

Financial Performance



Financial Performance continued

Highlights of the Group's operating results in 2023 compared to 2022

Income statement

Statement (SAR'000)	2023 Consolidated	2022 Consolidated	Difference	%
Revenues	72,336,611	67,431,546	4,905,065	7.3%
Cost of revenues	(34,532,921)	(30,038,291)	(4,494,630)	15.0%
Gross profit	37,803,690	37,393,255	410,435	1.1%
Total operating expenses	(23,603,256)	(22,304,814)	(1,298,442)	5.8%
EBITDA	24,683,011	25,078,667	(395,656)	(1.6%)
Other income and expenses	594,543	(1,618,344)	2,212,887	136.7%
Zakat and income tax	(1,375,498)	(1,083,175)	(292,323)	27.0%
Net Profit attributable to stc's Equity holders of the Parent Company	13,295,381	12,170,537	1,124,844	9.2%
Net Profit attributable to non-controlling interests	124,098	216,385	(92,287)	(42.6%)
Net Profit	13,419,479	12,386,922	1,032,557	8.3%

stc achieved the highest revenues in its history, increasing by SAR 4,905m as compared to the last year, mainly attributed to the increase in commercial unit revenues by 5.1%, carriers and wholesale unit revenues by 14% in stc KSA, and the subsidiaries revenues also increased by 23.9%.

The increase in net profit for the year 2023 by SAR 1,124m as compared to the last year was mainly attributed to the following:

- The increase in revenues by SAR 4,905m, that was offset by an increase in cost of revenues by SAR 4,495m, which led to an increase in gross profit by SAR 410m, noting that cost of revenues last year was positively impacted by the reversal of contingent liability provision in an amount of SAR 1,079m.
- The increase in revenues in addition to stc's continued investment in new domains in accordance with stc's strategy, and what these investments expansion entails in terms of increasing operating expenses especially in the start-up phase for the companies associated with these investments, resulted operating expenses to increase by SAR 1,298m.
- The booking of total other income (expenses) in an amount of SAR 595m as compared to SAR (1,618m), mainly due to:
 1. The increase in finance income by SAR 910m.
 2. The booking of net share in results and impairment of investments in associates and joint ventures in an amount of SAR 53m as compared to an amount of SAR (1,212m) mainly as a result of booking an impairment provision related to BGSM investment in an amount of SAR (1,259m) in the last year.
 3. The increase in net other gains by SAR 1,084m mainly as a result of booking gains from AlKhubar land sold with an amount of SAR 1,296m.
 4. This is despite of: (a) The increase in finance cost by SAR 574m. (b) The increase in cost of early retirement program by SAR 497m.
- Zakat and income tax expense increased by SAR 292m.

Summary of the Group's assets, liabilities, and results for the past 5 fiscal years

Income statement

Statement (SAR'000)	2019 Consolidated Revised	2020 Consolidated Revised	2021 Consolidated Revised	2022' Consolidated Revised	2023 Consolidated
Revenues activity	54,367,531	58,953,318	63,007,986	67,431,546	72,336,611
Costs of activity revenues	(21,976,306)	(24,998,923)	(29,213,957)	(30,038,291)	(34,532,921)
Total profit of the activity	32,391,225	33,954,395	33,794,029	37,393,255	37,803,690
Operating expenses	(19,910,832)	(21,223,270)	(20,666,274)	(22,304,814)	(23,603,256)
Profit from operating activity	12,480,393	12,731,125	13,127,755	15,088,441	14,200,434
Other revenues and expenses - net	(793,418)	(375,482)	(492,692)	(1,618,344)	594,543
Zakat, taxes, and non-controlling interests	(1,022,309)	(1,360,768)	(1,323,721)	(1,299,560)	(1,499,596)
Net profit attributable to stc's shareholders	10,664,666	10,994,875	11,311,342	12,170,537	13,295,381

Other comprehensive income

Statement (SAR'000)	2019 Consolidated Revised	2020 Consolidated Revised	2021 Consolidated Revised	2022' Consolidated Revised	2023 Consolidated
Net profit including non-controlling interests	10,924,831	11,185,197	11,594,697	12,386,922	13,419,479
Total items that may not be reclassified subsequently to the consolidated statement of profit or loss	(710,054)	(562,514)	317,616	818,534	(205,380)
Total items that may be reclassified subsequently to the consolidated statement of profit or loss	212,050	31,430	99,789	(174,583)	19,466
Total (comprehensive loss)/other comprehensive income	(498,004)	(531,084)	417,405	643,951	(185,914)
Total comprehensive income	10,426,827	10,654,113	12,012,102	13,030,873	13,233,565
Total comprehensive income attributable to stc's shareholders	10,163,477	10,478,455	11,717,489	12,840,311	13,138,635
Total comprehensive income attributable to non-controlling interests	263,350	175,658	294,613	190,562	94,930

Financial Performance continued

Statement of financial position

Statement (SAR'000)	2019 Consolidated Revised	2020 Consolidated Revised	2021 Consolidated Revised	2022* Consolidated Revised	2023 Consolidated
Current assets (A)	44,841,492	45,858,916	51,468,074	60,790,447	71,224,125
Fixed and intangible assets	54,992,030	58,314,031	57,939,836	58,420,288	65,383,409
Other non-current assets	18,492,734	17,799,153	18,371,507	18,009,251	23,075,236
Total assets	118,326,256	121,972,100	127,779,417	137,219,986	159,682,770
Current liabilities (B)	32,606,772	32,891,183	33,560,552	36,400,164	48,070,790
Long-term loans	8,923,476	8,637,605	7,846,606	10,213,750	13,641,768
Other non-current liabilities	13,740,962	15,176,297	14,986,280	14,580,480	16,455,046
Total liabilities	55,271,210	56,705,085	56,393,438	61,194,394	78,167,604
Paid capital	20,000,000	20,000,000	20,000,000	50,000,000	50,000,000
Reserves, retained earnings and treasury shares	41,762,594	43,945,782	49,270,505	23,499,525	28,984,945
Equity attributable to shareholders of stc	61,762,594	63,945,782	69,270,505	73,499,525	78,984,945
Non-controlling interests	1,292,452	1,321,233	2,115,474	2,526,067	2,530,221
Total equity	63,055,046	65,267,015	71,385,979	76,025,592	81,515,166
Total liabilities and equity	118,326,256	121,972,100	127,779,417	137,219,986	159,682,770
Working capital (A-B)	12,234,720	12,967,733	17,907,522	24,390,283	23,153,335

Cash flow statement

Statement (SAR'000)	2019 Consolidated Revised	2020 Consolidated Revised	2021 Consolidated Revised	2022* Consolidated Revised	2023 Consolidated
Net operating cash flow	9,920,626	28,324,705	11,220,155	26,354,390	22,417,558
Net investment cash flow	(1,977,126)	(17,429,177)	(1,714,583)	(8,578,939)	(28,383,342)
Net financing cash flow	(8,067,645)	(9,919,218)	(10,235,177)	(8,255,503)	1,590,929
Net cash flow	(124,145)	976,310	(729,605)	9,519,948	(4,374,855)
Cash and cash equivalents at the beginning of the year	8,153,865	8,031,010	9,004,286	8,281,301	17,794,393
Impact of foreign currency exchange differences	1,290	(3,034)	6,620	(6,856)	(5,413)
Cash and cash equivalents at the end of the year	8,031,010	9,004,286	8,281,301	17,794,393	13,414,125

*Certain comparative figures for the year ended December 31, 2022, were reclassified to conform with the classification used in the financial statements for the year ended December 31, 2023.

Geographical analysis of standard service revenues at the Group's level

During the year 2023, the Group achieved total revenues of SAR 72,336,611 thousand. Foreign investments at the Group's level accounted for 12% of this total. The following table shows their geographical distribution:

Revenues inside the Kingdom of Saudi Arabia (SAR'000)	Revenues outside the Kingdom of Saudi Arabia (SAR'000)	Total
63,798,268	8,538,343	72,336,611

As for the local distribution of revenues, a geographical analysis of the stc's revenues is not available at the local level due to the nature of the sector's work, because the revenue generated by the customer is not linked to one region, where the customer's account is established in a region and the calls that the customer is billed with have occurred in several Regions, according to its presence inside the Kingdom, and with regard to international calls and international roaming made by the customer, it cannot be linked to any region because it takes place outside the geographical borders of the Kingdom.

The Group's loans are as follows

Statement (SAR million)	2023 Consolidated	2022 Consolidated
Short-term Murabaha	6,102	79
Long-term Murabaha	8,959	3,525
Total Murabaha	15,061	3,604
Sukuk	6,677	6,675
Mudarabha	10	14
Others	211	198
Total	21,959	10,491

Financial Performance continued

Borrowing

Total loans paid during the year ended 31 December 2023 amounted to SAR 433 million (2022: SAR 133 million). Total loans received during the year ended 31 December 2023 amounted to SAR 11,834 million (2022: SAR 1,277 million). A list of the loans are as follows:

All amounts in SAR million								Paid during the year		Outstanding Balance			
Company	Granting Authority	Type of Financing	Term of Financing	Date of Obtaining Financing	Currency	Value of Financing (3)	Amount Used			Current portion		Non-Current portion	
								2023	2022	2023	2022	2023	2022
stc – Kingdom Saudi Arabia	Debt Instruments Market	Sukuk (1)	10 years	June 2014	SAR	2,000	2,000	0	0	2,000	0	0	2,000
	Debt Instruments Market	Sukuk (2)	10 years	May 2019	USD	4,687	4,687	0	0	0	0	4,677	4,675
	Loan	ECA	8.5 years	March 2021	USD	581	581	69	69	69	79	343	401
	Loan	Bank financing	3 months	Sep 2023	SAR	350	350	350	0	0	0	0	0
	Loan	Bank financing	1 year	Sep 2023	USD	6,000	6,000	0	0	5,963	0	0	0
Total						13,618	13,618	419	69	8,032	79	5,020	7,076
Subsidiaries	Local and International Banks	Murabaha and Credit Facilities	From 1 to 10 years	Since 2018	Mixed	13,907	8,712	14	64	284	198	8,622	3,138
Total Group's Loans						27,525	22,330	433	133	8,316	277	13,642	10,214

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

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

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

(3) The value of financing may differ due to FX and amortization effects.

Financial Performance continued

The following is a statement on the regulatory amounts recorded as expenses (whether paid or outstanding statutory payment) by stc along with brief descriptions and reasons

Statement	SAR million	Description	Reason
Government fees	4,663	The amounts recorded as an expense to the period for licensing granted to stc for the provision of commercial services and spectrum usage fees.	Regulatory requirement
Dividends	5,446	The amounts recorded as an expense to the period as dividends to governmental and semi-governmental authorities (Public Investment Fund, Public Pension Agency (PPA), and General Organization for Social Insurance).	Regulatory requirement
Social insurance	645	The amounts recorded as an expense to the period pursuant to the provisions of the Kingdom's Labor Law.	Regulatory requirement
Zakat, withholding tax, and others	1,355	The amounts recorded as an expense to the period pursuant to the zakat provisions and rules, income tax law, and fees payment laws applicable in the Kingdom.	Regulatory requirement
Total amounts recorded as expenses to governmental and semi-governmental authorities	12,109	This represents the regulatory expenses amounts to the Government.	

Employees' Long-Term Incentives Program

The Board of Directors approved on 17 March 2020 (corresponding to 22 Rajab 1441H) to repurchase a number of the Company's shares for an amount not to exceed SAR 300 million to be allocated for the employees long-term incentives program (the Program). The Board raised its recommendation to the EGA to approve the Program and to repurchase the shares. The EGA has voted on the approval of this Program during its meeting held on 20 April 2020 (corresponding to 27 Shaban 1441 H).

The Board of Directors approved on 28 June 2022 (corresponding to 29 Thul-Qi'dah 1443H) to repurchase a number of the Company's shares for an amount not to exceed SAR 453 million to be allocated for the Program and to raise its recommendation to the EGA for voting. Further, the shares shall be repurchased within 12 months from EGA's approval date. The EGA has voted on the approval during its meeting held on 30 August 2022 (corresponding to 3 Safar 1444H).

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

The Program intends to attract, motivate and retain employees responsible for the achievement of the Group's goals and strategy.

The Program provides a share-based payment plan for eligible employees participating in the Program by granting them shares in the Company upon completing the duration of service and performance requirements and achieving the targets determined by the Group. The program is generally equity-settled.

The grant and vesting dates, respectively are as follows

	Cycle 1	Cycle 2	Cycle 3	Cycle 4
Tranche 1	July 2020 / July 2021	July 2021/ May 2022	May 2022/ May 2023	May 2023/ May 2024
Tranche 2	July 2021/ May 2022	May 2022/ May 2023	May 2023/ May 2024	May 2024/ May 2025
Tranche 3	May 2022/ May 2023	May 2023/ May 2024	May 2024/ May 2025	May 2025/ May 2026

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

Item (shares thousand)	2023	2022
As at 1 January	2,498	344
Shares granted (*)	2,808	1,012
Shares vested	(2,328)	(357)
Effect of bonus shares issuance	-	1,499
As at 31 December	2,978	2,498

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

The fair value was calculated based on the market price after deducting the expected dividends per share on the grant date. The average fair value of shares at grant date amounted to SAR 43.4 per share (taken into consideration the effect of bonus shares issuance) (2022: SAR 42.8 per share). Total expenses related to the Program for the year ended 31 December 2023 amounted to SAR 112 million (31 December 2022: SAR 85 million), which were included as part of employees benefits expense in the consolidated statement profit or loss, with the corresponding amount recorded under other reserves within equity in accordance with the requirements of International Financial Reporting Standard (2): Share-based Payment (→ for more details, see note 24 in the consolidated annual financial statements).

Financial Performance continued**Capital Commitments**

- One of the Group's subsidiaries has an agreement to invest in a fund aiming to improve the telecommunication and internet environment sector in the Kingdom of Bahrain and other GCC Countries with an amount of SAR 806 million (equivalent to USD 215 million) as at 31 December 2023 (31 December 2022: SAR 806 million, equivalent to USD 215 million) (→ For more details, see Note 6.16 in the consolidated annual financial statements).
- The Group has contractual commitments for the acquisition of property and equipment and intangible assets amounting to SAR 5,814 million as at 31 December 2023 (31 December 2022: SAR 4,709 million).
- During 2022, the Company signed an agreement with STV LP Fund allocated an additional SAR 1,125 million (equivalent to USD 300 million) additional investment in the fund out of which SAR 221 million (equivalent to USD 59 million) was injected.

Contingent Assets and Liabilities

- The Group has outstanding letters of guarantee on behalf of the parent and its subsidiaries amounting to SAR 5,466 million as at 31 December 2023 (2022: SAR 5,181 million).
- The Group has outstanding letters of credit as at 31 December 2023 amounting to SAR 1,634 million (2022: SAR 1,544 million).
- On 21 March 2016, the Company received a letter from a key customer requesting a refund for paid balances amounting to SAR 742 million related to construction of a fibre optic network. Based on independent legal opinions obtained, the management believes that the customer's claim has no merit and therefore this claim has no material impact on the financial results of the Group.
- 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.
- The Group received the Appeal Committee for Tax and Disputes' decision with respect to the withholding tax assessment on international operators' networks rentals for the years from 2004 to 2015, rejecting its appeal with an amount of SAR 1,500 million. The Group submitted a petition for reconsideration, as it believes that Saudi tax regulations do not impose withholding tax on international interconnection services since the source of income does not occur inside the Kingdom, and therefore these services should not be subject to withholding tax. During the year 2022, the Group received the minutes of meeting of the Appeal Committee for Tax Violations and Disputes' regarding the petition for reconsideration which included the rejection of the petition by the Group. The Group submitted a petition for reconsideration based on new development on this matter. Based on the opinions of relevant consultants, the nature of the technical dispute, and new development on this matter, the Group believes that this assessment will not result into additional provisions.
- The Group received claims from Communications, Space and Technology Commission ("CST") related to imposing government fees on devices sold in instalments for the period from 2018 until the end of the first quarter of 2021, totalling SAR 782 million. The Group has objected to these claims within the statutory deadline and a Supreme Court ruling was issued in favour of the Group in regards to two of the claims amounting to SAR 724 million. A preliminary court ruling was issued in favor of the Group in regards to the remaining claims amounting to SAR 58 million which CST has objected to before appeal court and a ruling was issued in favour of CST for the claims which the Group has objected to before the Supreme Court which is still pending with the Supreme Court as 31 December 2023.

