Rating Rationale

Saudi Telecom Company

(A Saudi Listed Joint Stock Company)

November 2025

1.1 TASSNIEF Opinion:

Saudi Telecom Company – Entity Rating	
Domicile	Saudi Arabia
Long-Term Rating	AAA
Outlook	Stable
Short-Term Rating	T-1
Rating Watch	NA
Action Type	Maintained
Type of Relationship	Solicited
Initial Rating	September, 2020
Methodology Deviation	None

Tassnief has maintained long-term entity rating of **"(AAA)"** and short-term entity rating of **"T-1"** assigned to **Saudi Telecom Company**. The outlook on the rating is **"Stable"**. The long-term rating of 'AAA' denotes the highest creditworthiness and minimal credit risk, relative to other issuers or obligations in the Kingdom of Saudi Arabia. The short-term rating of T-1 indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations. The outlook on the assigned rating is 'Stable'.

1.2 Rating Rationale:

The assigned ratings to stc are underpinned by its leading market position, extensive network infrastructure, strong brand value and sound financial profile. Business risk profile is characterized by a diversified revenue base with emphasis on growing non-telecom revenues that complement the existing telecom business. Tassnief expects capex intensity to remain elevated with aggressive growth planned on data center capacity expansion given strong growth opportunities from the segment. Nevertheless, financial flexibility will remain strong on the back of sizeable liquid assets, and low leveraged capital structure. Since last review, stc achieved decent revenue, operating profit and net profit growth while maintaining conservative financial policy.

Summary of key rating driver for the Company include the following

- Leading market position with strong franchise in domestic market.
- Integrated ICT conglomerate with diversified customer base and operations as evident from presence across all facets of ICT industry; strong focus on adjacencies to drive diversification and revenue growth.
- Enabling regulatory and operating environment along with expected growth in customer base and favourable demographics to support growth momentum in revenues for telecom operators.
- EBITDA margins are expected to stabilize at current levels after declining over the last 2 years due to evolving business mix.
- Healthy liquidity profile, strong coverages and sizeable liquid asset on balance sheet.
- Low leveraged capital structure and conservative financial policy reflect sound capitalization profile.

- Sovereign ownership and systemic importance.
- Corporate governance framework supported by effective Board oversight, strong internal control framework, well-developed strategic planning process and disposition towards transparency and disclosures.

Operating environment supported by low revenue cyclicality, favorable demographics and stability, predictability, and maturity in regulatory policies

The telecommunications sector's industry risk profile is characterized by low revenue cyclicality (stable utility-like demand characteristics), favorable demographics (young population with high smartphone and social media penetration), and high competitive intensity given saturated mobile penetration. However, revenue of KSA telecom operators has grown at a CAGR of 6.61% over the last 5 years, which is higher than its regional peers. High non-oil GDP growth and increased tourism (religious and conventional) are key factors that are driving the growth of Saudi telecom industry.

In the last few years, the enterprise segment has registered strong growth for telecom operators as increasing need for digitization, higher internet usage and data intensive operations are key revenue drivers for the segment. However, some moderation of growth in the segment in recent quarters has been noted. Tassnief expects this to be offset by growth in the consumer segment due to growing subscriber base. The consumer segment has witnessed improved growth in 2024 and in the ongoing year which Tassnief expects to continue. An enabling regulatory environment, as reflected in stability, predictability, and maturity in regulatory policies has supported sustained growth and investment in the telecom sector.

Leading market position as an ICT conglomerate

The Company's leading market position is a key rating driver with market share in terms of overall telecom sector revenues being maintained at 73% while market share in terms of subscribers has increased on a timeline basis. The company reinforced its position as the Middle East's largest telecom brand. The Company is also an enabler for Saudi Arabia's digital transformation through major infrastructure investments, AI integration, and the launch of stc digital bank, positioning itself as an ICT conglomerate.

Revenue profile supported by diversified growth across key business segments for local and international telecom business

stc is characterized as a well-diversified ICT player with a robust market presence, which is evident from its multiple revenue streams and broader customer base. During 1H2025, revenue growth was noted across the 2 main business segments including Commercial Business Unit (CBU) and Enterprise Business Unit (EBU). The Company's competitive advantage is derived from its growing mobile subscriber base and number of corporate clients, underpinned by a comprehensive product portfolio catering to diverse market demands. For the fixed segment, the company is intensifying focus with deployment of fiber optic network across housing projects. The company expanded its infrastructure to achieve fiber connections for 3.6 million households and 54.7% 5G coverage of KSA's population. Revenue from EBU which had declined during 2024 due to government's spending rationalization initiative witnessed growth during 1H2025 and is expected to be higher for full year 2025.

Adjacencies continue to complement core telecom business and have facilitated overall revenue growth

The company has a diversified product portfolio and presence across almost all facets of the ICT industry. stc's business profile incorporates continued focus on non-telecom ventures and adjacencies, aimed at enhancing business diversity and accelerating revenue growth. The contribution of adjacencies to the overall revenue mix continued to increase and was reported at 26% (2023: 23%; 2022: 18%) in 2024 due to strong performance of key subsidiaries including Solutions, Center3, STC Bank, Sirar and Specialized. However, the EBITDA contribution from non-telecom segment remained lower relative to revenues at 11% (2023: 16%; 2022: 14%) due to early-stage ventures currently having a low-margin profile, attributed to significant costs related to scalability. stc bank is continuing positive trend with growth in transaction volume, business banking transactions, card spending and active users while aggressive capital expenditure is planned on data center capacity expansion given strong growth opportunities.

Continued revenue growth with EBITDA margins expected to recover on the back of cost efficiency initiatives

Consolidated revenues of stc increased by 5.7% to SAR 75.9b (2023: SAR 71.8b) in 2024. EBITDA margins declined in 2024 but improved in 1H2025 as compared to the corresponding period last due to efficiency initiatives undertaken. Improvement in EBITDA margins remains a key focus area with performance benchmarking being done for each business segment relative to global peers. Management is confident that EBITDA improvement in absolute and percentage terms will be witnessed with growth in business and continued impact of efficiency initiatives undertaken.

Low leveraged capital structure, conservative financial policy and strong balance sheet

The financial risk profile of stc is supported by a strong balance sheet, with 58% of assets being financed through the shareholders' equity. The fixed assets and investments represent the major component of the asset base. Liquid assets carried on the balance sheet in terms of cash & short-term investments are sizeable, amounting to SAR 30.7b (2023: SAR 28.1b) at end-2024, and have historically remained almost equal to or higher than outstanding borrowings. This provides a satisfactory buffer against the Company's outstanding debt obligations.

Strong cash flow generation and sizeable liquid assets

The liquidity profile of stc is underpinned by healthy cash flows generated from operations. Given decrease in debt levels and healthy cash flows, debt to EBITDA decreased to 0.70x (2023: 1.11x) at end-2024. Tassnief expects debt coverages ratios to remain healthy over the rating horizon. Overall credit metrics are expected to remain strong.

Sovereign ownership and systemic importance

While STC's standalone credit metrics along with its leading market position & franchise translate into a AAA credit profile, the assigned ratings draw comfort from ownership structure of the Company with majority shareholding vested with the Sovereign. In the local context, stc enjoys systemic importance given its leading market position, extensive network infrastructure, significant employer of Saudi workforce & contribution to the government in the form of dividends & royalties.

Corporate governance framework supported by effective Board oversight, strong internal control framework, well-developed strategic planning process and disposition towards transparency and disclosures

Corporate governance framework draws support from effective Board oversight and Board composition being in line with best practices. STC has in place a formalized strategic planning process whereby a revised strategy is developed periodically and is regularly updated and disseminated across the organization as well as to external stakeholders. The new strategy entails reinforcing market leadership, capture the infrastructure opportunity and strengthening the digital portfolio with defined success measure for each area. Detailed disclosures on the website and annual report reflect strong disposition towards transparency and disclosure. Senior management team comprises experienced professionals which are supported by clear reporting lines and a structured decision-making process.

1.3 Rating Triggers

Ratings remain dependent on successful achievement of business strategy while maintaining a strong financial profile and a leading market position. In this regard, maintenance of conservative financial policy remains important. Significant debt increase or decline in EBITDA translating to an increase in debt to EBITDA would be key rating sensitivities. Given the healthy liquidity profile and financial projections, Tassnief does not anticipate any downward pressure on the ratings of stc over the rating horizon.

1.4 About the Company

Saudi Telecom Company (stc) is the largest telecom operator in the Kingdom of Saudi Arabia and has an international footprint in Kuwait and Bahrain. stc's KSA subsidiaries offer a comprehensive ICT and financial services product portfolio.

RELATED CRITERIA AND METHODOLOGY

Rating Methodology for Corporate (v.2. 2024) can be found on the website: *www.tassnief.com*

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- This rating has not been amended following disclosure to the rated entity or its related party(ies). All analyses related to the rating report are merely opinions of TASSNIEF on the rating date.
- This credit rating herein was determined was determined using the above-mentioned methodology which is available on our website at www.tassnief.com. This methodology, including any significant adjustments or deviations from standard procedures, was applied to arrive at the rating.
- The rating scale, meaning of each rating category, default or recovery definitions, and relevant risk warnings – including a sensitivity analysis of key assumptions – are also available on our website.
- TASSNIEF confirms that all rating activities related to this credit rating were not outsourced to any third party.

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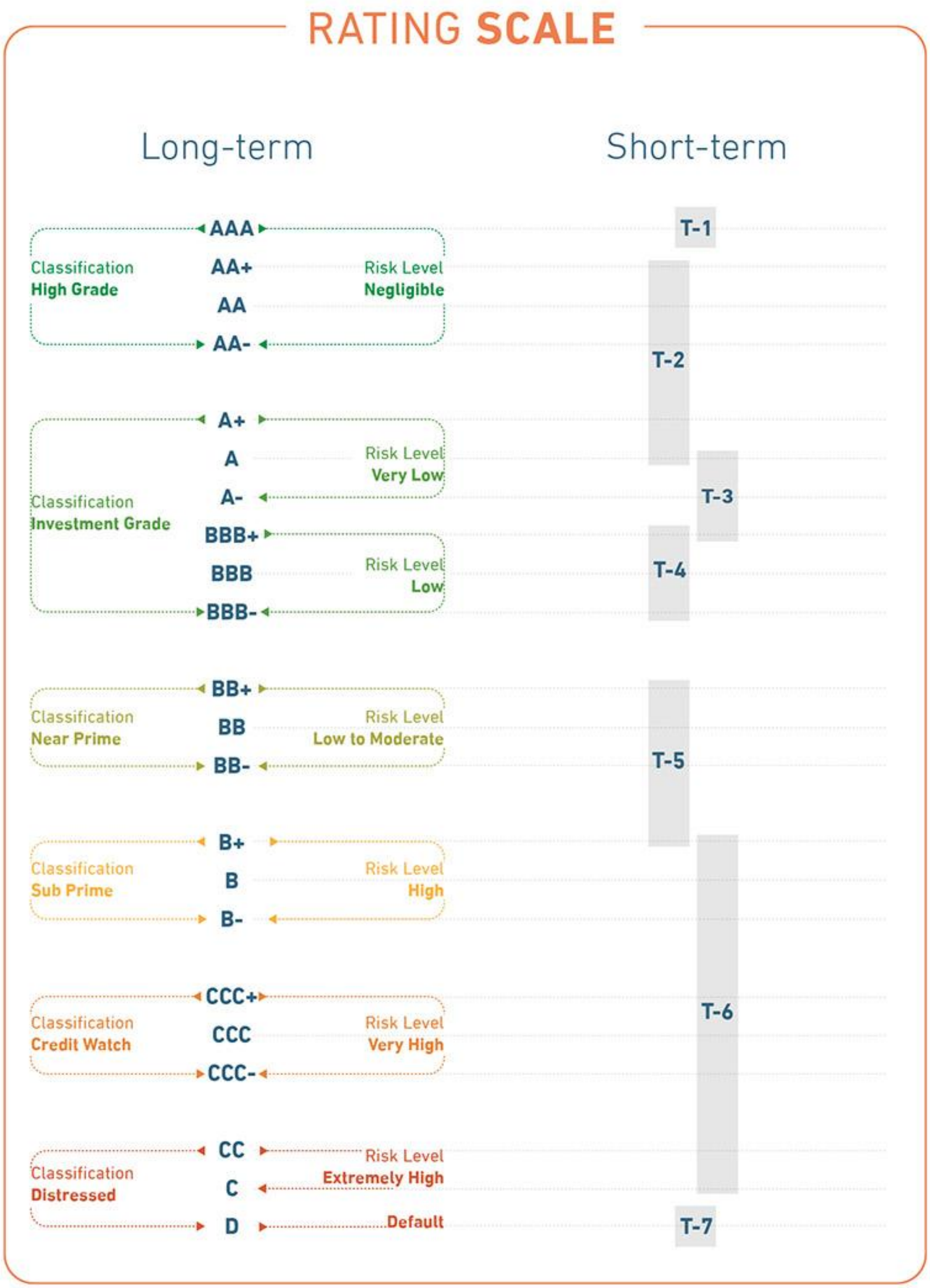
TASSNIEF's Long-term & Short-term Rating Scale



Long-Term Rating Scale	Definitions
AAA	**Extremely Robust**; Tassnief considers the rated issuer or issuance hold the **highest creditworthiness**, thus **negligible credit risk**
AA+ AA AA-	**Very Robust**; Tassnief considers the rated issuer or issuance hold **very high creditworthiness**, thus **minimal credit risk**. Risk profile may vary slightly with changes in economic / sector conditions
A+ A A-	**Robust**; Tassnief considers the rated issuer or issuance hold **high creditworthiness**, thus **very low credit risk**. Risk profile may vary with changes in economic / sector conditions
BBB+ BBB BBB-	**Moderate**; Tassnief considers the rated issuer or issuance hold **adequate creditworthiness**, thus **low credit risk**. Risk profile may exhibit moderately high variation with changes in economic / sector conditions
BB+ BB BB-	Tassnief considers the rated issuer or issuance hold **low to moderate credit risk**. Risk profile may exhibit wide variation with changes in economic / sector conditions.
B+ B B-	Tassnief considers the rated issuer or issuance hold **very low creditworthiness**, thus **high credit risk**
CCC+ CCC CCC-	Tassnief considers the rated issuer or issuance hold **extremely low creditworthiness**, thus **very high credit risk**
CC C	**Highly speculative credit profile**, and the default is imminent
D	Tassnief considers the rated issuer or issuance have **defaulted or may default soon.**

****End of Report****