

**ARABIAN INTERNET AND COMMUNICATION SERVICES
COMPANY AND ITS SUBSIDIARY
(A SAUDI CLOSED JOINT STOCK COMPANY)**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020**

**ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY AND ITS SUBSIDIARY
(A SAUDI CLOSED JOINT STOCK COMPANY)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Arabian Internet and Communication Services Company
(A Saudi Closed Joint Stock 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 2020, and the consolidated statement of profit or loss and other 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 2020, 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 By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Arabian Internet and Communication Services Company
(A Saudi Closed Joint Stock Company) (continued)**

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.



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Arabian Internet and Communication Services Company
(A Saudi Closed Joint Stock 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

Abdulaziz A. Al-Sowailim
Certified Public Accountant
License No. (277)

Riyadh: 10 Rajab 1442H
(22 February 2021)



Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

For the year ended 31 December 2020

	<i>Notes</i>	2020 SR	2019 SR
Revenue, net	5&30	6,891,419,063	5,257,296,303
Cost of revenue		(5,469,447,120)	(4,410,051,699)
GROSS PROFIT		1,421,971,943	847,244,604
Selling and distribution expenses	6	(159,116,667)	(157,595,638)
General and administration expenses	7	(459,734,281)	(350,146,210)
(Impairment) / reversal of impairment of accounts receivable and contract assets	12&14	(46,113,660)	8,525,623
Other (loss) / income	8	(2,335,201)	2,140,931
Gain from sale of a subsidiary	1	-	71,991,722
NET PROFIT BEFORE FINANCE (COSTS) / INCOME AND ZAKAT		754,672,134	422,161,032
Finance (costs) income, net	9	(898,512)	12,597,733
NET PROFIT BEFORE ZAKAT		753,773,622	434,758,765
Zakat	10	(51,978,118)	(40,933,271)
NET PROFIT FOR THE YEAR		701,795,504	393,825,494
OTHER COMPREHENSIVE LOSS			
<i>Item that will not be reclassified subsequently to consolidated profit or loss:</i>			
Remeasurement of end of service indemnities	24	(35,271,285)	(2,378,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		666,524,219	391,447,494
Earnings per share:			
Basic and diluted from net profit for the year (restated)	27	5.85	3.28

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	31 December 2020 SR	31 December 2019 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	993,473,644	414,280,958
Accounts receivable	12&30	2,803,751,456	2,634,928,374
Prepayments and other assets	13	156,879,523	157,006,263
Contract assets	14&30	1,504,561,466	1,166,419,725
Inventories	15	112,369,154	150,654,462
TOTAL CURRENT ASSETS		5,571,035,243	4,523,289,782
NON-CURRENT ASSETS			
Contract costs		6,641,665	6,216,851
Intangible assets	17	91,459,160	103,750,273
Right-of-use assets	19	71,932,711	77,415,701
Property and equipment	18	593,558,752	166,715,260
TOTAL NON-CURRENT ASSETS		763,592,288	354,098,085
TOTAL ASSETS		6,334,627,531	4,877,387,867
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accruals	20	1,973,953,470	1,458,274,778
Deferred revenue	21&30	1,704,985,832	1,426,625,548
Contract liabilities	22&30	336,035,288	452,253,507
Zakat payable	10	53,140,982	40,113,984
TOTAL CURRENT LIABILITIES		4,068,115,572	3,377,267,817
NON-CURRENT LIABILITIES			
Lease liabilities	23	48,170,893	54,157,328
End of service indemnities	24	294,776,761	189,138,652
TOTAL NON-CURRENT LIABILITIES		342,947,654	243,295,980
TOTAL LIABILITIES		4,411,063,226	3,620,563,797
EQUITY			
Share capital	25	1,200,000,000	100,000,000
Statutory reserve	26	120,179,550	50,000,000
Other reserves		(6,851,269)	28,204,000
Retained earnings		610,236,024	1,078,620,070
TOTAL EQUITY		1,923,564,305	1,256,824,070
TOTAL LIABILITIES AND EQUITY		6,334,627,531	4,877,387,867

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital SR	Statutory reserve SR	Other reserves SR	Retained earning SR	Total SR
Balance as at 1 January 2020	100,000,000	50,000,000	28,204,000	1,078,620,070	1,256,824,070
Net profit for the year	-	-	-	701,795,504	701,795,504
Transfer to statutory reserve	-	70,179,550	-	(70,179,550)	-
Other comprehensive loss	-	-	(35,271,285)	-	(35,271,285)
Other reserve (note 30)	-	-	216,016	-	216,016
Increase in share capital (note 25)	1,100,000,000	-	-	(1,100,000,000)	-
Balance as at 31 December 2020	<u>1,200,000,000</u>	<u>120,179,550</u>	<u>(6,851,269)</u>	<u>610,236,024</u>	<u>1,923,564,305</u>
Balance as at 1 January 2019	100,000,000	50,000,000	-	1,515,376,576	1,665,376,576
Net profit for the year	-	-	-	393,825,494	393,825,494
Other comprehensive loss	-	-	-	(2,378,000)	(2,378,000)
Reclassification (note 37)	-	-	28,204,000	(28,204,000)	-
Dividends (note 25)	-	-	-	(800,000,000)	(800,000,000)
Balance as at 31 December 2019	<u>100,000,000</u>	<u>50,000,000</u>	<u>28,204,000</u>	<u>1,078,620,070</u>	<u>1,256,824,070</u>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
OPERATING ACTIVITIES			
Net profit before zakat		753,773,622	434,758,765
<i>Adjustments for:</i>			
Depreciation, impairment and amortization – property and equipment and intangibles	17&18	89,813,403	75,150,348
Depreciation – right-of-use assets	19	18,772,331	17,053,376
Employee benefits expense	24 &30	90,348,670	76,623,560
Impairment / (reversal of impairment) of accounts receivable and contract assets	12&14	46,113,660	(8,525,623)
Impairment of contract costs		6,126,639	-
Provision for slow moving and obsolete inventories	15	8,092,437	32,121,051
Gain on sale of a subsidiary	1	-	(71,991,722)
Provision / (reversal of provision) against lease contracts and advances to suppliers		30,440,020	(6,799,183)
Finance charges	9	2,537,652	2,958,236
Finance income	9	(1,639,140)	(15,555,969)
		1,044,379,294	535,792,839
<i>Changes in operating assets and liabilities:</i>			
Accounts receivable		(217,527,654)	(805,495,245)
Prepayments and other assets		978,910	122,001,602
Contract assets		(335,550,829)	(290,262,122)
Inventories		30,192,871	(42,478,580)
Contract costs		(424,814)	16,340,814
Accounts payable and accruals		491,609,478	191,454,556
Deferred revenue		278,360,284	438,700,677
Contract liabilities		(116,218,219)	116,477,803
Cash flows generated from operating activities		1,175,799,321	282,532,344
Zakat paid	10	(38,951,120)	(99,869,791)
End of service indemnities paid	24	(19,765,830)	(15,617,000)
Finance income received, net		1,981,146	16,437,130
NET CASH GENERATED FROM OPERATING ACTIVITIES		1,119,063,517	183,482,683
INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets	17&18	(535,999,978)	(179,409,914)
Proceeds from sale of a subsidiary	1	-	100,000,000
Net liquidation of murabaha time deposits		-	230,400,000
NET CASH (USED IN) / GENERATED FROM INVESTING ACTIVITIES		(535,999,978)	150,990,086
FINANCING ACTIVITIES			
Lease liabilities payment	23	(3,870,853)	(12,578,423)
Dividends paid	25	-	(800,000,000)
NET CASH USED IN FINANCING ACTIVITIES		(3,870,853)	(812,578,423)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		579,192,686	(478,105,654)
Cash and cash equivalents at the beginning of the year		414,280,958	892,386,612
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	993,473,644	414,280,958
Non-cash items:			
Increase in share capital	25	1,100,000,000	-
Recognition of right-of-use assets under IFRS 16	19	13,289,341	94,469,077
Recognition of lease liabilities under IFRS 16	23	12,933,987	86,294,692

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

1. ACTIVITIES

Arabian Internet and Communication Services Company (“the Company”) is a Saudi Closed Joint Stock 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”). During December 2020, the Company changed its legal status from a limited liability company to a Saudi Closed Joint Stock company (note 25).

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 Company has the following branches in order to manage the operations in other parts of the Kingdom.

Name of branch	Registration No	Date	Location
Arabian Internet and Communication Services Company	1010294137	20/09/1431H	Riyadh
Arabian Internet and Communication Services Company	1010464020	04/12/1437H	Riyadh
Arabian Internet and Communication Services Company	2051057553	15/07/1435H	AlKhobar
Arabian Internet and Communication Services Company	2055022604	15/07/1435H	Al-Jubail
Arabian Internet and Communication Services Company	4030271030	15/07/1435H	Jeddah

The following are the detail of the subsidiary company included in these consolidated financial statements:

Subsidiary	Country of incorporation	Ownership %	
		31 December 2020	31 December 2019
a. Saudi Telecom Company Solution for Information Technology (Owned by One Person)	Egypt	100%	100%
b. Saudi Digital Payments Company	Saudi Arabia	0%	0%

a. 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.

b. During July 2019, the Company has sold Saudi Digital Payments Company to Saudi Telecom Company (the Company’s Owner) and all the legal formalities to transfer the ownership were completed in 2019. The net carrying value of the subsidiary at the disposal date was SR 28,008,278 and the Company has sold this investment at a consideration of SR 100,000,000 which has resulted in a gain of SR 71,991,722.

The Company is fully owned by Saudi Telecom Company (“STC”), a listed company incorporated in the Kingdom of Saudi Arabia.

31 December 2020

2. BASIS OF PREPARATION

Change in legal form

Although the first fiscal period of the Company (after its conversion to a joint stock company) starts from December 31, 2020 to December 31, 2021, the Company has prepared its consolidated financial statements for the year ended December 31, 2020, which reflects its accounting year.

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").

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

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

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.

These consolidated financial statements are presented in Saudi Arabian Riyal (SR), which is the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

Subsidiaries are entities controlled by the group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on 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 derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

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.

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 to the customer/end-user. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Cloud and data center services (continued)

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.

Hosting services offered by the group to third party CSP is an independent service which is distinct and there is no significant integration or customization to them. Hence, both the criteria mentioned of identifying a performance obligation are met. Thus, hosting services offered by the group could be said to be a separate performance obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (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)

Revenue (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 as a separate performance obligation if they are capable of being distinct and distinct in the context of the contract.

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 of the contract. Revenue is recognized over a period of the contract using the output method based on time elapsed.
- **Valued added services:** Customer avails the benefit of these services over the period of the contract. Revenue is recognized over a period of the contract using the 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)

Revenue (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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Other considerations (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*

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which the Group is entitled in exchange for transferring the promised goods and services to a customer. 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"

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Classification of financial assets depends on the Group's business model for managing its financial assets and the contractual terms of the cash flows. The Group classifies its financial assets as:

- Financial assets measured at amortised cost; or
- Financial assets measured at fair value

Gains or losses of assets measured at fair value will be recognised either through the consolidated statement of profit or loss or through the consolidated statement of OCI.

Initial measurement

Financial assets are initially measured at their fair value plus transaction costs. Transaction costs of financial assets carried at fair value through income statement are recognised in the consolidated statement of profit or loss, when incurred.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the requirements as solely payment of principal and interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Financial assets (continued)

Subsequent measurement

Debt instruments

The Group recognises three classifications to subsequently measure its debt instruments:

- Amortised cost

Financial assets held for collection of contractual cash flows, where those cash flows represent Solely Payments of Principal and Interest (“SPPI”), are measured at amortised cost. A gain or loss on an investment in debt instruments subsequently measured at amortised cost, and not part of a hedging relationship, is recognised in the consolidated statement of profit or loss when the asset is de-recognised or impaired. Interest income from these financial assets is included in finance income using the Effective Interest Rate (“EIR”) method.

- FVOCI

Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the consolidated statement of profit or loss. When the financial asset is de-recognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the consolidated statement of profit or loss and recognised in other income/expense. Interest income from these financial assets is included in finance income using the EIR method. Foreign exchange gains and losses are presented in other income/expense.

- FVPL

Financial assets at fair value through income statement include financial assets held for trading, financial assets designated upon initial recognition at fair value through income statement, or financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through income statement, irrespective of the business model.

Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss. This category includes derivative instruments.

Equity instruments

The Group measures all investments in equity instruments at fair value and presents changes in fair value of investments in equity instruments in OCI. Dividends from such investments continue to be recognised in the special-purpose statement of profit or loss as other income when the Group’s right to receive payments is established. There shall be no subsequent reclassification of changes in fair value through the consolidated statement of income.

De-recognition

A financial asset or a part of a financial asset is de-recognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement, and either:
 - a) The Group has transferred substantially all the risks and rewards of the asset; or
 - b) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Financial assets (continued)

Impairment

At each reporting date, the Group applies a three-stage approach to measuring expected credit losses (“ECL”) on financial assets accounted for at amortized cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition:

a) Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized.

b) Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognized.

c) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognized and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

For equity instruments measured at FVOCI, impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value and for debt instruments measured at FVOCI, impairment gains or losses are recognized in the consolidated statement of profit or loss and other comprehensive income.

For trade receivables only, the Group recognizes expected credit losses for trade receivables based on the simplified approach. The simplified approach to the recognition of expected losses does not require the Group to track the changes in credit risk; rather, the Group recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Objective evidence that financial assets are impaired may include indications that a debtor or a Group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive. The Group assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Group measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified under either of the below two classes:

- Financial liabilities at FVPL; and
- Other financial liabilities measured at amortised cost using the EIR method.

The category of financial liability at FVPL has two sub-categories:

- Designated: A financial liability that is designated by the entity as a liability at FVPL upon initial recognition; and
- Held for trading: A financial liability classified as held for trading, such as an obligation for securities borrowed in a short sale, which have to be returned in the future. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

All financial liabilities are recognised initially when the Group becomes party to contractual provisions and obligations under the financial instrument. The liabilities are recorded at fair value, and in the case of loans and borrowings and payables, the proceeds received net of directly attributable transaction costs.

Subsequent measurement

Financial liabilities at FVPL continue to be recorded at fair value with changes being recorded in the consolidated statement of profit or loss.

For other financial liabilities, including loans and borrowings, after initial recognition, these are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in consolidated statement of profit or loss when the liabilities are de-recognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR method. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss and other comprehensive income.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The fair value of financial guarantee is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

ii) Financial liabilities (continued)

De-recognition

A financial liability is de-recognised when the obligation under the liability is settled or discharged. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Foreign currencies

Transactions in currencies other than the Company'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 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 shareholders of Company when the distribution is approved by the General assembly 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 shareholders. 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 statement of profit or loss and other comprehensive income when the asset is derecognized.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in income or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The Group applies the below estimated useful life to its property and equipment and depreciate accordingly:

Computer hardware	3 to 5 years
Furniture	5 years
Office equipment	5 to 20 years
Leasehold improvements	Lower of the lease period or 5 years
Motor vehicles	5 years

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property and equipment are reviewed at each financial period ended and adjusted prospectively, if appropriate.

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 statement of profit or loss and other comprehensive income.

IFRS 16 Leases

The Group assess whether a contract contains a lease, at inception of the contract. For all such lease arrangements the Group recognize right of use assets and lease liabilities except for the short term leases and leases of low value assets as follows:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. Right-of-use assets mainly comprise of lease of building and is amortized over the respective lease period.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of commercial buildings, accommodations and offices (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of commercial buildings, accommodations and offices that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

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.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

Segmental Information

The specific operating segments of the Group are identified based on internal reports, which are regularly reviewed by the Group's main decision makers (chief operating decision maker) for the purpose of resource allocation among segments and performance assessment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

The Group applied for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New adopted policies

Shared-based payment transactions

The Company's executive employees receive remuneration in the form of share-based payments under the employees long term incentives program, whereby employees render services as consideration for Company's shares (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value of the equity instrument at the grant date. The grant date is the date on which the Company and the employee agree on the share-based agreement, so that, a common understanding of the terms and conditions of the agreement exists between the parties. Share-based payment expense is included as part of employees benefits expense over the period in which the service and the performance conditions are fulfilled (the vesting period), with the corresponding amount recorded under other reserves within equity in accordance with the requirements of the International Financial Reporting Standard - 2: Share-based Payment. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of shares that will ultimately vest. The expense or credit in the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

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.

The following critical judgements and estimates 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.

Change in Estimates regarding useful life of assets

During the year, the Group reviewed the estimated useful lives of property and equipment. Management believes that it is appropriate to change the estimated useful life of the property and equipment as following:

Main Category	Sub Category	Old Life	Revised Life
Computer Hardware	Computer servers	3 Years	5 Years
Computer Hardware	Workgroup devices	3 Years	5 Years
Vehicles	Cars	4 Years	5 Years

The changes in the estimated useful lives of property and equipment have been applied prospectively from 1 January 2020. The changes in useful lives have resulted in net decrease in depreciation charge for the year ended 31 December 2020 amounting to SR 33.86 million and increase in net profit for the year by the same amount.

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

Expected credit losses (“ECL”)

For accounts receivables and contract assets, the Group applies the simplified approach. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from historical information of the Group and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic. The Group estimates the case by case provision on STC, Government and Private customers based on the internal assessment regarding the collectability of the balances and this assessment is done based on the available information. An estimate of the collectible amount is made when collection of the amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

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.

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.

Determining the lease term of contracts with renewal and terminations options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination clauses. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in the circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the contract.

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

Incremental borrowing rate for lease agreements

The Group cannot readily determine the interest rate implicit in the lease agreement, therefore, it uses its Incremental Borrowing Rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available, such as for subsidiaries that do not enter into financing transactions or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs, such as market interest rates when available and is required to make certain entity-specific estimates.

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.

Contract cost estimation

The Group recognises contract revenue by reference to the stage of completion of the activity at the reporting date, when the outcome of a contract can be estimated reliably. The stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Assumptions are required to estimate the total estimated contract costs and the recoverable variation works that will affect the stage of completion. The estimates are made based on past experience and knowledge of the project engineers and other technical team. The accuracy of these estimates is likely to have an impact on the amount of revenue and related profits recognised.

At the end of each reporting period, the Group is required to estimate costs to complete the contracts based on work to be performed beyond the reporting period. This involves objective evaluation of project progress against the schedule, evaluation of work to be performed and the associated costs to fully deliver the contract to the customer. This estimate will impact contract revenue and costs, contract assets, contract liabilities and accrued project costs. The measurement of contract revenue is affected by a variety of uncertainties (including cost estimation) that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue recognised may increase or decrease from period to period.

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31 December 2020

5. REVENUE, NET

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
System Integration	2,315,752,861	2,084,811,085
Communication & Internet	1,427,818,939	875,337,511
Outsourcing Services	1,228,845,986	903,483,037
Cloud Services	677,004,234	477,558,152
Cyber Security	578,413,335	430,268,898
Managed Services	401,178,603	251,803,274
Digital Services	262,405,105	234,034,346
	<u>6,891,419,063</u>	<u>5,257,296,303</u>
Type of customers		
Sell through STC and sell to direct customers (STC is not the end customer)	4,467,318,493	3,193,951,504
Sell to STC (STC is the end customer)	2,424,100,570	2,063,344,799
	<u>6,891,419,063</u>	<u>5,257,296,303</u>
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	6,205,867,828	4,844,238,289
- at a point in time	685,551,235	413,058,014
	<u>6,891,419,063</u>	<u>5,257,296,303</u>

Contract assets and provision for expected credit losses relating to revenue earned from ongoing services is disclosed in note 14.

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31 December 2020

6. SELLING AND DISTRIBUTION EXPENSES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Employees related costs	141,705,587	118,658,905
Selling and marketing expenses	12,234,343	32,484,951
IT expenses	3,178,965	1,520,752
Business travel expenses	1,226,515	4,043,772
Depreciation and amortization	378,072	755,555
Others	393,185	131,703
	<u>159,116,667</u>	<u>157,595,638</u>

7. GENERAL AND ADMINISTRATION EXPENSES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Employees related costs	208,460,414	200,440,158
Professional services	67,787,904	37,382,397
Depreciation and amortization	56,961,604	50,851,464
IT expenses	44,326,476	29,368,655
Provision / (reversal of provision) against lease contracts	30,166,460	(8,746,875)
Office expenses	14,461,978	10,325,523
Hospitality and corporate gatherings	13,313,641	10,988,983
Rent expenses	10,560,459	1,523,792
Business travel expenses	7,118,395	13,667,790
Utilities expenses	1,601,079	1,438,421
Others	4,975,871	2,905,902
	<u>459,734,281</u>	<u>350,146,210</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

8. OTHER (LOSS) / INCOME, NET

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Commission income	2,133,766	2,283,013
Impairment loss on property and equipment (note 8.1 & 18)	(3,517,908)	-
Foreign exchange loss	(952,799)	(40,171)
Others	1,740	(101,911)
	<u>(2,335,201)</u>	<u>2,140,931</u>

8.1 This represents the impairment charge booked on assets related to certain offices which are planned to be handed back to lessor.

9. FINANCE (COSTS) INCOME, NET

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Finance charges on leases liabilities	(2,537,652)	(2,958,236)
Income from murabaha time deposits	1,639,140	15,555,969
	<u>(898,512)</u>	<u>12,597,733</u>

10. ZAKAT

The Group is 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 amounts to SR 51,978,118 (31 December 2019: SR 40,933,271) 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.

The parent company has an open objection related to the assessment for 2008 & 2009, which is under the review with the General Secretariat of Tax Committees (formerly the Appeal Committee), and the parent company believes to clear this assessment with no substantial liability. The parent company has cleared the assessment for the years 2014 & 2018 via a settlement with General Authority of Zakat and Tax (GAZT). Finally, the parent company has received assessments for the years 2015 till 2017 from GAZT, these assessments are objected by the parent company, and the parent company believes that the result of this objection will be in its favour and no material additional provisions are required.

The movement in zakat provision is as follows:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Balance as at 1 January	40,113,984	99,050,504
Charge for the year	51,978,118	40,933,271
Paid during the year	(38,951,120)	(99,869,791)
	<u>53,140,982</u>	<u>40,113,984</u>

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31 December 2020

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 original maturity of three months or less when placed. Cash and cash equivalents comprise of the following;

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Cash in hand	22,471	9,928
Bank balances	8,451,173	39,271,030
Murabaha time deposits (*)	985,000,000	375,000,000
	993,473,644	414,280,958

(*) Represent deposits placed with various banks and carry a profit rate of 0.25% to 0.45% per annum. The original maturity date for all these deposits are less than 90 days.

12. ACCOUNTS RECEIVABLE

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Gross trade receivables (excluding related parties balance)	813,285,140	537,574,257
Less: allowance for expected credit losses	(74,796,541)	(64,524,138)
Net trade receivables	738,488,599	473,050,119
Gross amounts due from related parties (note 30)	2,146,107,981	2,207,101,329
Less: allowance for expected credit losses against related parties balances (note 30)	(80,845,124)	(45,223,074)
Net amounts due from related parties	2,065,262,857	2,161,878,255
Total accounts receivable	2,803,751,456	2,634,928,374

Trade receivables

The average credit period on sales of goods and provision for services is 60 days. No finance income is charged on trade receivables.

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 Group does not have trade receivable and contract assets for which no loss allowance is recognized because of collateral.

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31 December 2020

12. ACCOUNTS RECEIVABLE (continued)

One of the Group's debtors comprise 13% (31 December 2019:17%) of the total trade receivables balance excluding related parties 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 related to trade receivables (excluding related parties balance):

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Balance as at 1 January	64,524,138	54,418,689
Charge for the year	10,272,403	10,105,449
	<hr/>	<hr/>
Balance as at 31 December	74,796,541	64,524,138
	<hr/> <hr/>	<hr/> <hr/>

Movements in the allowance for expected credit losses related to amounts due from the related parties:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Opening balance	45,223,074	55,654,192
Charge/(reversal) for the year	35,622,050	(10,431,118)
	<hr/>	<hr/>
Closing balance (*)	80,845,124	45,223,074
	<hr/> <hr/>	<hr/> <hr/>

(*) The above includes SAR 49.81 million (31 December 2019: 36.99 million) pertaining to receivables for which STC is not the end customer.

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 for third parties 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.

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31 December 2020

12. ACCOUNTS RECEIVABLE (continued)

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
<i>Age of unimpaired trade receivables</i>		
<i>Non-governmental receivables</i>		
Neither past due nor impaired	133,306,573	70,280,845
0 to 3 months	12,479,736	18,762,091
4 to 6 months	62,994,560	14,986,349
7 to 12 months	5,046,037	1,657,504
Over 1 year	11,192,309	6,154,531
	225,019,215	111,841,320
<i>Governmental receivables</i>		
Neither past due nor impaired	269,979,122	234,910,717
0 to 3 months	53,335,690	21,912,105
4 to 6 months	80,707,005	44,623,255
7 to 12 months	73,608,103	39,917,355
Over 1 year	35,839,464	19,845,367
	513,469,384	361,208,799
	738,488,599	473,050,119
<i>Age of impaired trade receivables</i>		
<i>Non-governmental receivables</i>		
0 to 3 months	11,511,292	11,070,333
4 to 6 months	10,861,484	4,251,792
7 to 12 months	4,359,397	2,805,973
Over 1 year	28,544,283	26,499,972
	55,276,456	44,628,070
<i>Governmental receivables</i>		
0 to 3 months	2,346,182	-
4 to 6 months	60,090	184,199
7 to 12 months	1,073,980	855,572
Over 1 year	16,039,833	18,856,297
	19,520,085	19,896,068
	74,796,541	64,524,138

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

13. PREPAYMENTS AND OTHER ASSETS

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Other receivables (note 13.1)	96,666,789	32,279,169
Prepaid expenses, net (note 13.2)	38,719,787	42,360,019
Advances to suppliers, net (note 13.3)	17,666,662	79,618,892
Deposits	3,826,285	2,748,183
	<u>156,879,523</u>	<u>157,006,263</u>

13.1 Other receivables include amounting to SR 80.66 million (31 December 2019: SR 19.13 million) due from related parties.

13.2 Prepaid expenses are presented net of provision for certain doubtful prepaid assets amounting to SR 22.65 million (31 December 2019: SR 22.65 million).

13.3 Advances to suppliers are presented net of provision for old advances amounting to SR 9.36 million (31 December 2019: SR 9.09 million).

14. 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.

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Gross contract assets (note 30)	1,510,518,671	1,174,967,842
Allowance for impairment	(5,957,205)	(8,548,117)
	<u>1,504,561,466</u>	<u>1,166,419,725</u>

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Balance as at 1 January	8,548,117	16,748,070
Reversal of impairment for the year	(2,590,912)	(8,199,953)
	<u>5,957,205</u>	<u>8,548,117</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

15. INVENTORIES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Materials and supplies	180,451,340	210,644,211
Less: allowance for slow moving and obsolete inventory (note 15.1)	(68,082,186)	(59,989,749)
	<u>112,369,154</u>	<u>150,654,462</u>

The Group has charged inventories amounting to SR 1,483.75 million (31 December 2019: SR 781.85 million) to consolidated statement of profit or loss and other comprehensive income.

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Balance as at 1 January	59,989,749	27,868,698
Net charge for the year	8,092,437	32,121,051
Balance as at 31 December	<u>68,082,186</u>	<u>59,989,749</u>

16. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OCI

16.1 The Group has 1% investment in Sapphire Company (engaged in IT services), which was established in the Kingdom of Saudi Arabia in June 2014. Sapphire Company is in liquidation and as at 31 December 2020 the legal proceedings of liquidation are still in process. Accordingly, the Group has recognized 100% impairment on this investment, the investment amount was SR 1 million.

16.2 The Group had 5% investment in Saudi Telecom Investment Trading Company Limited (engaged in telecommunications services) which was carried at cost of SR 50,000, as the fair value cannot be reliably determined. This investment has been disposed to the parent company at cost.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

17. INTANGIBLE ASSETS

	<i>Software</i> SR	<i>Capital work-in- progress</i> SR	<i>Total</i> SR
COST:			
As at 1 January 2020	133,355,379	23,208,366	156,563,745
Additions	11,560,733	13,236,367	24,797,100
Disposal	(10,117,694)	-	(10,117,694)
Transfer	31,691,628	(31,691,628)	-
As at 31 December 2020	<u>166,490,046</u>	<u>4,753,105</u>	<u>171,243,151</u>
ACCUMULATED AMORTIZATION:			
As at 1 January 2020	52,813,472	-	52,813,472
Amortization	30,898,330	-	30,898,330
Disposal	(3,927,811)	-	(3,927,811)
As at 31 December 2020	<u>79,783,991</u>	<u>-</u>	<u>79,783,991</u>
Net book value as at 31 December 2020	<u>86,706,055</u>	<u>4,753,105</u>	<u>91,459,160</u>
As at 1 January 2019	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	<u>133,355,379</u>	<u>23,208,366</u>	<u>156,563,745</u>
ACCUMULATED AMORTIZATION			
As at 1 January 2019	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	<u>52,813,472</u>	<u>-</u>	<u>52,813,472</u>
Net book value as at 31 December 2019	<u>80,541,907</u>	<u>23,208,366</u>	<u>103,750,273</u>

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

	<i>31 December 2020</i> SR	<i>31 December 2019</i> SR
Cost of revenue	13,713,422	9,389,503
Selling and distribution expenses (note 6)	103,890	15,000
General and administration expenses (note 7)	17,081,018	11,839,450
	<u>30,898,330</u>	<u>21,243,953</u>

During the year ended 31 December 2020, the Group has entered into an agreement with one of its parent's subsidiary to dispose certain assets at its net book value of SR 6.19 million.

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31 December 2020

18. PROPERTY AND EQUIPMENT

COST:	<i>Computer hardware</i> SR	<i>Furniture and office equipment</i> SR	<i>Leasehold improvements</i> SR	<i>Motor vehicles</i> SR	<i>Capital work-in-progress</i> SR	<i>Total</i> SR
Balance as at 1 January 2020	214,359,170	56,134,627	53,442,581	1,422,500	13,660,976	339,019,854
Additions	24,853,440	11,143,091	2,867,435	689,577	471,649,335	511,202,878
Transfer	54,475,465	1,392,162	8,737,963	-	(64,605,590)	-
Disposal	(38,024,276)	(3,139,046)	(1,525,901)	-	-	(42,689,223)
Balance as at 31 December 2020	255,663,799	65,530,834	63,522,078	2,112,077	420,704,721	807,533,509
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
Balance as at 1 January 2020	121,950,343	28,617,588	21,011,188	725,475	-	172,304,594
Depreciation and impairment charge	36,488,876	10,070,369	12,070,856	284,972	-	58,915,073
Disposal	(15,954,252)	(858,319)	(432,339)	-	-	(17,244,910)
Balance as at 31 December 2020	142,484,967	37,829,638	32,649,705	1,010,447	-	213,974,757
NET BOOK VALUE:						
At 31 December 2020	113,178,832	27,701,196	30,872,373	1,101,630	420,704,721	593,558,752

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

18. PROPERTY AND EQUIPMENT (continued)

COST:	<i>Computer hardware</i> SR	<i>Furniture and office equipment</i> SR	<i>Leasehold improvements</i> SR	<i>Motor vehicles</i> SR	<i>Capital work-in-progress</i> SR	<i>Total</i> SR
Balance as at 1 January 2019	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 assets	(1,651,477)	(3,305,229)	(3,200,455)	(301,225)	-	(8,458,386)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2019	214,359,170	56,134,627	53,442,581	1,422,500	13,660,976	339,019,854
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
Balance as at 1 January 2019	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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2019	121,950,343	28,617,588	21,011,188	725,475	-	172,304,594
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE:						
At 31 December 2019	92,408,827	27,517,039	32,431,393	697,025	13,660,976	166,715,260
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Arabian Internet and Communication Services Company and its Subsidiary
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

18. 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:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Cost of revenue	33,255,818	30,538,161
Selling and distribution expenses (note 6)	274,182	740,555
General and administration expenses (note 7)	21,867,165	22,627,679
Impairment loss on property and equipment (note 8)	3,517,908	-
	<u>58,915,073</u>	<u>53,906,395</u>

Capital work in progress as at 31 December 2020 mainly represents building of a remote computing facility. The facility is expected to start its operation during 2021.

During the year ended 31 December 2020, the Group has entered into an agreement with one of its parent's subsidiary to dispose certain assets at its net book value of SR 25.44 million.

19. RIGHT-OF-USE ASSETS

Below is the movement of the right-of-use assets under the application of IFRS 16, Leases:

	<i>Land and Building</i>	<i>Vehicles</i>	<i>Total</i>
	SR	SR	SR
Recognized on adoption of IFRS 16	76,462,772	1,713,076	78,175,848
Additions	16,293,229	-	16,293,229
Deprecation charge for the year	(16,182,839)	(870,537)	(17,053,376)
Balance as at 1 January 2020	<u>76,573,162</u>	<u>842,539</u>	<u>77,415,701</u>
Additions	13,289,341	-	13,289,341
Deprecation charge for the year	<u>(18,043,910)</u>	<u>(728,421)</u>	<u>(18,772,331)</u>
Balance as at 31 December 2020	<u>71,818,593</u>	<u>114,118</u>	<u>71,932,711</u>

Right of use assets are depreciated as follows;

Leased hold lands	15 years
Buildings	4 years
Vehicles	3 years

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31 December 2020

20. ACCOUNTS PAYABLE AND ACCRUALS

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Trade payables	653,070,944	367,288,723
Accrued project costs	425,117,739	570,081,455
Accrued expenses (note 20.1)	499,082,870	319,964,455
Accrued connectivity charges (note 30)	239,657,376	115,854,581
Amounts due to related parties (note 30)	114,942,706	60,592,669
Lease liabilities (note 23)	40,104,398	22,517,177
Withholding tax provision	1,977,437	1,975,718
	1,973,953,470	1,458,274,778

20.1 Accrued expenses include amounting to SR 108.06 million (31 December 2019: SR 40.70 million) due to STC. Trade payables are normally settled within 90 days of the invoice dates.

21. 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.

22. CONTRACT LIABILITIES

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

23. LEASE LIABILITIES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Opening	76,674,505	-
Recognized on adoption of IFRS 16	-	72,621,047
Additions to lease liabilities, net	12,933,987	13,673,645
Finance cost charged	2,537,652	2,958,236
Payments	(3,870,853)	(12,578,423)
Total discounted liabilities as at 31 December	88,275,291	76,674,505

Following is the maturity analysis of undiscounted cash flows relating to leases payments as at 31 December 2020.

Maturity analysis of undiscounted cash flows	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Less than 1 year	40,279,245	27,201,174
More than 1 year	51,187,531	59,493,762
Total undiscounted liabilities as at 31 December	91,466,776	86,694,936

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

23. LEASE LIABILITIES (continued)

Following is the presentation of discounted lease liabilities as at 31 December 2020 in the consolidated statement of financial position.

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Current portion (included in accounts payable and accruals)	40,104,398	22,517,177
Non-current portion	48,170,893	54,157,328
Total	88,275,291	76,674,505

24. END OF SERVICE INDEMNITIES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Defined benefit obligation (DBO)	294,776,761	189,138,652

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 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. Due to the lack of liquidity and the deep market constraints of local corporate bonds, reference needs to be made to the Saudi Government Issuance of US dollar denominated bonds rates.

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:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Balance as at 1 January	189,138,652	125,754,092
Expected service cost	83,882,654	70,662,560
Finance cost	6,250,000	5,961,000
Total employee benefits expense recognized in profit or loss	90,132,654	76,623,560
Loss recognized in OCI	35,271,285	2,378,000
Payments	(19,765,830)	(15,617,000)
Balance as at 31 December	294,776,761	189,138,652

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

24. 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:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Attrition rates	15%	15%
Salary escalation rate	4.5%	5.6%
Discount rate	2.65%	3.45%
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 2020:

	<i>Change in Assumption</i>	<i>Base value SR</i>	<i>Impact on defined benefit obligation</i>	
			<i>Increase in assumption SR</i>	<i>Decrease in assumption SR</i>
Discount rate	1%	294,776,761	265,335,000	329,553,000
Attrition rate	20%	294,776,761	270,072,000	324,582,000
Salary escalation rate	1%	294,776,761	328,533,000	265,558,000

Cost of revenue includes employees' cost amounting to SR 1,579 million (31 December 2019: SR 1,245 million)

25. SHARE CAPITAL AND DIVIDENDS DISTRIBUTION

25.1 SHARE CAPITAL

During the year 2020, the shareholders of the Company in their meeting held on 12 Safar, 1442H (corresponding to 29 September 2020) decided to increase the share capital of the Company from SR 100,000,000 to SR 1,200,000,000 (divided into 120,000,000 shares of SR 10 each) and to change the legal structure of the Company from a limited liability company to a closed joint stock company. The legal formalities for the increase in share capital and change of legal structure including approval by the Ministry of Commerce which was obtained on 8 Jumada al-ula, 1442H (corresponding to 23 December 2020) and issuance of ministerial resolution were completed on 16 Jumada al-ula, 1442H (corresponding to 31 December 2020).

25.2 DIVIDENDS DISTRIBUTION

No dividends were declared in year ended 31 December 2020. The Board of Directors in their meeting held on 15 Dhul-Qadah 1440H (corresponding to 18 July 2019) recommended to distribute dividends of SR 80 per share totaling to SR 800,000,000.

26. STATUTORY RESERVE

In accordance with Companies law and the Company's Bye laws, the Company must transfer 10% of its income for the year to the statutory reserve. In accordance with Company's Bye laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The reserve is not available for distribution.

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31 December 2020

27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to the shareholders of the Company by the weighted average number of shares outstanding during the year ended 31 December as follows:

	31 December 2020	31 December 2019
Net profit for the year ‘SR’	701,795,504	393,825,494
Weighted average no of shares for basic & diluted earnings per share (restated)	120,000,000	120,000,000
Basic and diluted earnings per share ‘SR’	5.85	3.28

The Group does not have potentially dilutive shares and accordingly, dilutive earnings per share equals basic earnings per share.

28. 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 2020

<i>Financial assets</i>	<i>Category of financial assets</i>	<i>Carrying amount</i>	<i>Fair value level</i>
Cash and cash equivalents	Amortized Cost	993,473,644	N/A
Accounts receivable, contract assets and other receivables	Amortized Cost	4,408,805,996	N/A
Equity Investments at FVOCI	FVOCI	-	Level 3

Financial liabilities

Accounts payable and accruals	Amortized Cost	2,022,124,363	N/A
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31 December 2019

<i>Financial assets</i>	<i>Category of financial assets</i>	<i>Carrying amount</i>	<i>Fair value level</i>
Cash and cash equivalents	Amortized Cost	414,280,958	N/A
Accounts receivable, contract assets and other receivables	Amortized Cost	3,836,728,603	N/A
Equity Investments at FVOCI	FVOCI	-	Level 3

Financial liabilities

Accounts payable and accruals	Amortized Cost	1,512,432,106	N/A
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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 equity investments at fair value through OCI investments for which the fair value cannot be accurately determined.

29. 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 material 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.

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.

	<i>Profit rate</i> %	<i>Within one</i> <i>year</i> SR	<i>More than one</i> <i>year</i> SR	<i>Total</i> SR
31 December 2020				
Accounts payable and accruals	NA	1,933,849,072	-	1,933,849,072
Lease liabilities relating to right of use assets	1.57 to 1.86%	40,279,245	51,187,531	91,466,776

	<i>Profit rate</i> %	<i>Within one</i> <i>year</i> SR	<i>More than one</i> <i>year</i> SR	<i>Total</i> SR
31 December 2019				
Accounts payable and accruals	NA	1,435,757,601	-	1,435,757,601
Lease liabilities relating to right of use assets	3.53 to 3.92%	27,201,174	59,493,762	86,694,936

Credit risk management

Credit risk related to other customers is managed by the Group by establishing credit limits and monitoring outstanding receivables. Management does not believe that there is any significant credit risk associated with these receivable and is confident that they will be fully recovered. The Group is currently having most of its transactions with Saudi Telecom Company ("STC"), the Ultimate Parent Company, and also provide services to the Government. STC and the Government are recognized to have high credit rating and hence credit risk is considered to be low. The Group does not expect any default in payment from such receivables, except in case of disputes. Other receivables are monitored on an on-going basis.

29. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Credit risk management (continued)

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.

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 and contract assets.

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 2020:

<i>31 December 2020</i>	<i>Gross carrying amount</i>	<i>Weighted average loss rate</i>	<i>Loss allowance</i>
Unbilled	114,342,069	5.21%	5,957,166
0-90 days	161,907,973	7.11%	11,511,216
91-180 days	75,802,007	14.33%	10,860,544
181 - 270 Days	4,606,455	28.29%	1,303,304
271 - 365 Days	6,879,734	44.42%	3,056,093
More than 1 year	22,422,820	44.42%	9,960,592
	385,961,058	11.05%	42,648,915
	385,961,058	11.05%	42,648,915

Capital management

The Group manages its capital to ensure it will be able to continue as going concern 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, other reserves, statutory reserve and retained earnings.

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30. RELATED PARTY INFORMATION

Related parties comprise of the Parent Company, and entities which are controlled directly or indirectly or influenced by the Saudi Telecom Company ("STC"), and also 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 Group's management or its Board of Directors.

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

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

	31 December 2020	31 December 2019
	SR	SR
Sales of goods and services (Parent Company and its subsidiaries) (a)	5,313,919,469	4,174,560,648
Purchases (Parent Company)	252,077,760	186,660,921
Discount on certain projects (b)	199,071,534	-
Sale of intangible assets and property and equipment (note 17 & 18) (Other related party)	31,627,259	-
Long term incentive expense charged by Parent Company	216,016	-

(a) Sales of goods and services to Parent Company and its subsidiaries include an amount of SR 2.9 billion (31 December 2019: SR 2.1 billion) for which Parent Company is not the end customer.

(b) This represents a discount on certain projects, that are performed through Parent Company.

The following balances were outstanding with related parties at the reporting date:

	31 December 2020	31 December 2019
	SR	SR
Accounts receivable: gross (note 12)	2,146,107,981	2,207,101,329
Contract assets	949,422,179	754,271,015
Other assets: receivable from related parties (note 13)	80,661,693	19,133,843
Deferred revenue	(1,606,137,371)	(1,330,334,861)
Amounts due to related parties (note 20)	(114,942,706)	(60,592,669)
Accrued connectivity charges (note 20)	(239,657,376)	(115,854,581)
Contract liabilities	(260,457,485)	(404,155,445)
Accrued expenses (note 20)	(108,058,882)	(40,704,701)

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

Age of unimpaired amounts due from related parties

	Total	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			
			<i>0 - 3 months</i>	<i>4 - 6 months</i>	<i>7 - 12 months</i>	<i>Over 1 years</i>
	SR	SR	SR	SR	SR	SR
31 December 2020	2,065,262,857	932,147,422	450,520,253	379,906,106	298,474,987	4,214,089
31 December 2019	2,161,859,999	1,291,463,728	540,264,896	213,706,971	110,482,804	5,941,600

Arabian Internet and Communication Services Company and its Subsidiary
(A Saudi Closed Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2020

30. RELATED PARTY INFORMATION (continued)

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Employment benefits	34,911,209	32,830,747

The following amounts were payable in relation to end of service indemnities and annual leave provision to the key management:

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
End of service indemnities and annual leave	5,578,995	3,161,140

31. SEGMENT INFORMATION

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker and used to allocate resources to the segments and to assess their performance.

The Group is engaged in Information Communication & Technology (ICT) services as mentioned below. Majority of the Group's revenues, income and assets relate to its operations within the Kingdom. The operating segments that are regularly reported to the Group's chief operating decision maker are the revenue streams and resources are distributed to an operating segment based on the revenue and their details are as below;

- Core ICT Services: These services are core requirements of the businesses, enabling customers to have core IT requirements with systems, hardware/software, and connectivity to the internet. (including: System Integration and Communication and Internet Services)
- IT Managed and Operational Services: These services are considered as add on(s) and help the customers in managing their operations and improve the total cost of ownership, (including: Outsourcing and Managed services)
- Digital Services: These services are advance digital services utilized by customers to further enhance and scale their offerings (including: Cloud, Cyber Security and Digital Services)

There are no intersegments revenue for the year ended 31 December 2020 (31 December 2019: Nil), therefore reconciliation of segments revenue to total revenue is not relevant.

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Core ICT Services	3,743,571,801	2,960,148,596
IT Managed and Operational Services	1,630,024,588	1,155,286,311
Digital Services	1,517,822,674	1,141,861,396
Total revenue	6,891,419,063	5,257,296,303
Total cost of revenue	(5,469,447,120)	(4,410,051,699)
Total operating expenses	(664,964,608)	(499,216,225)
Total non-operating (expenses) / income	(3,233,713)	86,730,386
Zakat for the year	(51,978,118)	(40,933,271)
Total net profit for the year	701,795,504	393,825,494

32. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date.

31 December 2020

33. SIGNIFICANT EVENT

A novel strain of coronavirus (COVID-19) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (WHO). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia, which resulted in a slowdown of economic and social activities and shutdowns of many sectors at global and local levels.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the group has assessed its impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families, and fully activating the technical solutions and providing digital channels with greater capabilities and facilities to ensure the continuity of services provided to the customers and reach them to their location for their own safety.

At the end of the second quarter of 2020 the government of the Kingdom of Saudi Arabia has allowed the return of all economic and commercial activities, while observing the implementation of all preventive measures adopted, and commitment to social distancing.

As of the date of preparing these consolidated financial statements for the year ended 31 December 2020, the Group's operations and financial results have not incurred significant impact from the COVID-19 outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in telecom sector. The impact of the pandemic on the Group's operations and financial results was assessed using some judgments, estimates and assumptions that contain sources of uncertainty as it depends on several future factors and developments that cannot be reliably forecasted.

The Group continues to monitor the impact of this pandemic on its business and financial results.

34. EVENTS AFTER THE REPORTING DATE

The General Assembly in extraordinary general meeting held on 04 Rajab 1442H (corresponding to 16 February 2021) approved to distribute dividends of SR 3.33 per share totaling to SR 400,000,000.

No other events have arisen subsequent to 31 December 2020 and before the issuance of the consolidated financial statements that could have a significant effect on the consolidated financial statements as at 31 December 2020.

35. CONTINGENT LIABILITIES

	<i>31 December 2020</i>	<i>31 December 2019</i>
	SR	SR
Letters of guarantees	<u>205,670,965</u>	<u>247,219,506</u>

36. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 03 Rajab 1442H (corresponding to 15 February 2021).

37. COMPARATIVE FIGURES

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

As at 31 December 2019, the Group has reclassified the accumulated unrealized actuarial gains relating to end of service indemnities amounting to SR 28,204,000 from retained earnings to other reserve presented as a separate line item under equity.