ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY
(A LIMITED LIABILITY COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY
(A LIMITED LIABILITY COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

INDEX	PAGE
Independent Auditor's report	1 – 3
Consolidated statement of comprehensive income	4
Consolidated statement of financial position	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8 - 43

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

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

ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Partners of Arabian Internet and Communication Services Company
(A Limited Liability Company)

Opinion

We have audited the consolidated financial statements of Arabian Internet and Communication Services Company (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, and the, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the 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 2019, 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 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.

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 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 the Company's Articles of Association, 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.

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

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

ey.ksa@sa.ey.com
ey.com/mena

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 the 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.

- 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.

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821

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

ey.ksa@sa.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT

To the Partners of Arabian Internet and Communication Services Company (A Limited Liability Company) (continued)

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

- 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.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License No. (427)

Riyadh: 30 Sha'ban 1441H
(23 April 2020)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 SR	2018 SR
Revenue, net	5	**5,257,296,303**	4,041,299,094
Cost of revenue		**(4,410,051,699)**	(3,076,251,709)
GROSS PROFIT		**847,244,604**	965,047,385
Selling and distribution expenses	6	**(157,595,638)**	(113,017,200)
General and administration expenses	7	**(350,146,210)**	(270,184,574)
Impairment of accounts receivable and contract assets	30	**8,525,623**	(9,521,224)
Other income, net	8	**2,140,931**	5,641,994
Profit from sale of a subsidiary	1	**71,991,722**	-
NET PROFIT BEFORE FINANCE INCOME AND ZAKAT		**422,161,032**	577,966,381
Finance income, net	9	**12,597,733**	30,320,270
NET PROFIT BEFORE ZAKAT		**434,758,765**	608,286,651
Zakat	10	**(40,933,271)**	(51,831,227)
NET PROFIT FOR THE YEAR		**393,825,494**	556,455,424
OTHER COMPREHENSIVE (LOSS)/INCOME			
Item that will not be reclassified subsequently to consolidated profit or loss:			
Remeasurement of end of service indemnities	25	**(2,378,000)**	10,790,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**391,447,494**	567,245,424

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 SR	31 December 2018 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	**414,280,958**	892,386,612
Murabaha time deposits	12	**-**	230,400,000
Accounts receivable	13	**2,634,928,374**	1,829,107,460
Prepayments and other assets	14	**156,956,263**	301,086,986
Contract assets	15	**1,166,419,725**	867,957,649
Inventories	16	**150,654,462**	140,296,933
TOTAL CURRENT ASSETS		**4,523,239,782**	4,261,235,640
NON-CURRENT ASSETS			
Contract costs		**6,216,851**	22,557,665
Equity investments at fair value through other comprehensive income	17	**50,000**	50,000
Intangible assets	18	**103,750,273**	64,203,934
Property and equipment	19	**166,715,260**	102,002,033
Right-of-use assets	20	**77,415,701**	-
TOTAL NON-CURRENT ASSETS		**354,148,085**	188,813,632
TOTAL ASSETS		**4,877,387,867**	4,450,049,272
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accruals	21	**1,458,274,778**	1,236,167,526
Deferred revenue	22	**1,426,625,548**	987,924,871
Contract liabilities	23	**452,253,507**	335,775,703
Zakat payable	10	**40,113,984**	99,050,504
TOTAL CURRENT LIABILITIES		**3,377,267,817**	2,658,918,604
NON-CURRENT LIABILITIES			
Lease liabilities relating to right of use assets	24	**54,157,328**	-
End of service indemnities	25	**189,138,652**	125,754,092
TOTAL NON-CURRENT LIABILITIES		**243,295,980**	125,754,092
TOTAL LIABILITIES		**3,620,563,797**	2,784,672,696
EQUITY			
Share capital	26	**100,000,000**	100,000,000
Statutory reserve	27	**50,000,000**	50,000,000
Retained earnings		**1,106,824,070**	1,515,376,576
TOTAL EQUITY		**1,256,824,070**	1,665,376,576
TOTAL LIABILITIES AND EQUITY		**4,877,387,867**	4,450,049,272

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital SR	Statutory reserve SR	Retained earnings SR	Total SR
Balance as at 1 January 2018	100,000,000	50,000,000	1,248,131,152	1,398,131,152
Total comprehensive income for the year	-	-	567,245,424	567,245,424
Dividends	-	-	(300,000,000)	(300,000,000)
Balance as at 31 December 2018	100,000,000	50,000,000	1,515,376,576	1,665,376,576
Total comprehensive income for the year	-	-	391,447,494	391,447,494
Dividends (note 28)	-	-	(800,000,000)	(800,000,000)
Balance as at 31 December 2019	**100,000,000**	**50,000,000**	**1,106,824,070**	**1,256,824,070**

Arabian Internet and Communication Services Company and its Subsidiary
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Note	2019 SR	2018 SR
OPERATING ACTIVITIES			
Net profit before zakat		**434,758,765**	608,286,651
Adjustments for:			
Provision for end of service indemnities	25	**76,623,560**	52,806,092
Depreciation and amortization	18&19	**75,150,348**	41,665,873
(reversal)/ Impairment loss on accounts receivables and contract assets		**(8,525,623)**	9,521,225
Right of use assets depreciation	20	**17,053,376**	-
Impairment on property and equipment		**-**	1,328,424
Provision for penalties		**-**	7,966,373
Reversal for future estimated contract losses		**-**	(8,341,517)
Allowance/(reversal) for slow moving and obsolete inventories	16	**32,121,051**	(4,442,668)
Profit from sale of a subsidiary	1	**(71,991,722)**	-
Provision for advances		**(6,799,183)**	(2,345,488)
Finance charges		**2,958,236**	-
Finance income		**(15,555,969)**	(30,320,270)
		535,792,839	676,124,695
Changes in operating assets and liabilities:			
Increase in accounts receivable		**(805,495,245)**	(870,075,675)
Decrease/(increase) in prepayments and other assets		**122,001,602**	(164,036,925)
Increase in contract assets		**(290,262,122)**	(15,104,698)
Increase in inventories		**(42,478,580)**	(64,478,428)
Decrease/(increase) in contract costs		**16,340,814**	(22,557,665)
Increase in accounts payable and accruals		**191,454,556**	429,181,557
Increase in deferred revenue		**438,700,677**	507,206,750
Increase/(decrease) in contract liabilities		**116,477,803**	(311,763,204)
Cash generated from operations		**282,532,344**	164,496,407
Zakat paid	10	**(99,869,791)**	(26,828,840)
End of service indemnities paid	25	**(15,617,000)**	(8,512,000)
Finance charges paid		**(38,865)**	-
Finance income received		**16,475,995**	31,187,575
NET CASH GENERATED FROM OPERATING ACTIVITIES		**183,482,683**	160,343,142
INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		**(179,409,914)**	(133,339,669)
Proceeds from sale of a subsidiary		**100,000,000**	-
Net liquidation of murabaha time deposits		**230,400,000**	569,600,000
NET CASH GENERATED FROM INVESTING ACTIVITIES		**150,990,086**	436,260,331
FINANCING ACTIVITIES			
Lease liabilities payment		**(12,578,423)**	-
Dividend paid		**(800,000,000)**	(300,000,000)
NET CASH USED IN FINANCING ACTIVITIES		**(812,578,423)**	(300,000,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(478,105,654)**	296,603,473
Cash and cash equivalents at the beginning of the year		**892,386,612**	595,783,139
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**414,280,958**	892,386,612

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements

1. ACTIVITIES

Arabian Internet and Communication Services Company ("the Company") is a Saudi Limited Liability Company registered in Saudi Arabia under commercial registration numbered 1010183482 and dated 8 Dhul-Qadah 1423H (corresponding to 11 January 2003). The registered office is located at Riyadh, Olaya street, P.O. Box 50, Riyadh 11372, Kingdom of Saudi Arabia ("KSA").

The Company is engaged in expansion of telecom cables and networks in addition to installation and expansion of computer and telecom networks. It also covers the installation and maintenance of security devices and senior management advisory services.

The following are the details of the subsidiary companies included in these consolidated financial statements:

		Ownership %	
Subsidiary	Country of incorporation	31 December 2019	31 December 2018
a. Saudi Digital Payments Company (Owned by One Person)	Kingdom of Saudi Arabia	-	100%
b. Saudi Telecom Company Solution for Information Technology (Owned by One Person)	Egypt	**100%**	-

a. Saudi Digital Payments Company (Owned by One Person) ("the Subsidiary") is a Limited Liability Company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010901344 and dated 1 Rabi Awal 1439H (corresponding to 19 November 2017) with a capital of SR 100 million paid in cash. The Subsidiary has 100,000 shares with a nominal value of SR 1,000 per share and it is fully owned by the Company. The principal activities of the Subsidiary are operating systems, e-commerce and internet trading.

   The board of directors of STC has decided to transfer the ownership of the subsidiary from the Company to STC. The legal formalities to transfer the ownership are completed on 19 Dhul-Qadah 1440 (corresponding to 22 July 2019). The assets and liabilities of the subsidiary are not consolidated in these statements of financial position and results of the subsidiary till the date of control were consolidated in these consolidated statements of profit or loss and other comprehensive income. The net assets value of the subsidiary at the disposal date was SR 28,008,278 and the Group has sold this for a consideration of SR 100,000,000. This has resulted in a gain of SR 71,991,722.

b. Saudi Telecom Company Solution for Information Technology (Owned by One Person) ("the Subsidiary") is a Limited Liability Company registered in Cairo, Egypt under commercial registration numbered 130135 and dated 9 Jumad Awal 1440H (corresponding to 15 January 2019) with a capital of USD 70,000 paid in cash. The Subsidiary has 1000 shares with a nominal value of USD 70 per share and it is fully owned by the Company. The principal activities of the Subsidiary are information technology and communication industry including industrial activities in designing including designing in computer systems, electronics development, data centers development, software and e-learning development, data analysis, data management, communication and internet services, production of electronic contents, system integration, trainings and outsourcing services, software production.

The Company and the subsidiaries (together the "Group") immediate and ultimate controlling party is Saudi Telecom Company ("STC"), a company incorporated in the Kingdom of Saudi Arabia.

The consolidated financial statements are authorized for issue in accordance with the resolution of the Board of Directors on 22 Rajab 1441H (corresponding to 17 March 2020).

2. BASIS OF PREPARATION

Statement of compliance

These are the Company and the subsidiary's (together the "Group"), complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in KSA and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs as endorsed in KSA").

This is the first set of the Group's annual financial statements in which IFRS 16 "Leases" have been applied.
These consolidated financial statements are based on the following:

- Significant accounting policies described in note 3
- Significant accounting estimates, assumptions and judgements described in note 4

3. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

The changes in accounting policies are reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019. The Group has adopted IFRS 16 using the modified retrospective approach with the effect of applying this standard 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. The weighted average rate of additional borrowing rate at the initial implementation date was 3.8%.

IFRS 16 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either: the Group has the right to operate the asset; or
- The Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected to separate non-lease components and account for the Check alignment of the page
non-lease components separately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- An arrangement conveyed the right to use the asset if one of the following was met: the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, 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, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially 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 or, if that rate cannot be readily determined, and the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)

IFRS 16 Leases (continued)

As a lessee (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of items that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

In the comparative period, as a lessee the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.
Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

Basis of measurement and functional currency

The consolidated financial statements have been prepared on the historical cost basis except for measurement of equity investments at fair value through other comprehensive income at fair value as explained in the relevant accounting policies referred to below.
Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. These consolidated financial statements are presented in Saudi Arabian Riyal (SR), which is the Company's functional currency.

The significant accounting policies applied by the Group in the preparation of consolidated financial statements are set out below:

Basis of consolidation

Refer to note 4 for details on judgements applied by the Group in respect of determination of control.

These consolidated financial statements include the assets, liabilities and the results of operations of the Company and the subsidiary listed in note (1).

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the partners 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 subsidiary to bring their accounting policies into line with the Company's accounting policies. All intra-group asset and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Principles of consolidation
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of profit or loss; and
- reclassifies the partner’s share of components previously recognized in consolidated other comprehensive income to consolidated profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group ceases to consolidate for an investment in subsidiary because of a loss of control, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognized in the consolidated profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in consolidated other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in consolidated other comprehensive income are reclassified to the consolidated profit or loss

IFRS 15 "Revenue from Contracts with Customers"

System integration services
System integration revenue represents revenue generated by the installation of new network (hardware and software) or enhancing the existing customer network. Hardware and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract because they are not separately identifiable from other promises in the contract. The Group provides a significant service of integrating the hardware and software, which the customer has purchased. The Group also provides right to maintenance and support service to its customer (i.e. sells maintenance and support). These services are stand-ready services and the cost incurred on them are directly attributable to the project. Sometimes the service integration contract includes multiple deliverables such as training solutions and maintenance and support. In this case, the transaction price will be allocated to each performance obligations based on the stand-alone selling prices.

Where these are not directly observable, they are estimated based on expected cost plus margin.

The Group recognizes revenue relating to installed hardware and software along with design and professional services over time using the input method which includes the uninstalled material, where revenue on equipment and materials is recognized only upon transfer of control to the customers upon delivery i.e. at a zero percent profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Revenue on selling maintenance and support is recognized at a point in time when the transfer of the right to the service to customer occurs.

Revenue on training is recognized over time using input method.

The Group offers perpetual and limited life licenses, which are accounted for as a performance obligation satisfied at a point in time at which the license is granted to the customer. The license, support service and upgrades are separate performance obligations. The Group recognizes the revenue when control transfers. Revenue is not recognized for a license that provides a right to use the intellectual property before the beginning of the period during which the customer is able to use and benefit from the license. In the case of sale of software licenses together with the hardware devices, the device and software will be accounted for as one performance obligation, without the software license being a separate performance obligation. The revenue from the one performance obligation will be recognized in accordance with the relevant treatment for the hardware device.

Cloud and data center services
Cloud and data center service revenue represent revenue generated by selling the cloud and data center products hosted on the marketplace and falls broadly into two options:

a) The Group's own off-the-shelf or customized cloud products:
Cloud products are primary responsibility of the Company and certain third party Cloud Service Providers ("CSP"). The Group has the primary obligation to render services to the customer for its own off-the-shelf or customized cloud products to fulfil its performance obligation. The Group has responsibility for meeting customer specifications. The Group also has discretion for establishing the prices for respective cloud product. Generally, there is no inventory involved as such. Cases where equipment's or sms's are separately sold to customer, the Group bears the inventory risk. Therefore, the Group is the principal under this arrangement because it controls the specified cloud service before they are transferred to the end customer and, consequently, shall recognize revenue in the gross amount of consideration to which it is entitled in exchange for providing the services to the end customer.

b) Third party CSP cloud products:
The CSP are primarily responsible to render services to the customers for the promises to deliver cloud services, hardware or the bundled solution at the customer's premises. The Group does not obtain control of a right to cloud services before it is delivered to the end customer. The respective CSP on their own establishes the prices for their cloud products and the Group does not have discretion in establishing the price for the CSP cloud products. Therefore, the Group is an agent in this arrangement. Whereby the cloud is sold through STC's marketplace, the Group is principal toward STC but remains agent toward the end customer.

Since cloud contracts have terms of minimum commitment with the customers, the Group estimates the variable consideration using expected value approach only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group is obliged to provide the cloud platform to the third party CSP. As a consideration, the Group is entitled to 25% revenue share of the consideration between CSP and end customer. As the agreement between the Group and CSP is a month-on-month contract and the consideration is a variable consideration contingent upon future event not within the Group's control, the Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Revenue is recognized as follows:

- Pre-defined and customized cloud products - Customer avails the benefit of these services over the period as and when they consume the cloud product. Revenue is recognized over a period of time. Each pre-defined and customized product is further divided into two categories based on their nature:

a. Subscription packages – Revenue is recognized over a period of time based on time elapsed output method
b. Pay as use packages – Revenue is recognized over a period of time applying usage base output method

- Hardware ("Add-ons") - Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon installation or delivery.

The Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

Where cloud and data center services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The consideration allocated to cloud and data center services is recognized as revenue based on above policy.

The Group charges the customers for certain activation activity. However, under IFRS 15 the activation activity does not give rise to promised goods or services which are distinct in nature. Applying the guidance of non-refundable upfront fees, the Group recognizes revenue from activation fees when the goods or services to which they relate are provided to the customer.

Outsourcing services
The Group provides outsourcing services which primarily includes manpower services or managed manpower services or solution support. Further, in case of manpower services customer may also request the Group to deliver some hardware equipment.

The hardware equipment are sold separately in the market. The customers can demand the equipment under the manpower service arrangement, which are independent of the professional service. There is neither integration of hardware with the services nor any modification or customization to the equipment. Thus, hardware is a separately identifiable component in the outsourcing contract (only in case of manpower services) and accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. Revenue for manpower services is recognized over a period of time using input method based on cost incurred. If contracts include hardware, revenue for the hardware is recognized at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware. The revenue for solution support is recognized over a period of time using output method based on time elapsed.

Communication and internet services
Communication and internet services revenue represent revenue generated by selling Dedicated Internet Access (DIA) and data services. If communication and internet services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. The Group recognizes revenue relating to Internet services (DIA) as the customer avails the benefit of these services over the period as and when they consume the internet service. The revenue is recognized over a period of time using output method based on time elapsed. Revenue in relation to data services is recognized when the customer avails the benefit of these services over the period as and when they consume the data service. Revenue to be recognized over a period of time using output method based on time elapsed (coinciding with the billing).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

Managed services
Revenue from managed service includes managed router service, managed LAN service and managed Wi-Fi service.

The Group accounts for individual goods and services separately if they are distinct, i.e., if a good or service is separately identifiable and from other items and if a customer can benefit from it.

Managed router services revenue represent revenue generated by selling routers, managing the routers and providing technical support service and are recognized as follows:

- Hardware: Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon delivery.
- Managed router services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.
- Technical support services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.

Where managed services are provided as part of a bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices, which for the hardware is adjusted market or cost plus margin approach and for the managed router services and technical support services it is observable prices. The consideration allocated to managed services is recognized as revenue based on the above policy.

Digital services
Revenue from digital service includes fleet control services, Enterprise Mobile Mobility (EMM), big data services etc.

The Group accounts for individual goods and services separately if they are distinct, i.e., if a good or service is separately identifiable and from other items and if a customer can benefit from it.

Fleet control services revenue represents revenue generated by selling fleet control devices (hardware), application service and value added service like roaming service and are recognized as follows:

- Hardware (devices): Revenue from hardware sales are recognized at a point in time when the control of the hardware is transferred to the customer i.e. upon installation.
- Application services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on time elapsed.
- Valued added services: Customer avails the benefit of these services over the period as and when they consume the benefit. Revenue is recognized over a period of time using output method based on usage.

Cyber Security services
Cyber security revenue represents revenue generated from providing security products and services to the customers' networks, or any other security services.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

In case of projects, hardware and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract because they are not separately identifiable from other promises in the contract. The Group provides a significant service of integrating the hardware and software which the customer has purchased. Sometimes the service integration contract includes multiple deliverables such as training solutions and maintenance and support. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. The Group recognizes revenue relating to installed hardware and software along with design and professional services over time using the input method which includes the uninstalled material guidance where revenue on hardware/software is recognized only to the extent of the cost incurred i.e. at a zero percent profit margin. Revenue on selling maintenance and support is recognized at a point in time when the transfer of the right to the service to customer occurs. Revenue on training is recognized over time using input method.

In case of managed security services, there are three performance obligations: hardware, installation and managed security services. They are capable of being distinct and distinct within the context of the contract. The transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin or adjusted market price. The Group recognizes revenue related to the hardware with its installation at a point in time when installation is done. Revenue on managed security services is recognized over time based on time elapsed since the customer is receiving and consuming the benefit provided by the Group simultaneously as the Group performs the same.

Where cyber security services are provided as part of bundled contract, the consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The consideration allocated to cyber security services is recognized as revenue based on above policy.

Other considerations

- *Contract costs*

The Group may incur cost to fulfil a contract before a good or service is provided to a customer. Such costs are capitalized where they relate directly to the contract or anticipated contract, generate resources used in satisfying the contract and are expected to be recovered. The Group will amortize these costs on a systematic basis, consistent with the transfer to the customer of the goods or services, and are periodically reviewed for impairment.

- *Work-in-progress*

Work-in-progress for an over-time performance obligation is generally expensed as a fulfillment cost when it is incurred because control of the work in progress transfers to the customer as it is produced and not at discrete intervals. However, inventory to support multiple contracts that has an alternative use is recognized as an asset until it is dedicated to a specific contract.

- *Contract assets and liabilities*

Under IFRS 15, when either party to a contract has performed, an entity shall present the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer. There was some reclassification from unbilled revenue to contract assets and from advances from customers to contract liabilities due to this change.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (continued)

- *Principal versus agent consideration*

The Group has evaluated its arrangements to determine whether it is a principal, and report revenues on a gross basis, or an agent, and report revenues on a net basis. In this assessment, the Group has considered if it has obtained control of the specified goods or services before they are transferred to the customer, as well as other indicators such as the party primarily responsible for fulfillment, inventory risk, and discretion in establishing price.
Where the Group performs agency related activities under a contract as the end customer receives project management and coordination support, the Group only recognizes net commission income, as the Group arranges for another party to transfer goods or services under such arrangement and accordingly is acting as an agent.

- *Variable consideration*

The Group is obliged to provide the cloud platform to the third party CSP. As a consideration, the Group is entitled to 25% revenue share of the consideration between CSP and end customer. As the agreement between the Group and CSP is a month-on-month contract and the consideration is a variable consideration contingent upon future event not within the Group's control, the Group recognizes their share of revenue, i.e. 25% of the total invoice value billed to end customer on behalf of third party CSP on acceptance of service by end customer.

- *Presentation and disclosure requirements*

As required for the consolidated financial statements, the Group disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 5 for the disclosure on disaggregated revenue.

IFRS 9 "Financial Instruments"

<u>*Classification and measurement of financial assets and financial liabilities*</u>

Under IFRS 9, upon initial recognition, a financial asset is classified and measured at amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 "Financial Instruments" (continued)

The following accounting policies apply to the subsequent measurement of financial assets.

- Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains, losses, and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
- Equity investments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Impairment of financial assets
The impairment model applies to financial assets measured at amortized cost and contract assets, but not to investments in equity instruments. The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, contract assets and murabaha time deposits.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs for private customers. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

For government and STC receivables, a review is done on quarterly basis to determine the balances that need a specific provision or write-off.

Presentation of impairment
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the consolidated statement of profit or loss and OCI.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 "Financial Instruments" (continued)

The following table explains measurement categories under IFRS 9 for each class of the Group's financial instruments:

Financial assets	Classification under IFRS 9
Available-for-sale investments	Designated at FVOCI
Murabaha time deposits	Amortized cost
Accounts receivable	Amortized cost
Cash and cash equivalents	Amortized cost
Financial liabilities	
Accounts payable and accruals	Amortized cost

Foreign currencies

Transactions in currencies other than the Group's functional currency ("foreign currencies"), which is SR are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in the consolidated statement of profit or loss and other comprehensive income in the year in which they arise.

Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets that do not meet the above criteria, as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities that do not meet the above criteria, as non-current.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group's products and services.

General and administration expenses include direct and indirect costs not specifically part of cost of sales or selling and distribution expenses as required under IFRSs as endorsed in KSA. Allocations between general and administration expenses, cost of sales and selling & distribution expenses, when required, are made on a consistent basis.

Zakat

Zakat is calculated and provided for by Saudi Telecom Company (the "Parent Company") and its effectively wholly owned subsidiaries in accordance with Saudi Arabian fiscal regulations. The Group's share of its provision is charged to the consolidated statement of profit and loss and other comprehensive income.

Dividends

The Company recognizes a liability to make dividend distribution to the Partners of Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. In accordance with the Companies Law in KSA, a distribution is authorized when it is approved by the Partners. A corresponding amount is recognized directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

End of service indemnities
The Group primarily has end of service indemnities which qualifies as defined benefit plans.

The pension liability recognized in the consolidated statement of financial position is the present value of the projected Defined Benefit Obligation (DBO) at the reporting date.

DBO is re-measured on a periodic basis by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For instances where there is no deep market in such bonds, the market rates on government bonds are used. As there are insufficient corporate and government bonds in the Kingdom of Saudi Arabia to generate a credible discount rate, the discount rate has instead been based on US Treasury bonds adjusted for country differences between the US and Saudi Arabia.

The net interest cost is calculated by applying the discount rate to the net balance of the DBO. This cost is included in employees' related costs in the consolidated statement of profit or loss and other comprehensive income.

Re-measurement gains and losses arising from changes in actuarial assumptions are recognized in the period in which they occur in OCI. Changes in the present value of the DBO resulting from plan amendments or curtailments are recognized immediately in the consolidated statement of profit or loss and other comprehensive income as past service costs.

Current and past service costs related to end of service indemnities and unwinding of the liability at discount rates used are recognized immediately in the consolidated statement of profit or loss and other comprehensive income. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in OCI.

The actuarial valuation process takes into consideration the provisions of the Saudi Arabian Labour Laws and Workmen Law as well as the Group's policy.

Retirement benefits
The Group pays retirement contributions for its national employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

Short-term employee benefits
A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.
Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Appropriate provision is made for obsolete and slow moving inventories, if required.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at each financial year-end, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets, which comprise computer software, is amortized at a rate of 20% per annum.

An intangible asset is derecognized 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 recognized in the consolidated profit or loss when the asset is derecognized.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes, *inter alia*, the present value of decommissioning costs relating to leasehold improvements.

The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives, residual values and depreciation method are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

The Group applies the following annual rates of depreciation to its property and equipment:

Computer hardware	33%
Furniture	20%
Office equipment	17%
Leasehold improvements	Lower of the lease period or 20%
Motor vehicles	25%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.
Costs incurred in respect of repairs and maintenance are expensed as incurred while expenditure for betterment is capitalized.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial 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). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit), except for goodwill, is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to liability. The increase in the provision due to the passage of time is recognized as financial charges.

Government grants

Government grants are not recognized 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 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 recognized in the consolidated profit or loss in the period in which they become receivable

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses and assets and liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These estimates and assumptions are based upon experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised or in the revision period and future periods if the changed estimates affect both current and future periods.

4.1 Critical judgements in applying accounting standards

The following critical judgements have the most significant effect on the amounts recognized in the consolidated financial statements:

Useful lives and residual values of property and equipment and intangible assets
An estimate of the useful lives and residual values of property and equipment and intangible assets is made for the purposes of calculating depreciation and amortization, respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

4.1 Critical judgements in applying accounting standards **(continued)**

Determination of control

Subsidiary is an investee over which the Group has control. The Group's management considers that the Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns through its power to direct the relevant activities of the investees.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has equal or less than a majority of the voting or similar rights of an investee, the Group considers all other relevant facts and circumstances in assessing whether it has power over an investee, including any contractual and other such arrangements which may affect the activities which impact investees' return.The determination about whether the Group has power thus depends on such relevant activities, the way decisions about the relevant activities are made and the rights the Group has, in relation to the investees.

In certain cases where the Group owns less than 50% of voting rights, it may still be the single largest shareholder with presence on the governing body giving it power to direct relevant activities of the investees, whereby the other shareholders individually do not hold sufficient voting rights and power to overrule the Group's directions. There is no prior instance of other shareholders collaborating to exercise their votes collectively or to out-vote the Group.

4.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material differences in the carrying amounts of assets and liabilities within the next financial period, are presented below. The Group used these assumptions and estimates on the basis available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Expected credit losses ("ECL")

The Group reviews its accounts receivable at each reporting date to assess whether an expected credit loss should be recorded in the consolidated statement of profit or loss and other comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of expected credit loss required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the actual loss. At the reporting date, gross trade receivables were SR 537.57 million (31 December 2018: SR 283.78 million) with SR 64.52 million (31 December 2018: 54.42 million) being provided for. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated profit or loss. In addition, an ECL of SR 45.22 million (31 December 2018: SR 55.65 million) was raised against gross amounts owing from a related party of SR 2,207.10 million (31 December 2018: SR 1,714.01 million).

Impairment of inventories

Inventories are held at the lower of cost or net realizable value. When inventories become old or obsolete, an estimate is made for their net realizable value. For individually significant items of inventory this estimation is performed on an individual basis. Items of inventory which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices less estimated costs of sale.

At the reporting date, inventories were SR 210.64 million (31 December 2018: SR 168.16 million), with provision for old and obsolete inventories amounting to SR 59.98 million (31 December 2018: SR 27.87 million). Any difference between the amounts actually realized in future periods and the amounts expected will be recognized in the consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

4.2 Estimates and assumptions (continued)

Long-term assumptions for employee benefits
Employees' end of service benefits represent obligations that will be settled in the future and require assumptions to project obligations. Management is required to make further assumptions regarding variables such as discount rates, rate of salary increase, mortality rates, employment turnover and future healthcare costs. Periodically, management of the Group consults with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations and/or periodic employee defined benefit costs incurred.

Discounting of lease liabilities
The Group has discounted the future cash flows relating to lease liabilities. Appropriate discount rate was used in determining the carrying amount of these items.

Provisions
By their nature, provisions are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Provisions for litigation are based on an estimate of the costs, taking into account legal advice and other information presently available. Provisions for termination benefits and exit costs, if any, also involve management's judgement in estimating the expected cash outflows for other exit costs. Provisions for uncertain liabilities involve management's best estimate of whether cash outflows are probable.

5. REVENUE, NET

The following is the analysis of the Group's revenue:

	31 December 2019 SR	31 December 2018 SR
System Integration	**2,084,811,085**	1,727,380,552
Outsourcing Services	**903,483,037**	690,221,286
Communication & Internet	**875,337,511**	838,337,371
Cloud Services	**477,558,152**	269,913,321
Cyber Security	**430,268,898**	308,120,677
Managed Services	**251,803,274**	163,442,837
Digital Services	**234,034,346**	43,883,050
	5,257,296,303	4,041,299,094
Type of customers		
Sell through STC and sell to direct customers (STC is not the end customer)	**3,193,951,504**	2,317,350,378
Sell to STC (STC is the end customer)	**2,063,344,799**	1,723,948,716
	5,257,296,303	4,041,299,094

5. REVENUE, NET (continued)

	31 December 2019 SR	31 December 2018 SR
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	**4,844,238,289**	3,897,237,652
- at a point in time	**413,058,014**	144,061,442
	5,257,296,303	4,041,299,094

6. SELLING AND DISTRIBUTION EXPENSES

	31 December 2019 SR	31 December2018 SR
Employees related costs	**118,658,905**	79,259,594
Selling and marketing expenses	**32,484,951**	29,409,276
Business travel expenses	**4,043,772**	3,374,597
IT expenses	**1,520,752**	146,023
Depreciation and amortization	**755,555**	732,067
Others	**131,703**	95,643
	157,595,638	113,017,200

7. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2019 SR	31 December 2018 SR
Employees related costs	**200,440,158**	147,079,576
Depreciation and amortization	**50,851,464**	16,958,740
Professional services	**37,382,397**	49,044,130
IT expenses	**29,368,655**	16,860,531
Business travel expenses	**13,667,790**	8,089,199
Hospitality and corporate gatherings	**10,988,983**	7,132,247
Office expenses	**10,325,523**	7,933,233
Rent expenses	**1,523,792**	15,787,266
Utilities expenses	**1,438,421**	1,084,314
Provision for advances	**(8,746,875)**	(2,345,488)
Others	**2,905,902**	2,560,826
	350,146,210	270,184,574

8. OTHER INCOME, NET

	31 December 2019 SR	31 December 2018 SR
Commission income	**2,283,013**	7,303,413
Impairment loss on property and equipment	-	(1,328,424)
Foreign exchange loss	**(40,171)**	(332,995)
Others	**(101,911)**	-
	2,140,931	5,641,994

9. FINANCE INCOME. NET

	31 December 2019 SR	31 December 2018 SR
Income from murabaha time deposits	**15,555,969**	30,320,270
Finance charges on leases liabilities	**(2,958,236)**	-
	12,597,733	30,320,270

10. ZAKAT

The Group is effectively a wholly-owned subsidiary of Saudi Telecom Company ("the Parent Company"). According to Ministerial Resolution numbered 1005 and dated 28/4/1428H (Corresponding to 15/5/2007), the Parent Company submits zakat returns based on its consolidated financial statements and consolidated zakat base and settles the zakat liability accordingly. The Group’s share of the zakat for the year amounting to SR 40,933,271 (31 December 2018: SR 51,831,227) has been estimated based on the Group's zakat base and is charged to its consolidated statement of profit or loss and other comprehensive income. This estimation is adjusted proportionately by the consolidation impact, as applicable.

The movement in zakat provision was as follows:

	31 December 2019 SR	31 December 2018 SR
Opening balance	**99,050,504**	74,048,117
Charged during the year	**40,933,271**	51,831,227
Paid during the year	**(99,869,791)**	(26,828,840)
Closing balance	**40,113,984**	99,050,504

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank balances, cash in hand and investments that are readily convertible into known amounts of cash and have maturity of three months or less when placed. Cash and cash equivalents comprise of the following;

	31 December2019 SR	31 December 2018 SR
Cash in hand	**9,928**	41,412
Bank balances	**39,271,030**	152,495,200
Murabaha time deposits (*)	**375,000,000**	739,850,000
	414,280,958	892,386,612

(*) Represent deposits placed with various banks and carry a profit rate of 1.6% to 2.6% per annum. The maturity date for all these deposits are less than 90 days.

12. MURABAHA TIME DEPOSITS

These represent the Murabaha deposits placed with various banks. The maturity date for all these deposits are more than 90 days when placed.

13. ACCOUNTS RECEIVABLE

	31 December 2019 SR	31 December 2018 SR
Gross trade receivables (excluding related party balance)	**537,574,257**	283,786,411
Less: allowance for expected credit losses	**(64,524,138)**	(54,418,689)
Net trade receivables	**473,050,119**	229,367,722
Gross amounts due from a related party (note 31)	**2,207,101,329**	1,714,009,468
Less: allowance for discount (related party)	**-**	(58,615,538)
Less: allowance for expected credit losses (related party) (note 31)	**(45,223,074)**	(55,654,192)
Net amounts due from a related party	**2,161,878,255**	1,599,739,738
Total accounts receivable	**2,634,928,374**	1,829,107,460

Trade receivables

The average credit period on sales of goods and services is 60 days. No finance income is charged on trade receivables. Allowances for doubtful debts are recognized against trade receivables between three months and one year based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty’s current financial position.

13. ACCOUNTS RECEIVABLE (continued)

Trade receivables (continued)

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis. There have been no changes to these procedures from the previous year. Customers are grouped according to their credit characteristics, including whether they are private or not and whether sovereign or non-sovereign. The customers grouped in a particular segment share similar credit risk characteristics. Since the Group considers the homogeneity of economic characteristics of the company/individual for segmentation. Private customers are assessed for impairment on a collective basis. The Company does not have trade receivable and contract assets for which no loss allowance is recognized because of collateral.

One of the Group's debtors comprise 17% of the total trade receivables balance excluding related party balance.

There were no amounts at the reporting date that were neither past due nor impaired for which the credit quality had reduced since the initial granting of credit.

Movement in the allowance for expected credit losses and penalties related to trade receivables

	31 December 2019 SR	31 December 2018 SR
Opening balance	**54,418,689**	56,555,880
Charge/(reversal) for the year	**10,105,449**	(2,137,191)
Closing balance	**64,524,138**	54,418,689

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 Group does not hold any collateral over the impaired trade receivables.

13. ACCOUNTS RECEIVABLE (continued)

	31 December 2019 SR	31 December 2018 SR
Age of unimpaired trade receivables		
Non-governmental receivables		
Up to 3 months	**89,042,936**	32,642,217
3 to 6 months	**14,986,349**	17,085,050
6 to 9 months	**216,201**	322,513
9 months to 1 year	**1,441,303**	223,848
Over 1 year	**6,154,531**	7,300,876
Governmental receivables		
Neither past due nor impaired	**234,910,717**	127,046,263
Up to 1 year	**106,150,874**	21,147,008
1 to 3 year	**4,943,936**	11,672,650
3 to 5 year	**14,002,840**	11,070,264
Over 5 year	**1,200,432**	857,033
	473,050,119	229,367,722

	31 December 2019 SR	31 December 2018 SR
Age of impaired trade receivables		
Non-governmental receivables		
Up to 3 months	**11,070,333**	6,148,323
3 to 6 months	**4,251,792**	6,985,778
6 to 9 months	**169,388**	330,851
9 months to 1 year	**2,636,585**	694,830
Over 1 year	**26,499,972**	22,662,099
Governmental receivables		
Up to 1 year	**1,341,612**	1,768,763
1 to 3 year	**2,524,609**	2,441,156
3 to 5 year	**10,353,492**	8,996,665
Over 5 year	**5,676,355**	4,390,224
	64,524,138	54,418,689

14. PREPAYMENTS AND OTHER ASSETS

	31 December 2019 SR	31 December 2018 SR
Advances to suppliers (note 14.1)	**79,618,892**	141,676,771
Prepaid expenses (note 14.2)	**42,360,019**	65,802,318
Value added tax recoverable (note 31)	**10,969,302**	62,382,561
Other receivables	**21,259,867**	28,702,977
Deposits	**2,748,183**	2,522,359
	156,956,263	301,086,986

14.1 Advances to suppliers are presented net of provision for old advances (note 7) amounting to SR 9.09 million (31 December 2018: SR 7.17 million).

14.2 Prepaid expenses are presented net of provision for certain doubtful prepaid assets (note 7) amounting to SR 22.30 million (31 December 2018: SR 31.01 million).

15. CONTRACT ASSETS

Contract assets represents the value of work executed by the Group during the year which has not been billed to customers as at the reporting date.

	31 December 2019 SR	31 December 2018 SR
Gross contract assets	**1,174,967,842**	926,090,181
Provision for discount	**-**	(41,384,462)
Allowance for impairment	**(8,548,117)**	(16,748,070)
	1,166,419,725	867,957,649

The movement in the allowance for impairment related to contract assets for the year ended 31 December were as follows:

	31 December 2019 SR	31 December 2018 SR
Opening balance	**16,748,070**	2,862,099
(Reversal)/ charge for the year (note 30)	**(8,199,953)**	13,885,971
Closing balance	**8,548,117**	16,748,070

16. INVENTORIES

	31 December 2019 SR	31 December 2018 SR
Materials and supplies	**210,644,211**	168,165,631
Less: allowance for slow moving and obsolete inventory (note 16.1)	**(59,989,749)**	(27,868,698)
	150,654,462	140,296,933

16.1 The movement in the allowance for slow moving and obsolete inventories was as follows:

	31 December 2019 SR	31 December 2018 SR
Opening balance	**27,868,698**	32,311,365
Net charge/(reversal) for the year	**32,121,051**	(4,442,667)
Closing balance	**59,989,749**	27,868,698

17. EQUITY INVESTMENTS AT 'FVOCI'

	31 December 2019 SR	31 December 2018 SR
5% holding in Saudi Telecom Investment Trading Company Limited (engaged in telecommunications services) (note 17.1)	**50,000**	50,000
1% holding in Sapphire Company (engaged in IT services) (note 17.2)	**-**	-
	50,000	50,000

17.1 This investment is carried at cost, as the fair value cannot be reliably determined.

17.2 Sapphire Company was established in the Kingdom of Saudi Arabia in June 2014. In November 2018, the Board of Directors of its parent company decided to close Sapphire and merge their business with their own share effective 1 January 2019. The legal proceedings are still in progress. Accordingly, the Group has recognized 100% impairment on this investment

18. INTANGIBLE ASSETS

	Software	Capital work in progress	Total
COST	SR	SR	SR
As at 31 December 2018	82,030,211	14,141,349	**96,171,560**
Additions	17,525,477	56,939,999	**74,465,476**
Transfer	34,431,353	(34,431,353)	**-**
Disposal of subsidiary's assets	(631,662)	(13,441,629)	**(14,073,291)**
As at 31 December 2019	133,355,379	23,208,366	**156,563,745**
ACCUMULATED AMORTIZATION			
As at 31 December 2018	31,967,626	-	**31,967,626**
Amortization	21,243,953	-	**21,243,953**
Disposal of subsidiary's assets	(398,107)	-	**(398,107)**
As at 31 December 2019	52,813,472	-	**52,813,472**
NET BOOK VALUE			
At 31 December 2018	50,062,585	14,141,349	64,203,934
At 31 December 2019	80,541,907	23,208,366	**103,750,273**

The amortization charge for the year was allocated in the consolidated statement of profit or loss and other comprehensive income as follows:

	31 December 2019	31 December 2018
	SR	SR
Cost of revenue	**9,389,503**	5,943,377
Selling and distribution expenses (note 6)	**15,000**	461
General and administration expenses (note 7)	**11,839,450**	7,020,623
	21,243,953	12,964,461

19. PROPERTY AND EQUIPMENT

COST	Computer hardware SR	Furniture and office equipment SR	Leasehold improvements SR	Motor vehicles SR	Capital work in progress SR	Total SR
Balance as at 31 December 2018	132,082,904	37,462,075	40,356,728	1,245,825	14,077,061	**225,224,593**
Additions	36,576,019	10,980,189	4,493,907	-	73,525,135	**125,575,250**
Transfer	47,751,650	13,919,269	11,792,401	477,900	(73,941,220)	-
Disposal	(399,926)	(2,921,677)	-	-	-	**(3,321,603)**
Disposal of subsidiary's assets	(1,651,477)	(3,305,229)	(3,200,455)	(301,225)	-	**(8,458,386)**
Balance as at 31 December 2019	**214,359,170**	**56,134,627**	**53,442,581**	**1,422,500**	**13,660,976**	**339,019,854**
Balance as at 31 December 2018	82,868,858	25,321,494	14,519,881	512,327	-	**123,222,560**
Depreciation and impairment charge	39,801,108	6,765,762	7,052,247	287,278	**-**	**53,906,395**
Disposal	(395,630)	(2,830,946)	-	-	**-**	**(3,226,576)**
Disposal of subsidiary's assets	(323,993)	(638,722)	(560,940)	(74,130)	**-**	**(1,597,785)**
Balance as at 31 December 2019	**121,950,343**	**28,617,588**	**21,011,188**	**725,475**	-	**172,304,594**
NET BOOK VALUE						
As at 31 December 2018	49,214,046	12,140,581	25,836,847	733,498	14,077,061	102,002,033
At 31 December 2019	**92,408,827**	**27,517,039**	**32,431,393**	**697,025**	**13,660,976**	**166,715,260**

19. PROPERTY AND EQUIPMENT (continued)

The depreciation and impairment charge for the year was allocated in the consolidated statement of profit or loss and other comprehensive income as follows:

	31 December 2019 SR	31 December 2018 SR
Cost of revenue	**30,538,161**	18,031,688
Selling and distribution expenses (note 6)	**740,555**	731,606
General and administration expenses	**22,627,679**	9,938,117
Other income (note 8)	**-**	1,328,425
	53,906,395	30,029,836

20. RIGHT OF USE ASSETS

Below are the assets amount capitalized in the consolidated statement of financial position and depreciation charge for year ended 31 December 2019 under the application of IFRS 16, Leases.

	Properties SR	Vehicles SR	Total SR
Balance as at 1 January 2019	76,462,772	1,713,076	**78,175,848**
Additions (net)	16,293,229	-	**16,293,229**
Deprecation charge	(16,182,839)	(870,537)	**(17,053,376)**
Balance as at 31 December 2019	**76,573,162**	**842,539**	**77,415,701**

21. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2019 SR	31 December 2018 SR
Trade payables (note 21.1)	**367,288,723**	595,519,245
Accrued project costs (note 21.2)	**570,081,455**	362,951,476
Accrued expenses	**319,964,455**	230,212,915
Accrued connectivity charges (note 31)	**115,854,581**	-
Amounts due to a related party (note 30)	**60,592,669**	45,442,400
Lease liabilities (note 24)	**22,517,177**	-
Withholding tax provision	**1,975,718**	2,041,490
	1,458,274,778	1,236,167,526

21. ACCOUNTS PAYABLE AND ACCRUALS (Continued)

21.1 The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

21.2 During the year ended 31 December 2019, there have been reversals amounting to SR 6.26 million (31 December 2018: SR 29.99 million) relating to accrued project costs, which have been charged to cost of revenue. These reversals are primarily driven from the difference between the estimated project accruals carried in the books and the actual cost incurred or expected to be incurred upon completion. These differences arose mainly due to certain contract information updates relating to project accruals and due to recent enhancement made to the estimation process set up within the Group. These are considered as change in estimates and have been charged to the consolidated statement of profit or loss and other comprehensive income in the current year.

22. DEFERRED REVENUE

This represents billings issued to customers in excess of the value of work executed by the Group as per the terms of billings in the contract agreement with the customers as of the reporting date.

23. CONTRACT LIABILITIES

Contract liabilities represent amounts received from the Group's customers which will be applied against future billings.

24. LEASE LIABLITIES RELATING TO RIGHT OF USE ASSETS

Following is the maturity analysis of undiscounted cash flows relating to leases payments as at 31 December 2019.

Maturity analysis of undiscounted cash flows	31 December 2019 SR
Less than 1 year	27,201,174
One to five years	59,493,762
Total undiscounted liabilities as at 31 December 2019	**86,694,936**

Following is the presentation of discounted lease liabilities as at 31 December 2019 in the consolidated statement of financial position.

	31 December 2019 SR
Current portion (included in Accounts payable and accruals)	22,517,177
Non-current portion	54,157,328
Total	**76,674,505**

25. END OF SERVICE INDEMNITIES

	31 December 2019 SR	31 December 2018 SR
Defined benefit obligation (DBO)	**189,138,652**	125,754,092

The Group grants end of service indemnities (benefit plan) to its employees taking into consideration the local labor law requirements in KSA. The benefit provided by this benefit plan is a lump sum based on the employees' final salaries and allowance and their cumulative years of service at the date of the termination of employment.

The benefit liability recognized in the consolidated statement of financial position in respect of defined benefit end of service plan is the present value of the DBO at the reporting date.

The DBO is calculated periodically by qualified actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. As there are insufficient corporate and government bonds in the Kingdom to generate a credible discount rate, the discount rate has instead been based on US Treasury bonds adjusted for country differences between the US and Saudi Arabia.

Re-measurement amounts of actuarial gains and losses on the DBO, if any, are recognized and reported within consolidated OCI under the consolidated statement of profit or loss and other comprehensive income and in the consolidated statement of changes in equity.

The following table represents the movement of the DBO:

	31 December 2019 SR	31 December 2018 SR
Opening balance	**125,754,092**	92,250,000
Expected service cost	**70,662,560**	48,095,092
Finance cost	**5,961,000**	4,711,000
Total amount recognized in profit or loss	**76,623,560**	52,806,092
Loss/(gains) recognized in OCI	**2,378,000**	(10,790,000)
Payments	**(15,617,000)**	(8,512,000)
Closing balance	**189,138,652**	125,754,092

25. END OF SERVICE INDEMNITIES (Continued)

Significant actuarial assumptions

The most recent actuarial valuation was performed by Lux Actuaries & Consultants and was performed using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	31 December 2019	31 December 2018
Attrition rates	**15%**	15%
Salary escalation rate	**5.6%**	5.6%
Discount rate	**3.45%**	4.8%
Retirement age	**65**	65

Sensitivity analysis

The results are sensitive to the assumptions used. The table below shows the change in DBO based on increase or decrease in the base assumption value as of 31 December 2019:

			Impact on defined benefit obligation	
	Change in Assumption	Base value SR	Increase in assumption SR	Decrease in assumption SR
Discount rate	1%	189,138,652	170,329,000	211,218,000
Attrition rate	20%	189,138,652	179,558,000	200,822,000
Salary escalation rate	1%	189,138,652	210,509,000	170,519,000

26. SHARE CAPITAL

The share capital of the Company as of 31 December comprises of 10,000,000 (2018: 10,000,000) shares stated at SAR 10 (31 December 2018: 10) per share.

27. STATUTORY RESERVE

In accordance with Companies law and the Company's Articles of Association, the Company must transfer 10% of its income for the year to the statutory reserve. In accordance with Company's Articles of Association, the Company may resolve to discontinue such transfers when the reserve totals 50% of the capital. This having been achieved, the Company has elected not to transfer any additional amount to reserve. The reserve is not available for distribution.

28. DIVIDENDS

The Company's partners in their meeting held on 15 Dhul-Qadah 1440H (corresponding to 18 July 2019) resolved to distribute dividends amounting to SR 80 per share aggregating to SR 800,000,000.

29. FINANCIAL INSTRUMENTS

Categories of financial instruments

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy:

31 December 2019 Financial assets	Category of financial assets	Carrying amount	Fair value level
Cash and cash equivalents	Amortized Cost	414,280,958	N/A
Accounts and other receivables	Amortized Cost	3,836,325,451	N/A
Equity Investments at FVOCI	FVOCI	50,000	Level 3
Financial liabilities			
Accounts payable and accruals	Amortized Cost	1,458,274,778	N/A

31 December 2018 Financial assets	Category of financial assets	Carrying amount	Fair value level
Cash and cash equivalents	Amortized Cost	892,386,612	N/A
Accounts and other receivables	Amortized Cost	3,021,073,006	N/A
Equity Investments at FVOCI	FVOCI	50,000	Level 3
Financial liabilities			
Accounts payable and accruals	Amortized Cost	1,236,167,526	N/A

The amounts for receivables and cash and cash equivalents represents the Group's maximum exposure to credit risk at the reporting date.

Fair value of financial instruments

The directors consider that the carrying value of the financial instruments reported in the consolidated statement of financial position approximates their fair value, with the exception of the available-for-sale investment for which the fair value cannot be accurately determined.

30. FINANCIAL RISK AND CAPITAL MANAGEMENT

Market risk

The Group was not exposed to market risk during the year. There were no changes in these circumstances from the previous year.

Foreign currency risk management

The Group did not have any foreign currency denominated monetary assets or liabilities at the reporting date for which it was exposed to foreign currency fluctuations. Consequently, no foreign currency sensitivity analysis has been presented.

30. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Profit and liquidity rate risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. There has been no change to this strategy from the previous year.

The Group was not exposed to movements in profit rates at the reporting date. Consequently, no profit rate sensitivity analysis has been presented.

The following tables detail the Group's remaining contractual maturity for its non-derivative 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. The tables include both profit and principal cash flows.

31 December 2019	Profit rate %	Within one year SR	One year to five years SR	Total SR
Accounts payable and accruals	Profit free	1,435,757,601	-	1,435,757,601
Lease liabilities relating to right of use assets – current	3.53% to 3.92%	22,517,177	-	22,517,177
Lease liabilities relating to right of use assets – non-current	3.53% to3.92%	-	54,157,328	54,157,328

31 December 2018	Profit rate %	Within one year SR	One year to five years SR	Total SR
Accounts payable and accruals	Profit free	1,236,167,526	-	1,236,167,526

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The carrying amounts of financial assets represent the maximum credit exposure. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.
Impairment losses on financial assets recognized in profit or loss were as follows:

	31 December 2019 SR	31 December 2018 SR
Impairment loss on accounts receivable	**(325,670)**	(4,364,747)
(Reversal)/charge of Impairment loss on contract assets (note 15)	**(8,199,953)**	13,885,971
Total	**(8,525,623)**	9,521,224

30. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Expected credit loss assessment for private customers

The allowance for impairment of trade receivables and contract assets is created to the extent and as and when required, based upon the expected collectability of accounts receivables. The Group uses a provision matrix to measure the ECLs of trade receivables from private customers.

Loss rates are calculated using a 'roll rate' / 'flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates / flow rates are calculated separately for exposures in different segments based on the common credit risk characteristics.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from private customers as at 31 December 2019:

31 December 2019	Gross carrying amount	Weighted average loss rate	Loss allowance
Unbilled	113,234,493	7.55%	8,548,117
0-90 days	100,113,270	11.06%	11,070,333
91-180 days	19,238,140	22.10%	4,251,792
181 - 270 Days	385,590	43.93%	169,388
271 - 365 Days	4,077,888	64.66%	2,636,585
More than 1 year	20,710,765	64.66%	13,390,679
	257,760,146	**213.96%**	**40,066,894**

Expected credit loss assessment for Government Receivables and STC

A Committee estimates the impairment loss and estimates and recommends receivables to be written-off from Government and STC /STCS Affiliates customers. The Committee's role includes a review of the status of balances written-off by Accounts Receivable Department for Government & STC/STCS Affiliates according to the procedures related to the policy and aging reports and any other information or data requested by the Committee.

The Accounts Receivable section in the Financial Accounting & Reporting Department calculates and records the impairment loss at the end of each quarter based on the Committee's estimate for Government and STC/STCS Affiliates Customers. The Committee meets in the first week after the end of each quarter in order to evaluate and determine the impairment loss for Government & STC /STCS Affiliates entities.

For contract assets, the average default rate for the last three years is calculated by dividing the amounts written-off during the period (each year) by the value of outstanding balances of contract assets at the end of the period. This rate is multiplied by the contract assets during the period in order to reach the balance of provision of contract assets, if required.

Capital management

The Group manages its capital to ensure it will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of equity comprising share capital, the statutory reserve and retained earnings.

31. RELATED PARTY INFORMATION

Related parties comprise of partners, key management personnel, directors and businesses which are controlled directly or indirectly or influenced by the partners, directors or key management personnel. In the normal course of business, the Group has various transactions with its related parties. Transactions are entered into with the related parties on terms and conditions approved by either the Company's management or its Board of Directors.

The Group's immediate and ultimate controlling party is Saudi Telecom Company ("STC"), a company incorporated in the Kingdom of Saudi Arabia.

During the year, the Group entered into the following transactions with its related party:

	31 December 2019 SR	31 December 2018 SR
Sales of goods and services (a)	**4,174,560,648**	3,415,530,073
Purchases from STC	**186,660,921**	81,398,799

(a) Sales of goods and services to STC include an amount of SR 2,111,215,850 (31 December 2018: SR 1,691,581,357) for which STC is not the end customer.

The following balances were outstanding with STC at the reporting date:

	31 December 2019 SR	31 December 2018 SR
Gross amounts due from a related party (note 13)	**2,207,101,329**	1,714,009,468
Contract assets	**754,271,015**	696,570,430
Value added tax recoverable (note 14)	**10,969,302**	62,382,561
Amounts due to a related party (note 21)	**(60,592,669)**	(45,442,400)
Provision for doubtful debts (note 13)	**(45,223,074)**	(55,654,192)
Provision for discount on accounts receivable and contract assets	**-**	(100,000,000)
Deferred revenue	**(1,330,334,861)**	(929,940,946)
Net contract liabilities	**(404,155,445)**	(267,384,998)

The receivable amounts outstanding are unsecured and will be settled in cash or adjusted with payable balance. No guarantees have been given or received.

During the year ended 31 December 2019, the management became aware of connectivity charges that are allocated by the related party to the Group for the current year charge. As a result, during the current year, the Group has accrued for SR 116 million for these charges This amount is considered as preliminary and it's subject to mutual agreement between the Group and related party.

The movements in the allowance for expected credit losses and penalties related to amounts due from the Parent Company were as follows:

	31 December 2019 SR	31 December 2018 SR
Opening balance	**55,654,192**	45,317,572
(Reversal)/charge for the year	**(10,431,118)**	10,336,620
Closing balance	**45,223,074**	55,654,192

31. RELATED PARTY INFORMATION (continued)

Age of unimpaired amounts due from a related party

			Past due but not impaired			
	Total	Neither past due nor impaired	Up to 1 year	More than 1 - 3 years	More than 3 - 5 years	More than 5 years
	SR	SR	SR	SR	SR	SR
31 December 2019	**2,161,859,999**	**1,291,463,728**	**864,304,503**	**2,481,008**	**944,257**	**2,666,503**
31 December 2018	1,658,355,276	946,858,183	570,343,121	20,882,669	117,863,422	2,407,881

The following compensation was paid to key management personnel during the year:

	31 December 2019 SR	31 December 2018 SR
Short-term benefits	**32,830,747**	25,512,987
Post-employment benefits	**-**	1,029,060
	32,830,747	26,542,047

32. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date.

33. EVENTS AFTER THE REPORTING DATE

No other events have arisen subsequent to 31 December 2019 and before the issuance of the consolidated financial statements that could have a significant effect on the consolidated financial statements as at 31 December 2019.

34. CONTINGENT LIABILITIES

	31 December 2019 SR	31 December 2018 SR
Letters of guarantees	**247,219,506**	111,030,251

35. COMPARATIVE FIGURES

Certain of the prior year's amounts have been reclassified to conform with the presentation in the current year.