented in trade and other receivables, short-term murabaha, cash and cash equivalents, and trade and other credit payables closely approximate their book value due to their short maturity (→ for more details, see note 43.2 in the consolidated annual financial statements).



**Risk Management** continued

**Capital management**

The Group manages its capital which includes share capital, statutory reserves, other reserves and retained earnings attributable to the equity holders of the Parent Company to ensure that:

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

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

The Group is not subject to any externally imposed capital requirements. The Group did not introduce any amendments to the capital management objectives and procedures during the year ended 31 December 2023.

The Group reviews the capital structure on an annual basis to evaluate the cost of capital and the risks associated with capital (→ for more details, see note 43.1 in the consolidated annual financial statements).

**Compliance**

stc seeks to promote an organizational culture that is committed to compliance with all the applicable laws, bylaws, regulations and ethical conduct through supported comprehensive policies, talent development, engagement with all the stakeholders and leveraged cutting-edge technologies.

This year, stc expanded the compliance program to all subsidiaries, and is currently transforming the compliance function to adopt a unified approach towards compliance management. Recently, stc has invested heavily in enhancing the compliance program based on the ISO 37301:2021 standard that will support the Group-wide compliance strategy in guiding the business towards achieving its objectives.

The immediate strategic focus is to enable stc to become world class in compliance by taking into consideration internal and external factors, and monitoring the growth and performance of stc, supported by a robust operating model commensurate with stc's size and operations.

The Compliance sector is independent and constantly engaged with 2 independent committees: the Board Audit Committee (BAC), chaired by an Independent Board member, and the Risk Management and Compliance Committee (RMCC), chaired by the Group Chief Executive Officer. Both committees are responsible for overseeing the progress of the compliance program and maintaining a strong culture of compliance at Group-level. Direct and independent oversight not only mitigates potential legal and financial risks, but also fosters trust among its stakeholders.

stc places strong emphasis on localizing capabilities and sustaining expertise by leveraging continuous training and awareness programs to promote a culture of compliance within the organization. Additionally, the Compliance unit is actively managing non-compliance risks, driving efficiencies, improving quality and providing business insight through technology-enabled and data-driven practices.

We are dedicated to enhancing the culture of compliance and adherence to laws, bylaws, regulations, internal policies, procedures and standards. It serves as a core principle that governs stc's conduct, guiding its actions and decisions.

**Business Integrity**

stc Business Integrity and its program and activities strive to promote a culture of integrity that encourages ethical behavior in stc's work culture.

stc's Business Integrity team reports to stc's GCEO, Business Integrity Committee, Board Audit Committee and Board of Directors on a regular basis on integrity matter updates and the program's progress. stc has currently unified the integrity function under one umbrella by merging the specialized departments – such as combating financial crimes, anti-money laundering, anti-fraud, anti-bribery and corruption and combating terrorist financing – under the Business Integrity general department.

stc is considered one of the pioneer companies to activate such a general department in the telecommunications sector to protect assets and effectively contribute to combating these types of crimes.

stc is keen to activate the preventive role and continuous improvement of a safe and fair work environment and business practices. Understanding the importance of these roles contributes to the ethical culture in stc.

stc has also established a specialized Business Integrity Committee to keep pace with relevant best practices and ensure stc's actions align with best practices in corporate governance. The committee held 6 meetings during the year 2023, in which it discussed the submitted reports, recommendations related to work, statistics pertaining to integrity, and general supervision of awareness and communication plans and corrective actions.

stc communicated with its subsidiaries to confirm the application of the highest standards of professional integrity practices in the work of stc Group and its subsidiaries, ensuring consistency of policies and procedures for business integrity and the existence of channels for receiving reports of violations of various types, including but not limited to administrative, security, behavioral and money-laundering violations, as well as corruption, fraud and bribery.

As part of a strategy that dares to activate digital empowerment and unleash the potential of digital and analytical capabilities, Business Integrity developed and designed a system for managing cases and receiving speak-ups and whistleblowing. The automation of the process raised the level of work completion and assigned tasks and contributed to cooperation with relevant departments, allocating resources, increasing efficiency and improving quality, thereby diversifying the channels used to receive reports and making it easier for those who wish to report integrity concerns.

Among the cooperative initiatives and in cooperation with the Oversight and Anti-Corruption Authority (Nazaha) – within the framework of heightening awareness of combating corruption – the specialized team presented 2 workshops in 2023 through Nazaha's Watanona Amanah program. These workshops targeted leaders and employees and discussed topics of strengthening the values of integrity, combating corruption in the work environment, disclosure, transparency and conflicts of interest. Mandatory training material has been launched and directed at all employees and contractors, specifically pertaining to anti-fraud, which aims to spread awareness of business integrity, combatting corruption and enhancing self-commitment to integrity.

stc sent several Saudi male and female employees who are working in Business Integrity to the United States of America to complete training on the systems used, including the global Nuix system, which is one of the leading systems in investigations in anti-fraud and business integrity cases. The Company seeks to develop the culture of competency qualification and continuous training with the aim of improving the business cycle and its quality in this field, supporting human capital and developing national competencies.

As we progress on our integrity journey, we commit ourselves to constantly improve stc's integrity program and setting an example of ethical leadership.

