

ARABIAN INTERNET AND COMMUNICATION SERVICES COMPANY

(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Opinion

We have audited the consolidated financial statements of Arabian Internet and Communication Services Company (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, 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 material accounting policy information.

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 2023, 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 Chartered and Professional 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 the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia that is relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Acquisitions of a subsidiary</p> <p>During the financial year ended 31 December 2023, the Group completed the acquisition of Contact Center Company (referred as "CCC") amounted to SAR 513.7 million which resulted in goodwill of SAR 143.9 million and intangible assets of SAR 146.2 million.</p> <p>We considered this as a key audit matter due to the significant impact on consolidated balance sheet of the group and its result which is subject to management judgments and estimates in relation to the allocation of the purchase price to the assets and liabilities acquired. This exercise also require management to determine the fair value of the assets and liabilities acquired and to identify intangible assets and goodwill resulted from this acquisition. The management used an external valuator to determine the fair value.</p> <p><i>Refer to note 1 and 5 for the related disclosure.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Inspected the sales and purchase agreements and the circulars issued to the shareholders in relation to these acquisitions to obtain an understanding of the transactions and the key terms. • Assessed whether the appropriate accounting treatment has been applied to these transactions. • Obtained copy of the third-party valuation report related to the acquisition. • Assessed the competence and experience of the valuator. • Engaged our internal specialists to assess the valuation methodologies used by management and the external valuation expert in the fair valuation of acquired assets and liabilities. • Assessed the adequacy of the relevant disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>The Group's revenue mainly comprises of; Core ICT Services, IT Managed and Operational Services, and Digital Services totalling SAR 11 billion for the year ended 31 December 2023. Also, the revenue from related parties for the year is considered significant, as compared to total revenue.</p> <p>We considered this as a key audit matter due to the estimates and judgements involved in the application of revenue recognition in accordance with IFRS 15. Additionally, there are certain inherent risks associated with revenue, which mainly relate to use of IT applications and customers' long-term contracts, which have a material impact on the accuracy of recognizing and recording revenue.</p> <p><i>Refer to note 3 for the accounting policy relating to revenue recognition, notes 6 and 37 for the related disclosures.</i></p>	<p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> • Involved our IT specialists in testing the design, implementation, and operating effectiveness of IT controls associated to revenue cycle. • Evaluated the Group's accounting policy, as it specifically relates to revenue recognition for compliance with IFRS 15. • In relation to the criteria followed by the management to determine the level of revenue to be recognized, we have, on a sample basis performed the following: <ul style="list-style-type: none"> - Evaluated management assessment related to identify performance obligation in line with the terms and conditions of contracts with customers; - Tested the transaction price to the underlying contracts, on sample basis, as executed with customers; - Evaluated management assessment to allocate transaction price that is allocated to identified performance obligation; and - Evaluated management assessment of revenue recognition timing, whether is "at a point in time" or "over period of time". • For revenue with related parties, in addition to the audit procedures mentioned above, we have assessed the process followed by the management in identifying, recording, and reporting revenue from related parties. • Assessed the adequacy of the relevant disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Allowance for expected credit losses of trade receivable</p> <p>As at 31 December 2023, the Group's gross trade receivable balance amounted to SAR 4.8 billion, against which an impairment allowance of SAR 453 million is maintained.</p> <p>The Group assesses at each reporting date whether the trade receivable are impaired. Management has applied an expected credit loss ("ECL") model to determine the appropriate allowance for impairment loss. Further, the Group performs an assessment based on a defined policy for certain categories of customers.</p> <p>The determination of allowance for expected credit losses of trade receivable is based on certain assumptions that relate mainly to risk of default and expected loss rates. The Group applies judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, market conditions, as well as forward looking estimates.</p> <p>We considered this as a key audit matter due to the level of judgment applied and estimates made in the application of the ECL model and the assessment of allowance for expected credit losses.</p> <p><i>Refer to notes 3 and 4 for the accounting and critical judgements policies relating to allowance for impairment of trade receivable and note 14 for the related disclosures.</i></p>	<p>Our audit procedures performed included, among others, the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the process used by management in determining the allowance for expected credit losses of trade receivable. • Assessed significant assumptions used in the ECL model's calculation such as; forward-looking factors (that reflect the impact of future events) and macro-economic variables that are used to determine the allowance for expected credit losses. • Tested the completeness and mathematical accuracy of the ECL model. • Assessed the assumptions used by management in connection to the determination of allowance for expected credit losses for certain customers' categories. • Tested, on a sample basis, the calculation performed by management of allowance for expected credit losses for these categories of customers. • Assessed the adequacy of the relevant disclosures included in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Other information included in The Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report. The Group's 2023 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2023 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 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 Chartered and Professional Accountants and the provisions of Companies' Law and 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, i.e., the Audit Committee, is responsible for overseeing the Group's financial reporting process.

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.

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- 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.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

for Ernst & Young Professional Services

Waleed G. Tawfiq
Certified Public Accountant
License No. (437)



Riyadh: 12 Sha'ban 1445H
22 February 2024

**Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
Revenue	6	11,040,493	8,805,091
Cost of revenue		(8,442,875)	(6,793,845)
GROSS PROFIT		2,597,618	2,011,246
General and administration expenses	7	(714,908)	(604,946)
Selling and distribution expenses	8	(495,821)	(246,069)
OPERATING PROFIT		1,386,889	1,160,231
Finance income	12 & 13	145,447	53,956
Finance cost	10	(76,075)	(16,060)
Other expenses, net	9	(51,662)	(27,767)
Share in net results from equity accounted investee	18.3	127	1,139
PROFIT BEFORE ZAKAT AND INCOME TAX		1,404,726	1,171,499
Zakat and income tax	11	(209,581)	(117,786)
NET PROFIT		1,195,145	1,053,713
NET PROFIT ATTRIBUTABLE TO:			
Equity holders of the Parent Company		1,192,148	1,052,869
Non-controlling interests		2,997	844
		1,195,145	1,053,713
Earnings per share attributable to Equity holders of the Parent Company:			
Basic	34	10.02	8.86
Diluted	34	9.93	8.77


Chief Financial Officer


Chief Executive Officer


Authorized Board Member


The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
NET PROFIT		<u>1,195,145</u>	<u>1,053,713</u>
OTHER COMPREHENSIVE LOSS			
Item that will not be reclassified subsequently to consolidated profit or loss:			
Remeasurement of end of service indemnities	27	<u>(41,833)</u>	<u>(4,226)</u>
Total items that may not be reclassified subsequently to consolidated statement of profit or loss		<u>(41,833)</u>	<u>(4,226)</u>
Item that may be reclassified subsequently to consolidated profit or loss:			
Foreign currency translation differences		<u>(55,409)</u>	<u>(65,590)</u>
Total items that may be reclassified subsequently to consolidated statement of profit or loss		<u>(55,409)</u>	<u>(65,590)</u>
TOTAL OTHER COMPREHENSIVE LOSS		<u>(97,242)</u>	<u>(69,816)</u>
TOTAL COMPREHENSIVE INCOME		<u>1,097,903</u>	<u>983,897</u>
TOTAL COMPREHENSIVE INCOME/ (LOSS) ATTRIBUTABLE TO:			
Equity holders of the Parent Company		<u>1,098,988</u>	<u>986,037</u>
Non-controlling interests		<u>(1,085)</u>	<u>(2,140)</u>
		<u>1,097,903</u>	<u>983,897</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board Member

**Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2023	2022
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	12	2,588,169	543,976
Short term murabaha	13	850,000	2,700,800
Trade receivable	14	4,363,682	4,344,696
Prepayments, short term investments and other assets	15	554,445	185,979
Contract assets	16	1,691,484	1,276,580
Inventories	17	248,553	322,437
TOTAL CURRENT ASSETS		10,296,333	9,374,468
NON-CURRENT ASSETS			
Non-current investments and other assets	18	153,761	21,178
Intangible assets and goodwill	19	625,501	415,415
Property and equipment	20	390,349	473,053
Right of use assets	21	50,300	40,970
TOTAL NON-CURRENT ASSETS		1,219,911	950,616
TOTAL ASSETS		11,516,244	10,325,084
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Trade payable, accruals and other liabilities	22	3,314,910	2,623,090
Deferred revenue	23	3,048,839	3,265,701
Contract liabilities	24	380,316	487,785
Zakat and income tax payable	11	240,030	135,882
Borrowings	25	211,343	194,388
TOTAL CURRENT LIABILITIES		7,195,438	6,706,846
NON-CURRENT LIABILITIES			
Lease liabilities	26	18,936	15,846
End of service indemnities	27	450,189	260,822
Borrowings	25	499,127	502,014
TOTAL NON-CURRENT LIABILITIES		968,252	778,682
TOTAL LIABILITIES		8,163,690	7,485,528
EQUITY			
Share capital	28	1,200,000	1,200,000
Statutory reserve	29	-	308,758
Other reserves	30	(59,863)	24,850
Treasury Shares	31	(154,444)	(155,973)
Retained earnings		2,338,270	1,432,245
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		3,323,963	2,809,880
Non-controlling interests	33	28,591	29,676
TOTAL EQUITY		3,352,554	2,839,556
TOTAL LIABILITIES AND EQUITY		11,516,244	10,325,084

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Total equity attributable to the equity holders of the Parent Company					Total	Non-controlling Interest	Total
	Share capital	Statutory reserve	Other reserves	Retained earnings	Treasury Shares			
Balance as at 1 January 2023	1,200,000	308,758	24,850	1,432,245	(155,973)	2,809,880	29,676	2,839,556
Net profit	-	-	-	1,192,148	-	1,192,148	2,997	1,195,145
Other comprehensive loss	-	-	(93,160)	-	-	(93,160)	(4,082)	(97,242)
Total comprehensive (loss)/income	-	-	(93,160)	1,192,148	-	1,098,988	(1,085)	1,097,903
Transfer from statutory reserve to retained earnings (note 29)	-	(308,758)	-	308,758	-	-	-	-
Share-based payments (note 30)	-	-	8,447	-	1,529	9,976	-	9,976
Dividends (note 32)	-	-	-	(594,881)	-	(594,881)	-	(594,881)
Balance as at 31 December 2023	1,200,000	-	(59,863)	2,338,270	(154,444)	3,323,963	28,591	3,352,554
Balance as at 1 January 2022	1,200,000	203,471	88,434	959,863	(181,200)	2,270,568	-	2,270,568
Net profit	-	-	-	1,052,869	-	1,052,869	844	1,053,713
Other comprehensive loss	-	-	(66,832)	-	-	(66,832)	(2,984)	(69,816)
Total comprehensive (loss)/income	-	-	(66,832)	1,052,869	-	986,037	(2,140)	983,897
Acquisition of non-controlling interests	-	-	-	-	-	-	31,816	31,816
Transfer to statutory reserve (note 29)	-	105,287	-	(105,287)	-	-	-	-
Share-based payments (note 30)	-	-	3,248	-	25,227	28,475	-	28,475
Dividends (note 32)	-	-	-	(475,200)	-	(475,200)	-	(475,200)
Balance as at 31 December 2022	1,200,000	308,758	24,850	1,432,245	(155,973)	2,809,880	29,676	2,839,556


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

(All amounts in Saudi Riyals thousands unless otherwise stated)


	Notes	2023	2022
OPERATING ACTIVITIES			
Net profit before zakat and income tax		1,404,726	1,171,499
Adjustments for:			
Depreciation and amortization		251,630	214,167
Depreciation - right of use assets		30,642	17,916
Expected credit losses		180,167	(298)
End of service indemnities expense	27	95,533	68,034
Share-based payment expense		9,976	28,475
(Reversal) of provision against lease contracts and advances to supplier		(30,104)	(709)
(Reversal) / provision for slow moving and obsolete inventories	17	(19,403)	2,313
Future contract losses		38,385	(4,879)
Share in results from an equity accounted investee	18.3	(127)	(1,139)
Finance charges		76,075	16,060
Finance income		(145,447)	(53,956)
		<u>1,892,053</u>	<u>1,457,483</u>
Changes in operating assets and liabilities:			
Accounts receivable		(64,439)	(948,435)
Prepayments and other assets		(159,011)	191,835
Contract assets		(208,151)	96,537
Inventories		93,018	50,367
Accounts payable, accruals and other liabilities		535,458	423,356
Deferred revenue		(261,234)	863,142
Contract liabilities		(107,469)	56,673
Contract costs		3,478	15,250
Cash flows generated from operating activities		<u>1,723,703</u>	<u>2,206,208</u>
Zakat and income taxes paid	11	(112,837)	(65,171)
End of service indemnities paid	27	(43,699)	(55,743)
Finance income received		148,170	36,842
NET CASH GENERATED FROM OPERATING ACTIVITIES		<u>1,715,337</u>	<u>2,122,136</u>
INVESTING ACTIVITIES			
Short term murabaha, net	13	1,850,800	(2,700,800)
Purchase of property and equipment and intangible assets	35	(111,952)	(133,895)
Investment in financial assets		(287,606)	-
Payment for acquisition of subsidiary, net of cash acquired		(415,083)	(371,829)
NET CASH GENERATED FROM / (USED IN) INVESTING ACTIVITIES		<u>1,036,159</u>	<u>(3,206,524)</u>
FINANCING ACTIVITIES			
Lease liabilities payment		(38,131)	(21,800)
Dividends paid	32	(594,881)	(475,200)
Bank overdraft and borrowings, net		14,068	53,883
Proceeds from long term loan		-	500,000
Finance cost paid		(70,032)	(15,635)
NET CASH (USED IN) / GENERATED FROM FINANCING ACTIVITIES		<u>(688,976)</u>	<u>41,248</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>2,062,520</u>	<u>(1,043,140)</u>
Cash and cash equivalents at the beginning of the year	12	543,976	1,607,556
Net foreign exchange difference on cash		(18,327)	(20,440)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	<u>2,588,169</u>	<u>543,976</u>

Significant non-cash items:

Refer to note 1 for non cash items related to the acquisition


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements

Arabian Internet and Communication Services Company
(A Saudi Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2023
(All amounts in Saudi Riyals thousands unless otherwise stated)

1. ACTIVITIES

Arabian Internet and Communication Services Company (“the Company” or the “Group”) is a Saudi 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 and during September 2021, the Company has completed its initial public offering and its share was traded on September 30, 2021.

The Company is 79% owned by Saudi Telecom Company (“STC”) (31 December 2022: 79%). The parent of STC is Public Investment Fund (“PIF”) which owns 64% (31 December 2022: 64%) of its ordinary shares and is based in KSA.

The main activities of the Company and its subsidiaries (collectively referred to as the “Group”) comprise of the followings,

- Engaged in the extension, installation, managing and monitoring of computer networks, wiring and communications.
- Repair and maintenance of engines, systems, and fixed and portable data storage devices.
- Road repair, maintenance and supplies.
- Security devices installation and maintenance.
- Wholesale and retail of security devices, cyber security and systems analysis.
- Design and programming of special software and applications development.
- Senior management advisory services.
- Environmental activities including advisory, testing, and measuring environmental indicators and operating air laboratories, installation, repair, maintenance and environmental monitoring and control operation of continuous and discontinuous systems including the import and wholesale of environmental monitoring and control systems.
- Carrying out all kinds of manufacturing and assembling works in addition to operating and maintenance works; engineering consultations; designing computer systems and accessories; Xerox machines; graphic machines; automatic control devices; wire and wireless communication devices as well as spare parts, equipment and supplies required for operating and maintaining the aforementioned devices, machines and equipment.
- Selling and marketing computer software and electronic hardware; electronic devices; spare parts; supplies and necessary accessories of all types as well as leasing and maintaining such devices for the benefit of the company or operating the said devices for the benefit of third parties.
- Conducting amendment and development operations on the computer software and hardware units and providing integrated solutions.
- Designing, supplying, installing and maintaining security systems in various facilities, alarm systems, automatic firefighting systems, circuit breaker systems and communication devices that enable remote desktop connection or that connect computers networks.
- Designing, supplying, installing and maintaining the Optical Ground Wire (OPGW) grids, electricity transmission lines, power transformation stations, generators and auxiliary plants.
- Supplying, installing and maintenance educational laboratories (electric- electronic-mechanical).
- Designing engineering and scientific systems for computers and providing engineering consultations, implementing integrated projects within the scope of the abovementioned activities.
- Undertaking marketing and trading activities within the purpose of the Company.
- Designing, supplying, installing, operating, establishing and maintaining the grids, stations and booster pumping stations for potable water, wastewater as well as gas and fuel grids.
- Carrying out all the electromechanical and electronic works in addition to providing communication networks. Conducting exporting activities.
- The Group may have an interest or participate in any manner with companies and other entities practicing similar activities or that may assist the Company in achieving its purpose in Egypt or abroad. The Company may also merge into the said entities, purchase them or affiliate them thereto according to the provisions of law and its executive regulation. Providing services related to submission of proposals and technical solutions in the field of telecommunications and information technology support and maintenance, systems development, support, and communications programs and information technology.

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1. ACTIVITIES (continued)

(a) Acquisition during the year

On 12 Ramadan 1444 H, (Corresponding to 3 April 2023) the Company acquired 100% of the equity interest in Contact Center Company (referred as "CCC") for SAR 513.7 million. CCC is engaged in providing services related to submission of proposals and technical solutions in the field of telecommunications and information technology support and maintenance, systems development, support, and communications programs and information technology. This acquisition aims to reinforce solutions' leadership in the ICT sector in line with its ambitious growth strategy and contribute towards expanding its business process outsourcing and customer experience offerings, which is a high growth market.

The Company has concluded the acquisition as a business as per "IFRS 3 - Business Combinations" and accordingly accounted for the transaction using the acquisition method as per IFRS 3 with the Company being the acquirer and CCC being the acquiree. The Company engaged an independent expert to determine the fair value of the assets and liabilities of CCC as part of the purchase price allocation exercise. The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of CCC with those of the Group. The fair value of identifiable assets and liabilities are as follows:

	<u>On acquisition date</u>
Assets	
Contract assets	214,938
Trade receivable	126,530
Intangible assets arising from acquisition (note 19)	146,200
Cash and cash equivalents	98,617
Prepayments and other assets	68,050
Right-of-use assets (note 21)	28,717
Intangible assets (note 19)	14,213
Property and equipment (note 20)	7,589
Total assets	704,854
Liabilities	
Trade payable and accruals	178,062
End of service indemnities (note 27)	95,870
Contract liabilities	44,373
Zakat and income tax provision (note 11)	16,703
Total liabilities	335,008
Net identifiable assets as at acquisition date	369,846
Goodwill arising from the acquisition	143,854
Total purchase consideration	513,700

Below is the analysis of cash flows on acquisition;

	<u>Amounts in SR "000"</u>
Purchase consideration	513,700
Transaction cost of the acquisition (included in the cash flows from operating)	(7,350)
Net cash acquired with the subsidiary (included in the cash flows from investing)	98,617
Net cash flow on acquisition	91,267

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2. ACTIVITIES (continued)

(a) Acquisition during the year (continued)

Intangible assets arising from acquisition

Below are the intangibles assets recognised along with the valuation techniques used for measuring the relevant fair value:

Intangible assets	Amount recognized on acquisition	Valuation approach
Brand name	61,000	Relief from royalty
Customer relationship	56,000	Multiperiod excess earnings method (MEEM)
Backlog	23,000	Multiperiod excess earnings method (MEEM)
Software	6,200	Incremental cost approach
Total	146,200	

From the date of acquisition, Contact Center Company has contributed SR 581 million of revenue and SR 85 million of net profit. If the acquisition had taken place at the beginning of the year, revenue would have been SR 775 million and net profit would have been SR 82 million.

Acquisition related costs of SAR 7.35 million were expensed in the consolidated statement of profit or loss.

(b) Acquisitions in 2022

On 7 Rabi Al Awwal 1444 H, (Corresponding to 3 October 2022) the Company acquired 88.19% and 34% of the equity interest in Giza Systems Company ("Giza Systems") and Giza Arabia Systems Company LLC respectively (together referred as "Giza Group") for SAR 492 million. Giza Systems further owns multiple subsidiaries and associates which are located in different countries. Giza system's direct subsidiaries along with its shareholding in those entities are as follows:

Name of subsidiaries	Country of incorporation	Effective shareholding % by Giza
Giza Systems Distribution ("Giza Systems")	Egypt	100%
Giza Arabia System Company (*) ("Giza Arabia")	KSA	66%
VAS Integrated Solutions ("VAS")	Egypt	100%
Giza systems Egypt	Egypt	97.99%
Giza Free Zone	Egypt	100%
Giza Systems DMCC	UAE	100%
ARIA Technologies	Egypt	60%
Egyptian Engineering Co.	Egypt	100%
Giza Systems Kenya	Kenya	100%
Giza Systems Uganda	Uganda	100%
Giza Systems Tanzania	Tanzania	100%
Giza System – USA	USA	100%
Jafeer Technologies	Egypt	82%
Avidbeam Netherlands	Netherlands	51%

(*) The Company owns 34% direct interest in Giza Arabia System Company which makes effective shareholding for the Group of 92.21% in the Giza Arabia System Company.

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1. ACTIVITIES (continued)

b) Acquisitions in 2022 (continued)

The Company has concluded this acquisition as a business under "IFRS 3 – Business Combinations" and accordingly accounted for the transaction using the acquisition method as per IFRS 3 with the Company being the acquirer and Giza Group being the acquiree.

Non-controlling interests which result from both the Company's partial ownership of Giza Group, as well as Giza's partial ownership of a number of its subsidiaries, were measured at their proportionate share of recognized net assets amounting to SAR 32 million.

The Company engaged an independent valuator in order to determine the fair values of the assets and liabilities of Giza Group as part of the purchase price allocation. The fair values of the identifiable assets and liabilities are as follows:

Financial statement line items	On acquisition date
Asset	
Trade receivable	376,206
Intangible assets arising from acquisition (note 19)	159,540
Contract assets	117,148
Cash and cash equivalents	93,821
Inventories	101,347
Prepayments and other assets	84,668
Right-of-use assets	3,105
Property and equipment	21,507
Total asset	957,342
Liabilities	
Trade payable and accruals	315,080
End of service indemnities	15,058
Deferred revenue	126,305
Banks overdraft	119,698
Contract liabilities	77,159
Total liabilities	653,300
Net identifiable assets acquired	304,042
Non-controlling interests	(31,816)
Goodwill (note 19)	219,675
Purchase consideration	491,901

Below is the analysis of cash flows on acquisition;

	Amounts in SR "000"
Purchase consideration	491,901
Transaction cost of the acquisition (included in the cash flows from operating)	(15,413)
Net cash acquired with the subsidiary (included in the cash flows from investing)	93,821
Net cash flow on acquisition	78,408

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1. ACTIVITIES (continued)

Acquisition during the financial year 2022 (continued)

Intangible assets arising from acquisition

Goodwill recognized as part of business combination is required to be allocated to relevant cash generating units CGU(s) for the purpose of impairment testing. The Company has completed purchase price allocation exercise, below are the intangibles assets recognized along with the valuation techniques used for measuring the relevant fair values:

Intangible assets	Amount recognized on acquisition	Valuation approach
Customer relationships	72,004	Multiperiod excess earnings method (MEEM)
Backlog	48,368	Multiperiod excess earnings method (MEEM)
Tradename / trademarks	35,190	Relief from royalty
Technology	3,978	Relief from royalty
Total	159,540	

From the date of acquisition, Giza Group has contributed SR 428 million of revenue and SAR 11 million of profit (post eliminations) to the Groups consolidated profit or loss. If the combination had taken place at the beginning of the year, revenue would have been SAR 1,245 million and profit would have been SAR 28 million.

Acquisition related costs of SAR 15 million were expensed in the consolidated statement of profit or loss.

2. BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

These consolidated financial statements are prepared based on the following:

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

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The significant accounting policies applied by the Group in the preparation of consolidated financial statements. The applied accounting policies this year are consistent with the previous year.

Basis of measurement and functional currency

The consolidated financial statements have been prepared on the historical cost basis except for financial assets classified as fair value through profit or loss which are measured at fair value.

These consolidated financial statements are presented in Saudi Arabian Riyal (SAR), which is the Company's functional currency. All values are rounded to the nearest thousand (SAR'000), except when otherwise indicated.

The financial statements are prepared under the going concern basis.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Basis of consolidation

These consolidated financial statements include the assets, liabilities and the results of operations of the Company and its subsidiaries listed in note 5.

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 ability to use its power over the investee to affect its returns.

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.

Business combination and Goodwill

Business combinations are accounted for using the acquisition method upon transfer of control to the Group. The consideration transferred is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in the consolidated statement of profit or loss as incurred.

When the Group acquires a business, it assesses the identifiable assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value with limited exceptions.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Business combination and Goodwill (continued)

Goodwill is initially measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value at the acquisition-date of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognized at the acquisition date.

If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then a gain on bargain purchase at a differential price is recognized in the consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing for goodwill acquired from the business combination and from the date of acquisition, it will be allocated to cash-generating units ("CGU") that are expected to benefit from the consolidation regardless of whether the other assets or liabilities acquired have been allocated to those units.

If goodwill is not allocated to designated cash-generating units because of an incomplete initial calculation, the initial impairment loss will not be tested unless impairment indicators are available to enable the Group to distribute the carrying amount of the goodwill to the cash generating units or the group of cash generating units expected to benefit from business combination. Where goodwill is allocated to the cash generating unit and part of the operations of that unit are disposed of, goodwill associated with the discontinued operation will be included in the carrying amount when determining the gain or loss on disposal of the operation. The goodwill in such circumstances is measured on the basis of the value of a similar disposed operation and the remaining portion of the cash-generating unit.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another relevant IFRS approved in Kingdom.

Any contingent consideration to be paid (if any) will be recognized at fair value at the acquisition date and classified as equity or a financial liability. Contingent consideration classified as a financial liability is subsequently remeasured at fair value with the changes in fair value recognized in the consolidated statement of profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in the consolidated statement of profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the consolidated statement of profit or loss where such treatment would be appropriate if that interest were disposed of.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Business combination and Goodwill (continued)

If the initial accounting for the business combination is not completed by the end of the reporting period which constitutes the period in which the combination occurred, the Group presents the items whose value calculation has not been completed in a temporary manner in the consolidated financial statements. During the measurement period, which is not more than one year from the acquisition date, the temporary value recognized on the acquisition date is retroactively adjusted to reflect the information obtained about the facts and circumstances that existed at the date of acquisition and if it is determined that this will affect the measurement of amounts recognized as of that date.

The Group recognizes additional assets or liabilities during the measurement period if new information becomes available about facts or circumstances that existed at the date of the acquisition and if it will result in recognition of assets or liabilities from that date. The measurement period ends once the group obtains all information that existed at the acquisition date or as soon as it becomes sure of the absence of more information.

Foreign currencies

The financial information and disclosures are presented in Saudi Riyals (the functional currency of the Company). For each subsidiary, the Group determines the functional currency, which is defined as the currency of the primary economic environment in which the entity operates, and items included in the financial statements of each subsidiary are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) 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 translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item to which it relates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains or losses arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognized in OCI.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Saudi Riyals using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the reporting period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

Foreign currency risk management

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the reporting date exchange rate.

	Closing rate on 31 December 2023	Closing Rate on 31 December 2022	Average rate for 31 December 2023	Average rate from acquisition date to 31 December 2022	Rate on acquisition date on 3 October 2022
1 EGP to SAR	0.1214	0.1520	0.1223	0.1621	0.1915

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures - equity accounted investees

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Factors to determine significant influence include holding directly or indirectly voting power of the investee, representation on the board of directors or equivalent governing body of the investee, participation in policy-making processes including participation in decisions about dividends or other distributions, material transactions between the entity and the investee, interchange of managerial personnel or provision of essential technical information.

The investment in associates and joint ventures are accounted for in the consolidated financial statements of the Group using the equity method of accounting. The equity accounted investees in the consolidated statement of financial position are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit and loss and other comprehensive income of the investee adjusted for any impairment in the value of the net investment. In addition, when there has been a change recognized directly in the equity of the investee associate or joint ventures, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. When the Group's share of losses in equity accounted investee exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses.

Additional losses are recognized and recorded as liabilities only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity accounted investees.

Unrealized gain or losses resulting from transactions between the Group and the equity accounted investees are eliminated to the extent of the interest in the associate or joint venture.

An investment in an associates or joint ventures are accounted for using the equity method from the date on which the investee becomes an associate or joint venture.

On acquisition of the investment in an associate or joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the consolidated statement of profit or loss in the acquisition year.

The requirements of IFRSs approved in Kingdom are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or joint venture. The carrying amount of the investment in an associates or joint ventures are tested for impairment in accordance with the policy.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, joint venture or when the investment is classified as held for sale.

When the Group reduces its ownership interest in an associate or joint venture but the Group continues to use the equity method, the Group reclassifies to the consolidated statement of profit or loss the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss includes the disposal of the related assets or liabilities.

When any entity within the Group transacts with an associate or joint venture of the Group, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Revenue

Core ICT Services

System integration services

System integration revenue represents revenue generated by the installation of new network (hardware and software) or enhancing the existing customer network together with stand ready right to maintenance and support and training solutions. Hardware, 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 transaction price will be allocated to each performance obligations based on the stand-alone selling price.

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

The Group recognizes revenue relating to installed hardware, software along with design and professional services over time using the input method.

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.

Software reselling

Revenue from software reselling is recorded at a point in time at which the revenue is recognized. All third-party software sold to customers are accounted for as an agent where the net of selling price, except for arrangements where either:

- The software is sold as part of integration to develop a client specific integrated solution or a structure where other solution elements are combined. The integration involves deployment of a skilled team who support clients on-ground in determining the client's business requirements, solution design and perform the implementation.
- The software was subject to a customization by the Group beyond the selection and deployment of a software or multiple software as per standard specification.

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. Where these are not directly observable, they are estimated based on expected cost plus margin. The Group recognizes revenue of these services as the customer avails the benefit of these services over the period based on time elapsed. (Coinciding with the billing).

IT Managed and Operational Services

Outsourcing services

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

Hardware is a separately identifiable component in the outsourcing contract (only in case of manpower services) and accounted for as a separate performance obligation and 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 based on input method, and hardware is recognized at a point in time when the hardware is delivered.

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IT Managed and Operational Services (continued)

Managed services

Revenue from managed service includes managed router service, managed LAN service and managed Wi-Fi service and other similar service.

The Group accounts for individual goods and services separately if they are distinct.

Managed services revenue represent revenue generated by selling routers, managing the routers and providing technical support service and are recognized as per the nature of the service and when the control transferred to the customer (Over the period of time based on time elapsed or at a point in time).

Hardware: at a point in time, Managed Service and technical support: Over a period of time.

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.

Call center services

Revenue from call center services include setting up, operationalizing and thereafter managing the contact/call center for the customer.

The group derives revenue primarily from contracts with customers to provide call center services.

The group recognizes revenue when it transfers control over a service to a customer.

The group satisfies a performance obligation and recognizes revenue over time.

Digital Services

Digital services

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

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.

Digital services revenue represents revenue generated by selling devices (hardware), application service and value added service and are recognized as per the nature of the service Hardware: At a point in time Application services and Value added services: Over a period of time based on time elapsed.

Cyber Security services

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

In case of projects, hardware, software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract. 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 as per the nature of these services and when the control is transferred to the customer (Over the period or at a point in time).

Cloud and data center services

Cloud and data center service revenue represents services 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 is the principal under this arrangement because it controls the specified cloud service before they are transferred to the end customer.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Revenue (continued)

Digital Services (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 Group is obliged to provide the cloud platform to the third party CSP in a month to month hosting service contract with variable consideration that is a separate performance obligation and therefore is an agent in this arrangement.

Revenue is recognized as follows:

- Pre-defined and customized cloud products - Revenue is recognized over a period of time that may be time elapsed or usage based output method based on packages offered.
- 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

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 Group charges the customers for certain activation activity which are not distinct in nature and therefore revenue is recognized from such activity when the goods or services to which they relate are provided to the customer.

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.

- *Principal versus agent consideration*

The group in an arrangement is a 'principal' if it controls the specified good or service that is promised to the customer before it is transferred to the customer. When another party is involved, the group that is a principal obtains control of:

- A good from another party that it then transfers to the customer;
- A right to a service that will be performed by another party, which gives the group the ability to direct that party to provide the service on the group's behalf; or
- A good or a service from another party that it combines with other goods or services to produce the specified good or service promised to the customer.

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.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Revenue (continued)

Other considerations (continued)

- *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.

- Contract modification

A contract modification exists when the parties to a contract approve a modification that creates new or changes existing rights and obligations of the parties to the contract. Revenue recognition under the existing contract is continued until the contract modification is approved.

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.

Subsequent measurement

The subsequent measurement of the non-derivative financial assets depends on their classification as follows:

a. Financial assets measured at amortized cost:

Assets that are held to collect contractual cash flows are measured at amortized cost using the effective interest rate (‘EIR’) method where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in finance income. When the financial asset is derecognized, the gain or loss is recognized in the consolidated statement of profit or loss.

b. Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss (“FVTPL”) are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future. Gains and losses, both on subsequent measurement and derecognition, are recognized in consolidated statement of profit or loss.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Financial assets (continued)

c. Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income ("FVOCI") are measured at each reporting date at fair value without the deduction of transaction costs that the Group may incur on sale or disposal of the financial asset in the future. Gains and losses are recognized in the consolidated statement of comprehensive income. The amounts recognized in the consolidated statement of comprehensive income are not reclassified to the consolidated statement of profit or loss under any circumstances.

Dividends from category "b" and "c" are recognised in the consolidated statement of profit or loss as other income when the Group's right to receive payments is established.

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.

Impairment

At each reporting date, the Group measures expected credit losses ("ECL") on financial assets accounted for at amortized cost.

Lifetime ECL

The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets (unbilled revenue) that result from transactions that are within the scope of IFRS 15, and that do not contain a significant financing component.

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. It considers available reasonable and supportive forwarding-looking information.

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, legal team is involved to claim outstanding balance, 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, risk of default over the asset life and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

3. SUMMARY OF MATERIAL 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.

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.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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 in accordance with the Regulations of the Zakat, Tax and Customs Authority (the "ZATCA") in the Kingdom of Saudi Arabia and on an accruals basis. Zakat and income tax related to the Company and its subsidiaries is charged to profit or loss. Differences, if any, resulting from final assessments are adjusted in the period of their finalization.

Taxes

Foreign Income tax:

As part of the process of preparing consolidated financial statements, the Group estimates income tax in each of the jurisdictions it operates. This process involves estimating current tax expense and temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the related tax bases. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated statement of financial position. Deferred tax assets and liabilities are carried at nominal value.

The Group assesses periodically the likelihood whether deferred tax assets will be recovered from future taxable income, to the extent these deferred tax assets are recorded. Deferred tax assets are recognised for unused tax losses to the extent that it probable that the taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax:

Deferred tax is provided for using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Taxes (continued)

Value Added Tax ("VAT")

Expenses and assets are recognized net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and/or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Dividends

The Group dividends policy is approved by the General Assembly and the Company recognizes a liability to pay a dividend when the distribution is authorized. A corresponding amount is recognized directly in equity

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.

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 government 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.

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.

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 any other countries applicable laws as well as according to 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 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.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Shared-based payments

The Company's employees receive remuneration in the form of share-based payments under the employee 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 for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of profit or loss on the purchase, sale, issue or cancellation of the shares. Any difference between the carrying amount of the shares and the consideration, if reissued, is recognized in other reserves within equity.

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.

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.

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, are amortized over the period of four to six.

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 when the asset is derecognized.

Further, the Company has completed purchase price allocation exercise, below are the intangibles assets recognized along with the estimated useful life (note 1):

Intangible	Estimated useful life
Customer relationships	7 to 10 years
Backlog	4 years
Tradename / trademarks	10 years
Technology	5 years

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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. All other repair and maintenance costs are recognised in income or loss as incurred. Depreciation is recognized on a straight-line basis over their estimated useful lives except for Supercomputer where sum of digits method of depreciation is used, based on the performance and expected usage of the asset.

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

Computer hardware	3 to 5 years
Furniture	5 to 7 years
Office equipment	5 to 20 years
Buildings	50 years
Leasehold improvements	Lower of the lease period or 3 to 5 years
Motor vehicles	4 to 5 years
Supercomputers	7 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.

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.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the acquisition in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

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3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Leases

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

As a lessee

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 comprise of lease of building and land which 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.

As a lessor:

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. This requires evaluation of each of the indicators provided in IFRS 16 including but not limited whether the discounted value of the lease payments covers significant part of the fair value of the underlying asset and whether the lease term covered major part of the economic life of the underlying asset.

Operating lease income is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term. Any benefits granted as an incentive to enter into an operating lease, are distributed in a straight-line basis over the lease term.

If an arrangement contains lease and non-lease components, then the total consideration is allocated using the standalone selling prices based on the principles of IFRS 15.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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, vehicles 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, vehicles 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.

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

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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.

Amendments to IFRS that were applied by the Group on 1 January 2023 and had no material impact are as follows:

Amendments and interpretations

IFRS 17: Insurance Contracts.

Amendments to IAS 8: Definition of Accounting Estimates.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules

OTHER AMENDMENTS OF RELEVANT IFRS'S ISSUED BUT NOT YET EFFECTIVE

The standards and amendments that are issued, but not yet effective, as of 31 December 2023 are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

These standards are not expected to have a material impact on the Group at their effective dates.

Amendments and interpretations

Amendments to IAS 1: Classification of Liabilities as Current and Non-current

Amendments to IAS 1 Non-current Liabilities with Covenants

Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements

Amendments to IAS 21: Lack of exchangeability

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

CLIMATE-RELATED MATTERS

The Group considers climate-related matters in estimates and assumptions, where appropriate. This assessment includes a wide range of possible impacts on the group due to both physical and transition risks. Even though the Group believes its business model and products will still be viable after the transition to a low-carbon economy, climate-related matters increase the uncertainty in estimates and assumptions underpinning several items in the financial statements. Even though climate-related risks might not currently have a significant impact on measurement, the Group is closely monitoring relevant changes and developments, such as new climate-related legislation.

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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, depreciation method 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.

Expected credit losses ("ECL")

For Trade receivables and contract assets, the Group applies the simplified approach. To measure the expected credit losses, receivables have been segmented 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 macroeconomic information. The Group estimates the case by case provision on related party balances, 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 and is assessed on an individual basis.

Impairment of non-financial assets (Including goodwill)

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 three 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 and 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.

Principal versus agent

Significant judgement is required in determining whether the Group is acting as principal, reporting revenue on gross basis, or acting as an agent, reporting revenue on net basis. The Group exercises professional judgement when performing this assessment, taking into consideration the details of the contractual terms, the nature of the products and services as defined by IFRS 15 on revenue from contracts with customers.

During the year 2022, IFRS Interpretations Committee "IFRIC" issued further clarification on the application of IFRS 15 principal versus agent guidance for reselling software license. Accordingly, the management reassessed its accounting policy related to these contracts, which resulted in the reclassification of some contracts as an agent that were previously considered as principal. Consequently, those contracts are recognized on a retrospective net basis to align with interpretation, see note No (41).

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

Long-term assumptions for employee benefits

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

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.

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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5. Subsidiaries

The following is the detail of the subsidiaries directly owned by the company and included in these consolidated financial statements:

Subsidiaries	Country of incorporation	Ownership %	
		2023	2022
Saudi Telecom Company Solution for Information Technology (Owned by One Person) (a)	Egypt	100%	100%
Sanad AlTeqany For Commercial Services Company (Owned by One Person) (b)	Saudi Arabia	100%	100%
Giza Systems Company (c)	Egypt	88.19%	88.19%
Contact Center Company (d)	Saudi Arabia	100%	-

- a. Saudi Telecom Company Solution for Information Technology (Owned by One Person) 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 (SAR 262.5 million) paid in cash. The subsidiary has 1,000 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. Sanad AlTeqany For Commercial Services Company (Owned by One Person) is a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010766752 issued in Riyadh on 18 Jumada Alawal 1443H (corresponding to 22nd December 2021) with a capital of SAR 5 Million. The subsidiary has 500,000 shares with a nominal value of SAR 10 per share and it is fully owned by the Company. The principal activities of the subsidiary are providing a general admin and support services, searching employees for jobs hiring either by direction or tests and temporary employment agencies of Saudi individuals activities.
- c. Giza system company (S.A.E) was established on 19 Rebi AL Awwal 1409H, (corresponding to 29th October 1988) in pursuance of the law No 159 of 1981, and its executive regulation and law No. 95 of 1992 in Egypt with a fully paid capital of EGP 90 million (SAR 17.2 million). The subsidiary has 9 million shared with a nominal value of EGP 10 per share. The principal activities of the subsidiary are selling and marketing computer software and electronic hardware, conducting amendment and development operations on the computer software and hardware units and providing integrated solutions, designing engineering and scientific systems for computers and providing engineering consultations, Supplying, installing and maintaining educational laboratories (electric - electronic - mechanical) and implementing integrated projects within the scope of the abovementioned activities (note 1).
- d. Contact Centers Company is a Limited Liability Company (the "Company") registered in Riyadh, Kingdom of Saudi Arabia under commercial registration numbered 1010299715 (Riyadh) dated 22 Muharram 1432H (corresponding to 28 December 2010). The Company also operates through its's branch in Jeddah under commercial registration numbered 4030265387 dated 16 Rabi Al-Thani 1435H (corresponding to 16 February 2014)..

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6. REVENUE

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

	2023	2022
Core ICT Services	5,994,165	4,771,567
IT Managed and Operational Services	3,262,351	2,329,679
Digital Services	1,783,977	1,703,845
	11,040,493	8,805,091
Type of customers		
Sell through STC and sell to direct customers (STC is not the end customer)	7,186,939	6,042,991
Sell to STC & its subsidiaries (STC & its subsidiaries are the end customers)	3,853,554	2,762,100
	11,040,493	8,805,091
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	9,455,853	7,990,576
- at a point in time	1,584,640	814,515
	11,040,493	8,805,091
Principal vs Agent		
Revenue as principal	10,966,165	8,751,494
Revenue as agent	74,328	53,597
	11,040,493	8,805,091
Geographical markets		
Kingdom of Saudi Arabia	10,079,494	8,497,153
Outside the Kingdom of Saudi Arabia	960,999	307,938
	11,040,493	8,805,091

7. GENERAL AND ADMINISTRATION EXPENSES

	2023	2022
Employee related costs	388,700	293,785
Professional services	137,297	110,743
Depreciation and amortization	77,463	67,215
IT expenses	64,040	61,067
Hospitality and corporate gatherings	21,022	19,661
Office expenses	18,277	17,329
Rent expenses	7,716	9,646
Business travel expenses	5,823	7,423
Utilities expenses	1,558	1,322
Reversal of provisions	(30,368)	-
Others	23,380	16,755
	714,908	604,946

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8. SELLING AND DISTRIBUTION EXPENSES

	2023	2022
Employees related costs	247,251	193,817
Impairment charge / (reversal) of Trade receivable and contract assets (notes 14 & 16)	180,167	(298)
Selling and marketing expenses	45,422	42,678
Depreciation and amortization	10,108	3,735
IT expenses	7,417	4,250
Business travel expenses	5,456	1,887
	495,821	246,069

9. OTHER EXPENSE, NET

	2023	2022
Foreign exchange loss	(54,722)	(27,135)
Impairment on investment in equity accounted investee	-	(341)
Other income / (expense), net	3,060	(291)
	(51,662)	(27,767)

10. FINANCE COST

	2023	2022
Finance cost on borrowings and overdraft	74,336	15,027
Finance cost on leases liabilities (note 26)	1,739	1,033
	76,075	16,060

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11. ZAKAT AND INCOME TAXES

For the years, 2009 to 2020, the Company filed its Zakat through the Parent Company, as part of the consolidated Zakat return of the Parent Company, where the Parent company is liable for any assessments provided by ZATCA for the years from 2009 to 2020.

Effective from 1st January 2021, and based on approval from ZATCA, the Company started filing its Zakat returns separately and submitted all zakat returns until the end of 2022, with payment of zakat due based on those returns, and accordingly the company received zakat certificates for those years. Further, it calculates and records zakat provision based on the zakat base of its own financial statements, in accordance with the requirements of ZATCA. The Company has not received an assessments for the years 2021 and 2022 from ZATCA.

The Group's zakat provision for the year ended 31 December 2023 amounted to SAR 180.1 million (2022: SAR 111.4 million), and is charged to the consolidated statement of profit or loss.

The Group's zakat and tax provision are as follows:

	2023	2022
Zakat provision (note 11.1)	218,864	119,848
Income tax provision (note 11.2)	21,166	16,034
	<u>240,030</u>	<u>135,882</u>

11.1 The movement in zakat provision was as follows:

	2023	2022
Balance as at 1 January	119,849	72,269
Acquisition of subsidiary (note 1)	16,703	790
Charge for the year	180,091	111,472
Paid during the year	(97,779)	(64,683)
Balance as at 31 December	<u>218,864</u>	<u>119,848</u>

The Group's Income tax provision for the year ended 31 December 2023 amounted to SAR 29.5 million (from acquisition date to 31 December 2022: SAR 6.3 million), and is charged to the consolidated statement of profit or loss.

11.2 The movement in income tax provision for the year ended 31 December was as follows:

	2023	2022
Balance as at 1 January	16,034	-
Acquisition of subsidiary (note 1)	-	11,357
Charge for the year (*)	29,490	6,314
Paid during the year	(15,058)	(488)
Effect of foreign currency exchange differences	(9,300)	(1,149)
Balance as at 31 December	<u>21,166</u>	<u>16,034</u>

(*) This includes deferred tax expense amounts to SAR 3.3 million (from acquisition date to 31 December 2022: SAR 0.3 million).

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12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

	2023	2022
Murabaha deposits (note 12.1)	2,321,049	423,689
Bank balances	266,897	120,064
Cash in hand	589	287
Expected credit losses on bank balances	(366)	(64)
Balance as at 31 December	2,588,169	543,976

12.1 Represent deposits placed with various banks and carry a profit rate of 5.3% to 6.3% (2022: 4.3% to 5.2%) per annum. The original maturity date for all these deposits are less than three months.

13. SHORT TERM MURABAHA

These represent the Murabaha deposits placed with various banks and carry a profit rate of 5.5% to 6.5% per annum (2022: 3.1% to 5.4%). The maturity date for all these deposits are more than three months from the date of original placement date.

	2023	2022
Short term murabaha	850,000	2,700,800

14. TRADE RECEIVABLE

	2023	2022
Gross trade receivables from government and private entities	1,944,426	2,046,784
Less: allowance for expected credit losses	(378,664)	(233,400)
Net trade receivable	1,565,762	1,813,384
Gross amounts due from Parent Company and its subsidiaries (note 37)	2,872,085	2,584,501
Less: allowance for expected credit losses	(74,165)	(53,189)
Net amounts due from Parent Company and its subsidiaries	2,797,920	2,531,312
Total trade receivable as at 31 December	4,363,682	4,344,696

The expected 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 such as private, government, Parent company and its subsidiaries.

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14. TRADE RECEIVABLE (continued)

Since the Group considers the homogeneity of economic characteristics of the company/individual for segmentation. Based on the customers segmentations the allowance for the impairment has been assessed. The Group does not have trade receivable for which no loss allowance is recognized because of collateral.

One of the Group's debtors represent 5% (2022: 13%) of the total trade receivables balance excluding Parent Company and its subsidiaries balances.

Movement in the allowance for expected credit losses related to trade receivables from government and private entities:

	2023	2022
Balance as at 1 January	233,400	210,738
Acquisition of subsidiary	1,385	22,483
Net charge for the year	151,210	4,483
Effect of foreign currency exchange differences	(7,331)	(4,304)
Balance as at 31 December	378,664	233,400

Movements in the allowance for expected credit losses related to amounts due from Parent Company and its subsidiaries balances:

	2023	2022
Balance as at 1 January	53,189	79,323
Acquisition of subsidiary	203	-
Net charge/(reversal) for the year	20,773	(26,134)
Balance as at 31 December (*)	74,165	53,189

(*) Includes SAR 58.8 million (2022: SAR 34.8 million) pertaining to receivables for which STC is not the end customer.

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14. TRADE RECEIVABLE (continued)

Ageing of the trade receivables are as follows:

	2023	2022
Age of unimpaired trade receivables (government and private entities)		
Private		
0 to 3 months	438,521	518,401
4 to 6 months	112,331	108,585
7 to 12 months	47,273	33,274
Over 1 year	21,760	10,277
	619,885	670,537
Governmental		
Not due	346,089	391,866
0 to 3 months	244,443	302,844
4 to 6 months	101,306	118,584
7 to 12 months	130,883	172,343
Over 1 year	123,156	157,210
	945,877	1,142,847
Net trade receivables	1,565,762	1,813,384
Age of impaired trade receivables (government and private entities)*		
Private		
0 to 3 months	32,120	37,010
4 to 6 months	32,394	16,063
7 to 12 months	52,671	20,765
Over 1 year	106,978	60,398
	224,163	134,236
Governmental		
0 to 3 months	5,835	4,954
4 to 6 months	6,012	1,357
7 to 12 months	7,760	9,680
Over 1 year	134,894	83,173
	154,501	99,164
Total allowance for expected credit losses	378,664	233,400

(*) Refer to note 36 exposures to credit risk and ECLs for trade receivables and contract assets from private customers

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15. PREPAYMENTS, SHORT TERM INVESTMENTS AND OTHER ASSETS

	<i>Note</i>	2023	2022
Other receivables, net	15.1	173,752	82,327
Investment in FVTPL	15.2	165,901	-
Advances to suppliers, net	15.3	69,311	25,897
Cost to fulfil contracts		68,299	44,435
Prepaid expenses		64,155	27,656
Deposits, net		13,027	5,664
Balance as at 31 December		554,445	185,979

15.1 Other receivables include amounting of SAR 8 million (2022: SAR 8 million) due from related parties (note 37).

15.2 This represents the investments in mutual funds and classified as financial assets measured at fair value through profit or loss.

15.3 This represents the advances paid to the suppliers in relation to certain projects. The balance includes provision for amounting to SAR 9.55 million (2022: SAR 10.1 million).

16. 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. Total contract assets billed during the year amounted to SAR 1,684 million (2022: SAR 1,088 million) and total revenue recognized relating to the contract assets during the year amounted to SAR 2,107 million (2022: SAR 1,132 million).

	2023	2022
Gross contract assets (note 37)	1,731,300	1,308,384
Allowance for impairment	(39,816)	(31,804)
Balance as at 31 December	1,691,484	1,276,580

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

	2023	2022
Balance as at 1 January	31,804	7,851
Acquisition of subsidiary	-	3,179
Charge for the year	8,184	21,353
Effect of foreign currency exchange differences	(172)	(579)
Balance as at 31 December	39,816	31,804

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17. INVENTORIES

	2023	2022
Materials and supplies	307,126	400,683
Less: allowance for slow moving and obsolete inventory	(58,573)	(78,246)
Balance as at 31 December	248,553	322,437

The Group has charged inventories amounting to SAR 1,519 million for the year ended 31 December 2023 (2022: SAR 1,200 million) to consolidated statement of profit or loss.

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

	2023	2022
Balance as at 1 January	78,246	75,137
Acquisition of subsidiary	-	1,002
Net (reversal) / charge for the year	(19,403)	2,313
Effect of foreign currency exchange differences	(270)	(206)
Balance as at 31 December	58,573	78,246

18. NON-CURRENT INVESTMENTS AND OTHER ASSETS

	<i>Notes</i>	2023	2022
Financial assets measured at FVTPL	18.1	121,875	-
Employees loans receivable		13,754	8,801
Deferred tax assets		5,213	420
Lease receivable		5,150	-
Contract costs	18.2	4,401	7,879
Investments in equity accounted investee	18.3	3,368	4,078
Balance as at 31 December		153,761	21,178

18.1 During the year, the Company has invested SAR 121.9 million in an equity instrument and the investment was classified as fair value through profit or loss. The Company does not have any significant influence over the investee.

18.2 This represents the cost to fulfil a contract capitalized under IFRS 15 which will be subsequently amortized to consolidated profit or loss.

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18. OTHER NON-CURRENT ASSETS (continued)

18.3 The Group has significant influence without having control and rights to direct decisions and relevant activities of this associate:

Name of associate	Business activity	Ownership %	Carrying value at 31 December		Share of profit 31 December	
			2023	2022	2023	2022
Giza Systems Company for Electromechanical Contracting (GSEC)	Operation, engineering consultancy and evaluation of systems, devices and electronic computers	50.01%	3,368	4,078	127	1,139

The movement of investment in (GSEC) is as follows:

	<u>2023</u>	<u>From acquisition date to 31 December 2022</u>
Balance as at 1 January	4,078	3,787
Share of net results	127	1,139
Effect of foreign currency exchange differences	(837)	(848)
Balance as at 31 December	<u>3,368</u>	<u>4,078</u>

Summarized financial information of (GSEC)

The tables below provide summarized financial information of the material associates of the Group. The information disclosed reflects the amounts presented in the available financial statements of the relevant investee and not Group's share of those amounts.

	<u>31 December 2023</u>	<u>31 December 2022</u>
Current assets	69,971	64,045
Non-current assets	294	244
Current liabilities	(63,439)	(56,116)
Non-current liabilities	(92)	(19)
Net assets as at 31 December	<u>6,734</u>	<u>8,154</u>

Reconciliation:

Group's share in equity accounted investee	50.01%	50.01%
Share in net assets of the equity accounted investee	3,368	4,078

	<u>31 December 2023</u>	<u>From acquisition date to 31 December 2022</u>
Revenue	39,535	12,781
Net income	254	2,277
Group's share in equity accounted investee	50.1%	50.01%
Share in net income	<u>127</u>	<u>1,139</u>

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19. INTANGIBLE ASSETS AND GOODWIL

	<i>Goodwill (19.1)</i>	<i>Software</i>	<i>Others (note 1)</i>	<i>Capital work- in-progress</i>	<i>Total</i>
COST:					
As at 1 January 2022	-	202,829	-	10,248	213,077
Additions	-	15,374	-	19,801	35,175
Acquisition of subsidiary (note 1)	219,675	-	159,540	-	379,215
Effect of foreign currency exchange differences	(29,658)	-	(25,838)	-	(55,496)
Transfer	-	24,913	-	(24,913)	-
Disposal	-	(2,516)	-	-	(2,516)
As at 1 January 2023	190,017	240,600	133,702	5,136	569,455
Additions	-	12,209	-	14,266	26,475
Acquisition of subsidiary	143,854	46,322	146,200	405	336,781
Effect of foreign currency exchange differences	(22,534)	-	(20,276)	-	(42,810)
Transfer	-	13,187	-	(13,187)	-
Disposal	-	(773)	-	-	(773)
As at 31 December 2023	311,337	311,545	259,626	6,620	889,128
ACCUMULATED AMORTIZATION:					
As at 1 January 2022	-	114,868	-	-	114,868
Amortization	-	36,285	5,664	-	41,949
Disposal	-	(2,516)	-	-	(2,516)
Effect of foreign currency exchange differences	-	-	(261)	-	(261)
As at 1 January 2023	-	148,637	5,403	-	154,040
Amortization	-	44,814	33,911	-	78,725
Acquisition of subsidiary	-	32,514	-	-	32,514
Disposal	-	(773)	-	-	(773)
Effect of foreign currency exchange differences	-	-	(879)	-	(879)
As at 31 December 2023	-	225,192	38,435	-	263,627
Net book value as at 31 December 2022	190,017	91,963	128,299	5,136	415,415
Net book value as at 31 December 2023	311,337	86,353	221,191	6,620	625,501

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19. INTANGIBLE ASSETS AND GOODWIL (continued)

The amortization charge for the year, as reported in the consolidated statement of profit or loss is allocated as follows:

	<i>Note</i>	2023	2022
Cost of revenue		45,951	18,114
General and administration expenses	7	22,931	20,358
Selling and distribution expenses	8	9,843	3,477
		78,725	41,949

19.1 Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. This goodwill arose on acquisition of equity stake in Giza Group and Contract Center Company on 3 October 2022 and 3 April 2023 respectively. The carrying amount of goodwill as of reporting date by operating segments is as follows:

	<i>Note</i>	2023	2022
Giza Group	19.1.1	167,483	190,017
Contact Center Company	1	143,854	-
Balance as at 31 December		311,337	190,017

19.1.1 This goodwill arose on acquisition of equity interest in Giza Systems and Giza Arabia (together referred as "Giza Group"), (note 1). Goodwill on Giza Group is allocated to its CGUs, such as Giza Systems, Giza Arabia and VAS for the purpose of goodwill impairment testing. As of 31 December 2023 the carrying amounts of each CGUs are Giza Systems: SAR 52.5 million, Giza Arabia: SAR 79.1 million and VAS: SAR 35.9 million.

At the reporting date, management has determined that the recoverable amount of this goodwill is higher than the carrying amount of goodwill. The recoverable amount was determined on the basis of value in use calculations. These calculations use cash flow projections based on business plan approved by the management. Cash flows are estimated over the three year periods for each CGUs and cash flows beyond the estimated period are based on assumption of terminal growth rate.

The discount rate was an estimate of the weighted average cost of capital as of 31 December 2023 based on market rates adjusted to reflect management's estimate of the specific risks relating to each CGUs of Giza Group. The cash flows related to each CGUs are discounted using a discount rates of Giza Systems 28.07%, Giza Arabia 11.5% and VAS 25.4%.

The terminal growth rates are based on management best estimation specific to the industry in which the CGUs operate. Cash flows are estimated to grow at rate of 17% for Giza Systems and 2% for Giza Arabia and VAS from terminal year.

The value in use calculation is sensitive to the discount rate and the terminal growth rate. As of 31 December 2023, a reasonably possible change in discount rate and terminal growth rate is not expected to result in impairment.

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20. PROPERTY AND EQUIPMENT

	Computer hardware	Furniture and office equipment	Land and Building	Leasehold improvements	Motor vehicles	Super-computers	Capital work-in-progress	Total
COST:								
Balance as at 1 January 2023	447,928	102,402	15,211	117,892	4,286	339,979	7,298	1,034,996
Additions	37,161	3,547	-	6,505	492	-	37,772	85,477
Acquisition of subsidiary	6,967	15,508	-	25,704	1,200	-	-	49,379
Effect of foreign currency exchange differences	(2,624)	(587)	(2,417)	-	(375)	-	(221)	(6,224)
Transfer	30,713	5,553	-	5,829	-	-	(42,095)	-
Disposal	(232)	(49)	-	-	-	-	-	(281)
Balance as at 31 December 2023	519,913	126,374	12,794	155,930	5,603	339,979	2,754	1,163,347
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
Balance as at 1 January 2023	264,688	67,340	2,851	69,472	3,602	153,990	-	561,943
Acquisition of subsidiary	4,069	12,918	-	24,390	413	-	-	41,790
Effect of foreign currency exchange differences	(2,581)	(487)	(92)	-	(199)	-	-	(3,359)
Depreciation	73,628	12,979	253	20,369	1,109	64,567	-	172,905
Disposal	(232)	(49)	-	-	-	-	-	(281)
Balance as at 31 December 2023	339,572	92,701	3,012	114,231	4,925	218,557	-	772,998
NET BOOK VALUE:								
At 31 December 2023	180,341	33,673	9,782	41,699	678	121,422	2,754	390,349

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20. PROPERTY AND EQUIPMENT (continued)

	<i>Computer hardware</i>	<i>Furniture and office equipment</i>	<i>Land and Building</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Super-computers</i>	<i>Capital work-in-progress</i>	<i>Total</i>
COST:								
Balance as at 1 January 2022	362,681	88,549	-	113,118	1,688	339,979	13,633	919,648
Additions	29,287	3,201	-	2,444	-	-	42,328	77,260
Acquisition of subsidiary	15,133	10,051	18,607	-	2,739	-	-	46,530
Effect of foreign currency exchange differences	(3,182)	(775)	(3,396)	-	(128)	-	-	(7,481)
Transfer	44,894	1,439	-	2,330	-	-	(48,663)	-
Disposal	(885)	(63)	-	-	(13)	-	-	(961)
Balance as at 31 December 2022	447,928	102,402	15,211	117,892	4,286	339,979	7,298	1,034,996
ACCUMULATED DEPRECIATION AND IMPAIRMENT:								
Balance as at 1 January 2022	193,600	48,125	-	50,527	1,075	75,709	-	369,036
Acquisition of subsidiary	10,870	8,205	3,708	-	2,240	-	-	25,023
Effect of foreign currency exchange differences	(1,741)	(677)	(928)	-	(73)	-	-	(3,419)
Depreciation	62,827	11,720	71	18,945	373	78,281	-	172,217
Disposal	(868)	(33)	-	-	(13)	-	-	(914)
Balance as at 31 December 2022	264,688	67,340	2,851	69,472	3,602	153,990	-	561,943
NET BOOK VALUE:								
At 31 December 2022	183,240	35,062	12,360	48,420	684	185,989	7,298	473,053

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20. PROPERTY AND EQUIPMENT (continued)

The depreciation and impairment charge for the year, as reported in the consolidated statement of profit or loss is allocated as follows:

	<i>Notes</i>	2023	2022
Cost of revenue		138,039	142,772
General and administration expenses	7	34,601	29,187
Selling and distribution expenses	8	265	258
		<u>172,905</u>	<u>172,217</u>

21. RIGHT-OF-USE ASSETS

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

	Land and Buildings	Hardware	Total
Balance as at 1 January 2022	54,503	-	54,503
Acquisition of subsidiary	3,105	-	3,105
Additions	2,029	-	2,029
Effect of foreign currency exchange differences	(751)	-	(751)
Deprecation charge for the year	(17,916)	-	(17,916)
Balance as at 31 December 2022	40,970	-	40,970
Acquisition of subsidiary	28,717	-	28,717
Additions	8,317	3,183	11,500
Effect of foreign currency exchange differences	(245)	-	(245)
Deprecation charge for the year	(29,979)	(663)	(30,642)
Balance as at 31 December 2023	47,780	2,520	50,300

Right of use assets are depreciated as follows:

Leasehold lands	15 years
Buildings	4 years
Hardware	4 years

The depreciation charge for the year, as reported in the consolidated statement of profit or loss is allocated as follows:

	2023	2022
General and administration expenses (note 7)	19,931	17,670
Cost of revenue	10,711	246
	<u>30,642</u>	<u>17,916</u>

The Group has not recognized the short-term and low-value leases as a right of use assets, and therefore lease payments associated with these contracts were recognized as expenses. For the year ended December 2023 SAR 5.1 million (2022: SAR 2.7 million) was recognized as expenses in the consolidated statement of profit or loss.

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22. TRADE PAYABLE, ACCRUALS AND OTHER LIABILITIES

	<i>Notes</i>	2023	2022
Accrued project costs		1,012,305	545,185
Accrued expenses	22.1	1,008,885	779,936
Trade payables		939,043	940,038
Amounts due to related parties	37	175,258	281,893
Value added tax	22.2	90,555	-
Accrued connectivity charges		46,603	48,279
Lease liabilities	26	42,261	27,759
Balance as at 31 December		3,314,910	2,623,090

22.1 Accrued expenses include an amount of SAR 200 million (2022: SAR 176 million) due to STC (note 37). Trade payables are normally settled within 90 days of the invoice dates.

22.2 Value added tax include an amount of SAR 54 million (2022: receivable of SAR 3.7 million) due to STC (note 37).

23. 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. Total deferred revenue invoiced during the year amounted to SAR 1,891 million (2022: SAR 2,001 million) and total revenue recognized relating to the deferred revenue during the year amounted to SAR 2,108 million (2022: SAR 1,012 million).

24. CONTRACT LIABILITIES

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

25. BORROWINGS

	2023	2022
Short term		
Bank overdrafts (note 25.1)	180,097	178,967
Other (note 25.2)	31,246	15,421
Balance as at 31 December	211,343	194,388
Long term		
Long term loan (note 25.3)	499,127	498,878
Long term loan	-	3,136
Balance as at 31 December	499,127	502,014

25.1 This represents the unsecured overdraft obtained by Giza Group in multiple currencies. The interest rate on USD currency is from 4% to 8.75% annually, interest rate on SAR is SIBOR + 1.6% annually, interest rate on Euro is 8.25% annually, while the interest rate on EGP currency is from 20.25% to 22% annually. These overdrafts have multiple date of borrowings and multiple date of settlement. These overdraft balances are contractually cannot be offset with the cash and cash equivalents.

25.2 This represents the sale and lease back arrangements and short term loan.

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25. BORROWINGS (continued)

25.3 During the year 2022, the Group entered into a renewal with amendment of an Islamic Sharia compliant facilities arrangement with a local bank amounting to SAR 1 billion. The facilities consist of a new facility with a limit of SAR 500 million to finance the strategic growth of the Group and a facility with a limit of SAR 500 million for multi-purpose (note 40). As at 31 December 2023, the facility amounting to SAR 500 million (31 December 2022: SAR 500 million) was withdrawn, the principal is repayable in one instalment due in June 2027, and interest is payable based on semi-annual basis. The facility is secured against a promissory note signed by the Group.

26. LEASES

As a lessee:

	2023	2022
Balance as at 1 January	43,605	60,591
Additions to lease liabilities, net	25,213	2,029
Acquisition from subsidiary (note 1)	29,141	2,636
Finance cost (note 10)	1,739	1,033
Payments	(38,131)	(21,800)
Effect of foreign currency exchange differences	(371)	(884)
Balance as at 31 December	61,196	43,605

Maturity analysis of undiscounted cash flows relating to leases payments are as follows.

Maturity analysis of lease undiscounted cash flows	2023	2022
Less than 1 year	46,176	31,858
More than 1 year	21,752	16,908
Total undiscounted lease liabilities as at 31 December	67,928	48,766

Following is the presentation of the discounted lease liabilities in the consolidated statement of financial position:

	2023	2022
Current portion (included in Trade payable, accruals and other liabilities – note 22)	42,260	27,759
Non-current portion	18,936	15,846
Total	61,196	43,605

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26. LEASES (continued)

As a lessor:

The Group has entered into an operating lease arrangement for the lease of a remote computing facility for a customer that will be managed by the Group. The facility includes mainly supercomputers in addition to certain assets leased under this arrangement. The net carrying value of all such leased assets included in notes 19, 20 and 21 are as follows:

	2023	2022
Property and Equipment	167,905	250,133
Intangible assets	98	143
Land - Right-of-use assets	2,764	3,010
	<u>170,767</u>	<u>253,286</u>

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2023	2022
Less than one year	169,798	152,455
More than one year	172,679	268,514
Total	<u>342,477</u>	<u>420,969</u>

27. END OF SERVICE INDEMNITIES

	2023	2022
End of service indemnities	<u>450,189</u>	<u>260,822</u>

The Group grants end of service indemnities (DBO) to its employees taking into consideration the local labor law requirements in the Kingdom of Saudi Arabia. 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. Subsidiaries located outside the Kingdom calculate end of service indemnities in accordance with applicable laws in those countries.

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 government 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 the statement of consolidated other comprehensive income in the consolidated statement of changes in equity.

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27. END OF SERVICE INDEMNITIES (continued)

The following table represents the movement of the end of service indemnities:

	2023	2022
Balance as at 1 January	260,822	236,586
Acquisition from subsidiary	95,870	15,058
Amount recognized in the consolidated statement of profit or loss		
Current service costs	77,093	55,702
Finance cost	18,440	8,269
	<hr/>	<hr/>
Total employee benefits expense recognized in profit or loss	95,533	63,971
Actuarial loss recognized in the other comprehensive income	41,833	4,226
Effect of foreign currency exchange differences	(170)	(3,276)
Payments	(43,699)	(55,743)
	<hr/>	<hr/>
Balance as at 31 December	450,189	260,822

Significant actuarial assumptions

The most recent actuarial valuation was performed by the Actuarial Consultant and was performed using the projected unit credit method.

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

	2023	2022
Attrition rates	15% to 82%	15% to 46%
Salary increment rate	1.25% to 4.5%	1.25% to 4.5%
Discount rate	4.4% to 4.9%	4.6% to 4.7%
Retirement age	60 to 65 years	60 to 65 years

Sensitivity analysis

The end of service indemnities balance are sensitive to the assumptions used and the sensitivity analysis of material assumptions are as follows:

2023	Change in Assumption	Base value	<u>End of service indemnities</u>	
			Increase in assumption	Decrease in assumption
Discount rate	1%	450,189	432,303	467,927
Salary increment rate	1%	450,189	469,728	433,823
			<u>End of service indemnities</u>	
2022	Change in Assumption	Base value	Increase in assumption	Decrease in assumption
Discount rate	1%	260,822	249,066	273,796
Salary increment rate	1%	260,822	273,779	248,862

Cost of revenue includes employees' cost amounting to SAR 2,663 million (2022: SAR 1,940 million).

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28. SHARE CAPITAL

During the year 2020, the shareholder of the Company in the meeting held on 12 Safar, 1442H (corresponding to 29 September 2020) resolved to increase the share capital of the Company from SAR 100 Million to SAR 1,200 Million (divided into 120 Million shares of SAR 10 each) and to change the legal form 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 were 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).

	2023	2022
Authorized, issued and fully paid capital comprises:		
120 million fully paid ordinary shares at SAR 10 each	1,200,000	1,200,000

The following are the number of outstanding shares during the year:

	2023	2022
Outstanding shares as at 1 January	118,967,067	118,800,000
Outstanding shares re-issued	10,126	167,067
	<hr/>	<hr/>
The number of outstanding shares as at 31 December	118,977,193	118,967,067
	<hr/> <hr/>	<hr/> <hr/>

29. STATUTORY RESERVE

On 14 Jumada Al-Thani 1445 (corresponding to 27 December 2023), the general assembly of the Company approved to transfer the total statutory reserve balance amounting to SAR 308.7 million, as shown in the financial statements for the year ended 31 December 2022, to the retained earnings. Subsequent to the approval, the company executed the transfer from statutory reserves to retained earnings.

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30. OTHER RESERVES

	Foreign currency translation reserve	Re-measurement of end of service indemnities	Share based payments reserve	Total
Balance as at 1 January 2022	-	78,578	9,856	88,434
Re-measurement of the end of service benefit provision (note 27)	-	(4,226)	-	(4,226)
Share-based payment transactions (note 30.1)	-	-	3,248	3,248
Foreign currency translations	(62,606)	-	-	(62,606)
Balance as at 31 December 2022	(62,606)	74,352	13,104	24,850
Re-measurement of the end of service benefit provision	-	(41,689)	-	(41,689)
Share-based payment transactions (note 30.1)	-	-	8,447	8,447
Foreign currency translations	(51,471)	-	-	(51,471)
Balance as at 31 December 2023	(114,077)	32,663	21,551	(59,863)

30.1 Certain employees of the Group receive remuneration in the form of equity settled share-based payments under the incentive rewarding program, whereby employees render services as consideration to receive fixed number of Company's shares.

During the year ended 2023, the Group has recorded SAR 10 million (2022: SAR 28 million) as an expense in the consolidated statement of profit or loss, together with a corresponding increase in other reserves, in equity, over the period during which the vesting conditions are fulfilled. During the year 2023, the shares granted by the Group are as follows:

First cycle part 1:	Tranche 1	Tranche 2	Tranche 3
Grant date	8 June 22	8 June 22	8 June 22
Total number of shares granted	682	1,136	2,726
Average Fair value per share at grant date*	224	224	224
Vesting date	31 May 2022	31 May 2023	31 May 2024
Total number of shares actually vested	817	1,363	To be determined at vesting date
First cycle part 2:			
Grant date	8 June 22	8 June 22	8 June 22
Total number of shares granted	6,277	10,462	25,109
Average Fair value per share at grant date (*)	224	224	224
Vesting date	31 May 2023	31 May 2024	31 May 2025
Total number of shares actually vested	7,513	To be determined at vesting date	To be determined at vesting date
Second cycle:	Tranche 1	Tranche 2	Tranche 3
Grant date	4 June 2023	4 June 2023	4 June 2023
Total number of shares granted	5,516	9,193	22,062
Average Fair value per share at grant date (*)	296.8	296.8	296.8
Vesting date	31 May 2024	31 May 2025	31 May 2026
Total number of shares actually vested	To be determined at vesting date	To be determined at vesting date	To be determined at vesting date

(*) The fair value was calculated based on the market price after deducting the expected dividends per share on the grant date.

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31. Treasury shares

On 29 September 2021, the Company purchased 1.2 Million of its own shares from the Parent Company at cost of SAR 151 per share, for cash consideration of SAR 181 million. These shares are held by the Company as treasury shares in order to support its future employees long term incentive plans (see note 30).

The following is the movement in number of treasury shares during the year:

	2023	2022
Outstanding shares as at 1 January	1,032,933	1,200,000
Treasury shares re-issued	(10,126)	(167,067)
Treasury shares as at 31 December	1,022,807	1,032,933

32. Dividends distribution

The Board of Directors proposed a dividend payment of SAR 5 per share, totaling to SAR 594.9 million (31 December 2022: SAR 4 per share, totaling to SAR 475.2 million). The proposed dividends were approved by the shareholders at the ordinary general assembly meeting held on 19 Shawwal 1444 H (corresponding to 9 May 2023). The dividend was paid on 28 May 2023.

33. Non-controlling interest

The table below shows details of significant non-controlling interests as at the reporting date.

Name of Subsidiary	Proportion of ownership and voting rights acquired by non-controlling interests		Non-controlling share of profit (loss) for the year ended 31 December		Non-controlling interests as of 31 December	
	2023	2022	2023	2022	2023	2022
	Giza Systems Company	11.81%	11.81%	2,997	844	28,591

Below is summarized financial information for Giza Group located in Egypt that has significant non-controlling interests to the Group. The amounts disclosed are before inter-company eliminations and translation impact.

Summarized balance sheet	2023	2022
Current assets	1,356,300	1,088,475
Current liabilities	(944,903)	(919,098)
Current net assets	411,397	169,377
Non-current assets	30,609	26,147
Non-current liabilities	(250,096)	(41,119)
Non-current net liabilities	(219,487)	(14,972)
Equity	191,910	154,405
Accumulated non-controlling interest	28,591	29,676

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33. Non-controlling interest (continued)

Below is summarized statement of profit or loss and other comprehensive income as at the reporting date. The amounts disclosed are before inter-company eliminations and translation impact. Financial year 2022 is from the date of acquisition.

Summarized statement of profit or loss and other comprehensive income	2023	2022
Revenue	1,607,974	430,948
Net Profit for the year / period	53,641	16,839
Other comprehensive loss	(1,846)	-
Total other compressive income	51,795	16,839

34. EARNINGS PER SHARE

The following is the calculation of basic and diluted earnings per share for the year ended 31 December:

	2023	2022
Net profit attributable to equity holders of the Parent Company	1,192,148	1,052,869
Weighted average no of shares for basic earnings per share	118,974	118,840
Weighted average no of ordinary shares repurchased	1,026	1,160
Weighted average no of shares for diluted earnings per share	120,000	120,000
Basic earnings per share attributable to equity holders of the Parent Company	10.02	8.86
Diluted earnings per share attributable to equity holders of the Parent Company	9.93	8.77

35. FINANCIAL INSTRUMENTS

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 principal or the most advantageous market must be accessible by the Group.

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.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable input).
- The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their level in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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35. FINANCIAL INSTRUMENTS (Continued)

	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
As at 31 December 2023					
Financial Asset					
Financial asset measured at fair value through profit or loss (notes 15 and 18)	287,776	-	-	287,776	287,776

- Fair value of other financial instruments has been assessed as approximate to the carrying amounts due to frequent re-pricing or their short term nature.

Valuation technique and significant unobservable inputs

Type	Valuation technique	Significant unobservable input
Financial assets measured at fair value through profit or loss	This represents investments in non-quoted equity instruments and investments in mutual funds. The investment was executed during the year. Accordingly, the investments in non-quoted equity instruments is assumed that the cost of investment is approximately equal to it's the fair value. The fair value of investment in mutual fund is obtained from the net assets value ("NAV") reports received from the fund managers.	Not applicable

36. FINANCIAL RISK AND CAPITAL MANAGEMENT

Market risk

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's presentation/functional currency is Saudi Arabian Riyal ("SAR"). Foreign currency risk arises from net investments in foreign operations. The risk is defined as the risk of fluctuation in spot exchange rates between the functional currency of the net investments and the Company's presentation currency i.e. SAR. This will cause the amount of the net investment to vary. Such a risk may have a significant impact on the Group's consolidated financial statements.

This translation risk does not give rise to a cash flow exposure. Its impact arises only from the translation of the net investment into the group's presentation currency. This procedure is required in preparing the Group's consolidated financial statements as per the applicable IFRS.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in EGP exchange rate, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives and embedded derivatives. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in EGP to SAR conversion rate	SAR "000" Impact on net income Increase/ (decrease)	SAR "000" Impact on equity Increase/ (decrease)
31 December 2023	10% appreciation	26,363	24,103
	10% depreciation	(26,363)	(24,103)
31 December 2022	10% appreciation	23,446	22,791
	10% depreciation	(23,446)	(22,791)

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36. FINANCIAL RISK AND CAPITAL MANAGEMENT (Continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate sensitivity

Based on the borrowings outstanding at 31 December 2023, if interest rates had been 1% higher or lower during the year and all other variables were held constant, the Group's net profit and equity would have decreased or increased by SAR 5.5 million (2022: 2.6). This impact is primarily attributable to the Group's exposure to interest rates on its variable rate borrowings.

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 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 year</i>	<i>More than one year</i>	<i>Total</i>
2023				
Trade payable and accruals	NA	3,272,651	-	3,272,651
Lease liabilities relating to right of use assets	Multiple rates	46,176	21,752	67,928
Bank overdraft and borrowings	Multiple rates	211,343	500,000	711,343
	<i>Profit rate %</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
2022				
Trade payable and accruals	NA	2,595,331	-	2,595,331
Lease liabilities relating to right of use assets	Multiple rates	31,858	16,908	48,766
Bank overdraft and borrowings	Multiple rates	194,388	502,014	696,402

Credit risk related to private 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 receivables and is confident that they will be 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. 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 trade receivables. The Group uses a provision matrix to measure the ECLs of trade receivables and contract assets.

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36. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Credit risk management

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 2023:

31 December 2023	Gross carrying amount	Weighted average loss rate	Loss allowance
Unbilled	483,491	4.79%	23,146
0-90 days	907,409	4.90%	44,498
91-180 days	130,195	24.67%	32,115
181 - 270 Days	53,306	38.28%	20,408
271 - 365 Days	42,832	80.83%	34,620
More than 1 year	120,912	78.93%	95,430
	1,738,145		250,217

31 December 2022	Gross carrying amount	Weighted average loss rate	Loss allowance
Unbilled	316,933	7.07%	22,411
0-90 days	734,375	5.62%	41,302
91-180 days	154,260	10.78%	16,622
181 - 270 Days	55,704	25.48%	14,191
271 - 365 Days	25,388	41.15%	10,447
More than 1 year	81,462	61.67%	50,241
	1,368,122		155,214

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, and retained earnings.

37. 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.

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37. RELATED PARTY INFORMATION (Continued)

During the year, the Group entered into the following significant transactions with its Parent Company and its subsidiaries:

	2023	2022
Sales of goods and services (STC) (a)	6,828,044	6,315,462
Sales of goods and services (STC subsidiaries) (a)	389,675	205,833
Purchases (STC)	436,622	358,978
Purchases (STC subsidiaries)	70,108	68,950
Long term incentive expense charged by the Parent Company	509	866

- (a) Sales of goods and services to Parent Company and its subsidiaries include an amount of SAR 3.4 billion (2022: SAR 3.8 billion) for which Parent Company is not the end customer.
- (b) Revenue related to direct transactions with government and government related entities for the year-ended 31 December 2023 is SAR 1,988 million (2022: SAR 1,553 million).

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

	<i>Notes</i>	2023	2022
STC:			
Trade receivable: gross	14	2,493,369	2,441,803
Contract assets		815,345	627,912
Other assets	15	7,943	8,047
Deferred revenue		(2,237,097)	(2,648,834)
Amounts due to	22	(139,716)	(223,566)
Contract liabilities		(252,160)	(333,027)
Accrued expenses	22	(200,463)	(175,667)
Value added tax (payable) / receivable	22	(54,149)	3,750
STC Subsidiaries:			
Trade receivable: gross	14	378,716	142,699
Contract assets		23,954	64,170
Deferred revenue		(104,532)	(40,260)
Amounts due to	22	(35,542)	(58,326)
Contract liabilities		(1,186)	(890)
Accrued expenses		(2,340)	-

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 Parent Company and its subsidiaries

	Total	Neither past due nor impaired	Past due but not impaired			
			0 - 3 months	4 - 6 months	7 - 12 months	Over 1 years
2023	2,797,920	1,058,793	734,802	450,405	550,058	3,862
2022	2,531,312	1,553,305	689,211	162,823	115,743	10,230

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37. RELATED PARTY INFORMATION (Continued)

Key management personnel compensation include executives, members of the Board of Directors and their compensation is comprised the following:

	2023	2022
<i>Key management personnel</i>		
Employment benefits and remuneration	46,693	39,941
Share based payments	1,034	124
<i>Board of Directors</i>		
Remuneration of Board of Directors	3,892	3,889
	51,619	43,954

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

	2023	2022
End of service indemnities and annual leave	9,480	13,401

38. 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 ("CODM") and used to allocate resources to the segments and to assess their performance.

The Group is engaged in Information Communication and Technology (ICT) services and some other related services and products. Majority of the Group's revenues, income and assets relate to its operations within the Kingdom. Outside of the Kingdom, the Group operates through its subsidiaries. Revenue is distributed to an operating segment based on the entity of the Group. Sales between segments are calculated at normal business transaction prices.

The disclosed operating segments exceeded the 75% of total external Group revenue threshold and therefore all other operating segments are combined and disclosed as "Other segments"

	2023	2022
Solution by STC	8,915,768	8,377,343
Giza Group	1,607,974	430,948
Other segments	793,583	11,622
Elimination	(276,832)	(14,822)
Total revenue (note 6)	11,040,493	8,805,091
Total cost of revenue	(8,442,875)	(6,793,845)
Total operating expenses	(1,210,729)	(851,015)
Total non-operating income	17,837	11,268
Zakat and tax charge (note 11)	(209,581)	(117,786)
Net profit for the period	1,195,145	1,053,713
Net profit for Equity holders of the Parent Company	1,192,148	1,052,869
Net profit for non-controlling interests	2,997	844
Total net profit	1,195,145	1,053,713

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38. SEGMENT INFORMATION (continued)

Following is the gross profit analysis on a segment basis for the year ended 31 December:

	2023	2022
Solution by STC	2,179,550	1,916,868
Giza Group	298,593	98,599
Other segments	151,069	2,455
Elimination	(31,594)	(6,676)
Total gross profit	<u>2,597,618</u>	<u>2,011,246</u>

39. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date.

40. CONTINGENT LIABILITIES

	2023	2022
Letters of guarantee and credit	<u>871,708</u>	<u>676,434</u>

The above letters of guarantee and credit were issued under a borrowing facility of SAR 873 million (2022: 782 million).

41. COMPARATIVES

Certain comparative figures have been reclassified to conform with the classification used for the year ended 31 December 2022.

(a) Reclassification related to Business combination:

During October 2022, the Company acquired 88.19% and 34% of the equity interest in Giza Systems Company ("Giza Systems") and Giza Arabia Systems Company LLC respectively (together referred as "Giza Group"). Details of this acquisition including fair values of the identifiable assets acquired and liabilities assumed on acquisition were disclosed in Note 1 of the Company's annual consolidated financial statements for the year ended 31 December 2022.

During the period, the Company recognized a liability amounting to SR 26.2 million, which is payable to the shareholders of Giza Systems as a result of acquisition. The payable amount was assessed to be the part of business combination, as a result the purchase consideration was increased by the same amount.

The following summarizes the changes in the comparative period numbers as reported in the audited financial statement for the year ended 31 December 2022:

	31 December 2022 as previously reported	Reclassifications	31 December 2022 revised
Intangible assets and Goodwill	372,668	42,747	415,415
Trade payable and accruals	2,572,575	50,515	2,623,090
Other Reserve	9,138	15,712	24,850
Non-controlling interest	28,890	786	29,676
Provision for tax	24,265	(24,265)	-

42. EVENTS AFTER THE REPORTING DATE

On 6 Rajab 1445H corresponding to 18 January 2024, the Company renewed the banking facilities agreement with Saudi National Bank (SNB) with an increase in the short-term banking facilities limit. The short term facility amount increased to SAR 1 Billion from SAR 500 million and medium term financial amount is SR 500 million which is already being utilized as of reporting date.

On 11 Rajab 1445H corresponding to 23 January 2024, the Company signed revenue sharing agreement with Remat Riyadh Development Company to build, manage, operate, and maintain smart public parking spaces in Riyadh City. This agreement is part of the first phase of the smart public parking project in Riyadh city, covering 12 zones.

On 19 Rajab 1445H corresponding to 31 January 2024, the Group's subsidiary Giza Systems and VAS company (a subsidiary of Giza Systems), have signed Sharia compliant syndicated bank facilities agreements with several banks, led by Abu Dhabi Islamic Bank – Egypt and Abu Dhabi Islamic Capital as financial advisor. The facilities were medium term financing for a period of 5 years (1,070 million Egyptian Pounds – 48 million US Dollars) and Short term banking facilities for a period of one year (1,750 million Egyptian Pounds – 36 million US Dollars).

On 20 Rajab 1445H corresponding to 1 February 2024, the Company completed the acquisition of 40% stake in Devoteam Middle East (“DME”) for cash consideration for the entire acquisition amounting to AED 726.3 million (which equals approximately SAR 741.7 million) for 100% Enterprise Value. The acquisition has been funded through solutions own resources.

On 5 Shaban 1445H corresponding to 15 February 2024, the Board of Directors recommended in its meeting to distribute dividends of SR 6 per share, totaling to SR 714 million.

Furthermore, other than above subsequent to the year-end, the Group in accordance with the nature of its business has renewed or entered into various contracts. Management does not expect these to have any material impact on the Group's consolidated results and financial position as of the reporting date.

43. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements for the year ended 31 December 2023 was approved on the company's board of directors meeting held on 5 Shaaban 1445H (corresponding to 15 February 2024).