

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021**

Arabian Internet and Communication Services Company and its Subsidiaries
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

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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)

Report on the Audit of the Consolidated Financial Statements

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 2021, and the consolidated statement of profit or loss and other 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 a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, 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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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>Revenue recognition</p> <p>The Group's revenue mainly comprises of; Core ICT Services, IT Managed and Operational Services, and Digital Services totalling SR 7.8 billion for the year ended 31 December 2021. 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>Refer to note 3 for the accounting policy relating to revenue recognition, notes 5 and 29 for the related disclosures.</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 accounts receivable</p> <p>As at 31 December 2021, the Group's accounts receivable balance amounted to SR 3.3 billion, against which an impairment allowance of SR 290 million is maintained.</p> <p>The Group assesses at each reporting date whether the accounts 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 accounts 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>Refer to notes 3 and 4 for the accounting and critical judgements policies relating to allowance for impairment of accounts receivable and note 12 for the related disclosures.</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 accounts 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 2021 Annual Report

Other information consists of the information included in the Group's 2021 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 2021 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 2021 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, related safeguards.

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



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

Riyadh: 19 Rajab 1443H
20 February 2022



Arabian Internet and Communication Services Company and its Subsidiaries
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December

	Notes	2021 SR	2020 SR
Revenue, net	5&29	7,815,797,402	6,891,419,063
Cost of revenue		(6,107,830,676)	(5,469,447,120)
GROSS PROFIT		1,707,966,726	1,421,971,943
General and administration expenses	6	(462,101,019)	(459,734,281)
Selling and distribution expenses	7	(346,761,533)	(205,230,327)
Other income / (loss), net	8	2,103,563	(2,335,201)
PROFIT BEFORE FINANCE INCOME / (COSTS) AND ZAKAT		901,207,737	754,672,134
Finance income / (costs), net	9	2,817,446	(898,512)
PROFIT BEFORE ZAKAT		904,025,183	753,773,622
Zakat	10	(71,106,574)	(51,978,118)
NET PROFIT FOR THE YEAR		832,918,609	701,795,504
OTHER COMPREHENSIVE INCOME / (LOSS)			
<i>Item that will not be reclassified subsequently to consolidated profit or loss:</i>			
Remeasurement of end of service indemnities	23	85,644,949	(35,271,285)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		918,563,558	666,524,219
Earnings per share:			
Basic EPS from net profit for the period (restated)	26	6.96	5.85
Diluted EPS from net profit for the period (restated)	26	6.94	5.85


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

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

Arabian Internet and Communication Services Company and its Subsidiaries
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	31 December 2021 SR	31 December 2020 SR
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	11	1,607,556,524	993,473,644
Accounts receivable	12&29	3,020,557,307	2,803,751,456
Prepayments and other assets	13&29	287,976,272	156,879,523
Contract assets	14&29	1,256,218,688	1,504,561,466
Inventories	15	273,986,156	112,369,154
TOTAL CURRENT ASSETS		6,446,294,947	5,571,035,243
NON-CURRENT ASSETS			
Contract costs		23,128,803	6,641,665
Intangible assets	16	98,209,814	91,459,160
Property and equipment	17	550,611,682	593,558,752
Right-of-use assets	18	54,502,773	71,932,711
TOTAL NON-CURRENT ASSETS		726,453,072	763,592,288
TOTAL ASSETS		7,172,748,019	6,334,627,531
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accruals	19&29	1,931,349,611	1,973,953,470
Deferred revenue	20&29	2,276,522,431	1,704,985,832
Contract liabilities	21&29	354,116,804	336,035,288
Zakat payable	10	72,269,437	53,140,982
TOTAL CURRENT LIABILITIES		4,634,258,283	4,068,115,572
NON-CURRENT LIABILITIES			
Lease liabilities	22	31,335,206	48,170,893
End of service indemnities	23	236,586,315	294,776,761
TOTAL NON-CURRENT LIABILITIES		267,921,521	342,947,654
TOTAL LIABILITIES		4,902,179,804	4,411,063,226
EQUITY			
Share capital	24.1	1,200,000,000	1,200,000,000
Statutory reserve	25	203,471,411	120,179,550
Other reserves		88,434,032	(6,851,269)
Treasury Shares	24.3	(181,200,000)	-
Retained earnings		959,862,772	610,236,024
TOTAL EQUITY		2,270,568,215	1,923,564,305
TOTAL LIABILITIES AND EQUITY		7,172,748,019	6,334,627,531


Chief Financial Officer


Chief Executive Officer


Authorized Board Member


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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December

	Share capital SR	Statutory reserve SR	Other reserves SR	Retained earning SR	Treasury Shares SR	Total SR
Balance as at 1 January 2021	1,200,000,000	120,179,550	(6,851,269)	610,236,024	-	1,923,564,305
Net profit for the year	-	-	-	832,918,609	-	832,918,609
Transfer to statutory reserve (note 25)	-	83,291,861	-	(83,291,861)	-	-
Remeasurement of end of service indemnities (note 23)	-	-	85,644,949	-	-	85,644,949
Share-based payments (note 24.4 & 29)	-	-	9,640,352	-	-	9,640,352
Treasury Shares (note 24.3)	-	-	-	-	(181,200,000)	(181,200,000)
Dividends (note 24.2)	-	-	-	(400,000,000)	-	(400,000,000)
Balance as at 31 December 2021	1,200,000,000	203,471,411	88,434,032	959,862,772	(181,200,000)	2,270,568,215
Balance as at 1 January 2020	100,000,000	50,000,000	28,204,000	1,078,620,070	-	1,256,824,070
Net profit for the year	-	-	-	701,795,504	-	701,795,504
Transfer to statutory reserve (note 25)	-	70,179,550	-	(70,179,550)	-	-
Remeasurement of end of service indemnities (note 23)	-	-	(35,271,285)	-	-	(35,271,285)
Share-based payments (note 24.4 & 29)	-	-	216,016	-	-	216,016
Increase in share capital (note 24.1)	1,100,000,000	-	-	(1,100,000,000)	-	-
Balance as at 31 December 2020	1,200,000,000	120,179,550	(6,851,269)	610,236,024	-	1,923,564,305


Chief Financial Officer


Chief Executive Officer


Authorized Board Member

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

	Notes	2021 SR	2020 SR
OPERATING ACTIVITIES			
Profit before zakat		904,025,183	753,773,622
Adjustments for:			
Depreciation, impairment and amortization – property and equipment and intangible assets	16&17	191,116,049	89,813,403
Impairment of accounts receivable and contract assets	12&14	150,859,346	46,113,660
End of service indemnities expense	23	60,124,352	90,132,654
Depreciation – right-of-use assets	18	17,429,938	18,772,331
Provision against lease contracts, advances to supplier & others receivable		12,120,951	30,440,020
Share-based payment expense	24.4	9,640,352	216,016
Provision for slow moving and obsolete inventories	15	7,054,771	8,092,437
Provision for future contract losses		3,988,030	6,126,639
Finance charges	9	1,072,276	2,537,652
Gain on disposal of property and equipment		(162,142)	-
Finance income	9	(3,889,722)	(1,639,140)
		<u>1,353,379,384</u>	<u>1,044,379,294</u>
Changes in operating assets and liabilities:			
Accounts receivable		(367,665,197)	(217,527,654)
Prepayments and other assets		(142,593,233)	978,910
Contract assets		248,342,778	(335,550,829)
Inventories		(168,671,773)	30,192,871
Contract costs		(16,487,138)	(424,814)
Accounts payable and accruals		(35,743,731)	491,609,478
Deferred revenue		571,536,599	278,360,284
Contract liabilities		18,081,516	(116,218,219)
Cash flows generated from operating activities		<u>1,460,179,205</u>	<u>1,175,799,321</u>
Zakat paid	10	(51,978,119)	(38,951,120)
End of service indemnities paid	23	(32,669,849)	(19,765,830)
Finance income received, net		3,265,255	1,981,146
NET CASH GENERATED FROM OPERATING ACTIVITIES		<u>1,378,796,492</u>	<u>1,119,063,517</u>
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		191,787	-
Purchase of property and equipment and intangible assets	16&17	(154,949,278)	(535,999,978)
NET CASH USED IN INVESTING ACTIVITIES		<u>(154,757,491)</u>	<u>(535,999,978)</u>
FINANCING ACTIVITIES			
Lease liabilities payment	22	(28,756,121)	(3,870,853)
Dividends paid	24.2	(400,000,000)	-
Treasury shares	24.3	(181,200,000)	-
NET CASH USED IN FINANCING ACTIVITIES		<u>(609,956,121)</u>	<u>(3,870,853)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>614,082,880</u>	<u>579,192,686</u>
Cash and cash equivalents at the beginning of the year		993,473,644	414,280,958
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	<u>1,607,556,524</u>	<u>993,473,644</u>
Significant non-cash items:			
Increase in share capital	24	-	1,100,000,000
Recognition of right-of-use assets under IFRS 16	18	-	13,289,341
Recognition of lease liabilities under IFRS 16	22	-	12,933,987

Chief Financial Officer

Chief Executive Officer

Authorized Board Member

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1. ACTIVITIES

Arabian Internet and Communication Services Company ("the Company") 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 Joint Stock company and during September 2021, the Company has completed its initial public offering and its share was traded on September 30, 2021 (note 25).

The Company is engaged in the extension and installation of computer networks and wiring, communications, road repair, maintenance and supplies, security devices installation and maintenance, senior management advisory, management of institutes and training centers.

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

Name of branch	Registration No	Date	Location
Arabian Internet and Communication Services Company	1010294137	20/09/1431H	Riyadh
Arabian Internet and Communication Services Company	1010464020	04/12/1437H	Riyadh
Leading Solutions Training Center	1010771115	03/06/ 1443H	Riyadh
Arabian Internet and Communication Services Company	2051057553	15/07/1435H	AlKhobar
Arabian Internet and Communication Services Company	2055022604	15/07/1435H	Al-Jubail
Arabian Internet and Communication Services Company	4030271030	15/07/1435H	Jeddah

The following is the detail of the subsidiaries company included in these consolidated financial statements:

Subsidiaries	Country of incorporation	Ownership %	
		31 December 2021	31 December 2020
a. Saudi Telecom Company Solution for Information Technology (Owned by One Person)	Egypt	100%	100%
b. Sanad AlTeqany For Commercial Services Company	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 paid in cash. The subsidiary has 1000 shares with a nominal value of USD 70 per share and it is fully owned by the Company. The principal activities of the subsidiary are information technology and communication industry including industrial activities in designing including designing in computer systems, electronics development, data centers development, software and e-learning development, data analysis, data management, communication and internet services, production of electronic contents, system integration, trainings and outsourcing services, software production.			
b. 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 SR 5 Million. The subsidiary has 500,000 shares with a nominal value of SR 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.			

The Company and the subsidiaries (together the "Group") immediate and ultimate controlling party is Saudi Telecom Company ("STC").

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

2. BASIS OF PREPARATION

Change in legal form

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

Statement of compliance

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 "IFRSs 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. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of measurement and functional currency

The consolidated financial statements have been prepared on the historical cost basis except for measurement of equity investments at fair value through other comprehensive income at fair value as explained in the relevant accounting policies referred to below.

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

Basis of consolidation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in consolidated statement of profit or loss. Any investment retained is recognised at fair value.

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 and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract because they are not separately identifiable from other promises in the contract. The 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 and 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.

The Group offers perpetual and limited life licenses, which are accounted for as a performance obligation satisfied at a point in time at which the license is granted to the customer. The license, support service and upgrades are separate performance obligations. The Group recognizes the revenue when control transfers to the customer/end-user. In the case of sale of software licenses together with the hardware devices, the device and software will be accounted for as one performance obligation and the recognition will be in accordance with the relevant treatment for the hardware device.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

Core ICT Services (continued)

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

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 and hardware is recognized at a point in time when the hardware is delivered.

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 or at a point of 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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Digital Services (continued)

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 and software and installation are bundled into a single performance obligation as the goods and services are not distinct within the context of the contract. 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 of 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

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Digital Services (continued)

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 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.

Where the Group performs agency related activities under a contract as the end customer receives project management and coordination support, the Group only recognizes net commission income.

- *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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Debt instruments

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

- Amortised cost

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

Equity instruments

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

De-recognition

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

i) Financial assets (continued)

Impairment

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

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

For trade receivables only, the Group recognizes expected credit losses for trade receivables based on the simplified approach. The simplified approach to the recognition of expected losses does not require the Group to track the changes in credit risk; rather, the Group recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable. 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, credit ratings, the existence of third-party insurance, and forward looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost. The Group measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

ii) Financial liabilities (continued)

Lifetime ECL (continued)

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.

Offsetting of financial instruments

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

Foreign currencies

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (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

During the year ended 31 December 2021, the Company started filing its Zakat returns separately, and as a result, it calculates and records zakat provision based on the zakat base of its own financial statements, in accordance with the requirements of the Zakat, Tax and Customer Authority "ZATCA". Previously, Zakat filing was made through the Parent Company and Zakat provision was determined based on the Company's share of the Parent Company's overall Zakat.

Dividends

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

Employee benefits

End of service indemnities

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

End of service indemnities (continued)

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

Retirement benefits

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

Short-term employee benefits

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

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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.

Intangible assets

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

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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3. SIGNIFICANT 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 years
Office equipment	5 to 20 years
Leasehold improvements	Lower of the lease period or 5 years
Motor vehicles	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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 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.

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3. SIGNIFICANT 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

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards, Amendment to Standards and Interpretations:

Certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 that does not have significant impact on the consolidated financial statements during the year.

Amendments to IFRS 7 and IFRS 16 interest rate benchmark reform – Phase 2

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the International Accounting Standards Board ("IASB") published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification.

On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can select to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

Standards issued but not yet effective

Following are the new standards and amendments to standards which are effective for annual periods beginning on or after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

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

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

Conceptual Framework - Amendments to IFRS 3

IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Onerous Contracts – Cost of fulfilling a contract – Amendments to IAS 37

IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 and IAS 8

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction

These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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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.

During the year ended 31 December 2021, the Group has changed the depreciation method for Super Computers from "straight line" method to "sum of digit" method, based on the performance and expected usage of the asset where it will depreciate the assets in a manner that more accurately reflects the economic benefits of the assets. This has resulted in an additional depreciation expense of SR 35.23 million for the year ended 31 December 2021.

Expected credit losses ("ECL")

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

Impairment of non-financial assets

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

Impairment of inventories

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

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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. REVENUE, NET

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

	31 December 2021 SR	31 December 2020 SR
Core ICT Services	4,231,204,538	3,743,571,801
IT Managed and Operational Services	1,955,164,641	1,630,024,588
Digital Services	1,629,428,223	1,517,822,674
	<u>7,815,797,402</u>	<u>6,891,419,063</u>
Type of customers		
Sell through STC and sell to direct customers (STC is not the end customer)	5,569,352,001	4,467,318,493
Sell to STC & its subsidiaries (STC & its subsidiaries are the end customers)	2,246,445,401	2,424,100,570
	<u>7,815,797,402</u>	<u>6,891,419,063</u>
Timing of revenue recognition		
Goods or services transferred to customers:		
- over time	7,417,253,192	6,205,867,828
- at a point in time	398,544,210	685,551,235
	<u>7,815,797,402</u>	<u>6,891,419,063</u>

6. GENERAL AND ADMINISTRATION EXPENSES

	31 December 2021 SR	31 December 2020 SR
Employees related costs	229,232,024	208,460,414
Professional services	65,548,829	67,787,904
Depreciation and amortization	62,100,080	56,961,604
IT expenses	54,434,158	44,326,476
Hospitality and corporate gatherings	17,195,240	13,313,641
Office expenses	10,802,429	14,461,978
Rent expenses	9,693,157	10,560,459
Provision against lease contract	-	30,166,460
Business travel expenses	2,144,002	7,118,395
Utilities expenses	1,760,452	1,601,079
Others	9,190,648	4,975,871
	<u>462,101,019</u>	<u>459,734,281</u>

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7. SELLING AND DISTRIBUTION EXPENSES

	31 December 2021 SR	31 December 2020 SR
Employees related costs	164,829,224	141,705,587
Impairment of accounts receivable and contract assets (note 12&14)	150,859,346	46,113,660
Selling and marketing expenses	24,427,125	12,627,528
IT expenses	4,008,419	3,178,965
Depreciation and amortization	2,132,477	378,072
Business travel expenses	504,942	1,226,515
	346,761,533	205,230,327

8. OTHER INCOME / (LOSS), NET

	31 December 2021 SR	31 December 2020 SR
Write-off of liabilities	2,614,237	-
Commission income	-	2,133,766
Impairment loss on property and equipment (note 8.1 & 17)	(621,965)	(3,517,908)
Foreign exchange loss	(127,434)	(952,799)
Other	238,725	1,740
	2,103,563	(2,335,201)

8.1 This represents the impairment charge booked on assets related to certain offices which are planned to be handed back to lessor (note 17).

9. FINANCE INCOME / (COSTS), NET

	31 December 2021 SR	31 December 2020 SR
Finance charges on leases liabilities	(1,072,276)	(2,537,652)
Income from murabaha time deposits	3,889,722	1,639,140
	2,817,446	(898,512)

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10. ZAKAT

For the years up to 2008, the Company filed its Zakat returns separately based on its own financial statements and has obtained final assessments with ZATCA for the years till 2008.

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 1 January 2021, and based on approval from ZATCA, the Company started filing its Zakat returns separately, and as a result, 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's zakat provision for the year ended 2021 amounted to SR 71.1 million (2020: SR 51.9 million), and is charged to the consolidated statement of profit or loss.

The movement in zakat provision is as follows:

	31 December 2021	31 December 2020
	SR	SR
Balance as at 1 January	53,140,982	40,113,984
Charge for the year	71,106,574	51,978,118
Paid during the year	(51,978,119)	(38,951,120)
Balance as at 31 December	<u>72,269,437</u>	<u>53,140,982</u>

11. CASH AND CASH EQUIVALENTS

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

	31 December 2021	31 December 2020
	SR	SR
Cash in hand	17,333	22,471
Bank balances	24,039,191	8,451,173
Murabaha time deposits (*)	1,583,500,000	985,000,000
	<u>1,607,556,524</u>	<u>993,473,644</u>

(*) Represent deposits placed with various banks and carry a profit rate of 0.5% to 1.2% (2020: 0.25% to 0.45%) per annum. The original maturity date for all these deposits are less than 90 days.

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12. ACCOUNTS RECEIVABLE

	31 December 2021 SR	31 December 2020 SR
Gross trade receivables (excluding Parent Company and its subsidiaries balances)	922,538,872	813,285,140
Less: allowance for expected credit losses	<u>(210,737,776)</u>	<u>(74,796,541)</u>
Net trade receivables	711,801,096	738,488,599
Gross amounts due from Parent Company and its subsidiaries (note 29)	2,388,079,460	2,146,107,981
Less: allowance for expected credit losses (note 29)	<u>(79,323,249)</u>	<u>(80,845,124)</u>
Net amounts due from related parties (excluding Parent Company and its subsidiaries balances)	2,308,756,211	2,065,262,857
Total accounts receivable	<u><u>3,020,557,307</u></u>	<u><u>2,803,751,456</u></u>

Trade receivables

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

The Group performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis. There have been no changes to these procedures from the previous year.

Customers are grouped according to their credit characteristics, including whether they are private or not and whether sovereign or non-sovereign. The customers grouped in a particular segment share similar credit risk characteristics.

Since the Group considers the homogeneity of economic characteristics of the company/individual for segmentation. Private customers are assessed for impairment on a collective basis. The Group does not have trade receivable and contract assets for which no loss allowance is recognized because of collateral.

One of the Group's debtors represent 8% (2020: 13%) of the total trade receivables balance excluding Parent Company and its subsidiaries balances.

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

Movement in the allowance for expected credit losses related to trade receivables (excluding Parent Company and its subsidiaries balances):

	31 December 2021 SR	31 December 2020 SR
Balance as at 1 January	74,796,541	64,524,138
Net charge for the year	<u>135,941,235</u>	<u>10,272,403</u>
Balance as at 31 December	<u><u>210,737,776</u></u>	<u><u>74,796,541</u></u>

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

	31 December 2021 SR	31 December 2020 SR
Opening balance	80,845,124	45,223,074
Net (reversal) / charge for the year	<u>(1,521,875)</u>	<u>35,622,050</u>
Closing balance (*)	<u><u>79,323,249</u></u>	<u><u>80,845,124</u></u>

(*) The above includes SAR 39.7 million (2020: 49.8 million) pertaining to receivables for which STC is not the end customer.

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12. ACCOUNTS RECEIVABLE (continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the accounts receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk for third parties is limited due to the fact that the customer base is large and unrelated. The Group does not hold any collateral over the impaired trade receivables.

	31 December 2021	31 December 2020
	SR	SR
<i>Age of unimpaired trade receivables</i>		
<i>Non-governmental receivables</i>		
0 to 3 months	138,089,349	145,786,309
4 to 6 months	43,293,197	62,994,560
7 to 12 months	11,306,309	5,046,037
Over 1 year	251,215	11,192,309
	192,940,070	225,019,215
<i>Governmental receivables</i>		
Neither past due nor impaired	244,612,753	269,979,122
0 to 3 months	206,680,487	53,335,690
4 to 6 months	31,615,944	80,707,005
7 to 12 months	35,051,560	73,608,103
Over 1 year	900,282	35,839,464
	518,861,026	513,469,384
	711,801,096	738,488,599
<i>Age of impaired trade receivables</i>		
<i>Non-governmental receivables</i>		
0 to 3 months	15,339,683	11,511,292
4 to 6 months	17,877,068	10,861,484
7 to 12 months	22,225,222	4,359,397
Over 1 year	53,951,986	28,544,283
	109,393,959	55,276,456
<i>Governmental receivables</i>		
0 to 3 months	26,239,565	2,346,182
4 to 6 months	1,193,297	60,090
7 to 12 months	23,609,628	1,073,980
Over 1 year	50,301,327	16,039,833
	101,343,817	19,520,085
	210,737,776	74,796,541

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13. PREPAYMENTS AND OTHER ASSETS

	31 December 2021	31 December 2020
	SR	SR
Advances to suppliers, net (note 13.1)	204,958,795	17,666,662
Prepaid expenses, net (note 13.2)	52,213,626	38,719,787
Other receivables, net (note 13.3)	28,095,770	96,666,789
Deposits, net	2,708,081	3,826,285
	287,976,272	156,879,523

13.1 During the current year, additions to advances to suppliers were made in connection to certain projects. Advances to suppliers are presented net of provision for old advances amounting to SR 10.8 million (2020: SR 9.4 million).

13.2 Prepaid expenses are presented net of provision for certain doubtful prepaid assets amounting to SR 22.6 million (2020: SR 22.6 million).

13.3 Other receivables include amounting of SR 8.5 million (2020: SR 80.7 million) due from related parties (note 29).

14. CONTRACT ASSETS

Contract assets represents the value of work executed by the Group during the year which has not been billed to customers as at the reporting date. Total contract assets billed during the year amounted to SR 1,200 million (2020: SR 911 million) and total revenue recognized relating to the contract assets during the year amounted to SR 954 million (2020: SR 1,246 million).

	31 December 2021	31 December 2020
	SR	SR
Gross contract assets (note 29)	1,264,069,299	1,510,518,671
Allowance for impairment	(7,850,611)	(5,957,205)
	1,256,218,688	1,504,561,466

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

	2021	2020
	SR	SR
Balance as at 1 January	5,957,205	8,548,117
Charge/ (reversal) of impairment for the year	1,893,406	(2,590,912)
Balance as at 31 December	7,850,611	5,957,205

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15. INVENTORIES

	31 December 2021	31 December 2020
	SR	SR
Materials and supplies	349,123,113	180,451,340
Less: allowance for slow moving and obsolete inventory (note 15.1)	(75,136,957)	(68,082,186)
	273,986,156	112,369,154

The Group has charged inventories amounting to SR 596 million (2020: SR 711 million) to consolidated statement of profit or loss and other comprehensive income.

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

	2021	2020
	SR	SR
Balance as at 1 January	68,082,186	59,989,749
Net charge for the year	7,054,771	8,092,437
Balance as at 31 December	75,136,957	68,082,186

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16. INTANGIBLE ASSETS

	<i>Software SR</i>	<i>Capital work-in- progress SR</i>	<i>Total SR</i>
COST:			
As at 1 January 2021	166,490,046	4,753,105	171,243,151
Additions	26,177,588	15,656,587	41,834,175
Transfer	10,161,529	(10,161,529)	-
As at 31 December 2021	202,829,163	10,248,163	213,077,326
ACCUMULATED AMORTIZATION:			
As at 1 January 2021	79,783,991	-	79,783,991
Amortization	35,083,521	-	35,083,521
As at 31 December 2021	114,867,512	-	114,867,512
Net book value as at 31 December 2021	87,961,651	10,248,163	98,209,814
As at 1 January 2020	133,355,379	23,208,366	156,563,745
Additions	11,560,733	13,236,367	24,797,100
Disposal	(10,117,694)	-	(10,117,694)
Transfer	31,691,628	(31,691,628)	-
As at 31 December 2020	166,490,046	4,753,105	171,243,151
ACCUMULATED AMORTIZATION			
As at 1 January 2020	52,813,472	-	52,813,472
Amortization	30,898,330	-	30,898,330
Disposal	(3,927,811)	-	(3,927,811)
As at 31 December 2020	79,783,991	-	79,783,991
Net book value as at 31 December 2020	86,706,055	4,753,105	91,459,160

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

	<i>31 December 2021 SR</i>	<i>31 December 2020 SR</i>
Cost of revenue	13,845,004	13,713,422
Selling and distribution expenses (note 7)	1,835,624	103,890
General and administration expenses (note 6)	19,402,893	17,081,018
	35,083,521	30,898,330

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17. PROPERTY AND EQUIPMENT							
COST:	Computer hardware SR	Furniture and office equipment SR	Leasehold improvements SR	Motor vehicles SR	Supercomputers SR	Capital work-in-progress* SR	Total SR
Balance as at 1 January 2021	255,663,799	65,530,834	63,522,078	2,112,077	-	420,704,721	807,533,509
Additions	40,706,364	1,395,103	3,310,822	-	-	67,702,814	113,115,103
Transfer	66,519,792	21,990,260	46,285,530	-	339,979,013	(474,774,595)	-
Disposal	(209,320)	(367,683)	-	(424,000)	-	-	(1,001,003)
Balance as at 31 December 2021	362,680,635	88,548,514	113,118,430	1,688,077	339,979,013	13,632,940	919,647,609
ACCUMULATED DEPRECIATION AND IMPAIRMENT:							
Balance as at 1 January 2021	142,484,967	37,829,638	32,649,705	1,010,447	-	-	213,974,757
Depreciation and impairment charge	51,308,534	10,648,697	17,877,526	488,159	75,709,612	-	156,032,528
Disposal	(193,675)	(353,683)	-	(424,000)	-	-	(971,358)
Balance as at 31 December 2021	193,599,826	48,124,652	50,527,231	1,074,606	75,709,612	-	369,035,927
NET BOOK VALUE:							
At 31 December 2021	169,080,809	40,423,862	62,591,199	613,471	264,269,401	13,632,940	550,611,682

*Capital work in progress for 2020 represents creating a remote computing facility which mainly includes supercomputers. The facility has started its operations during 2021.

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17. PROPERTY AND EQUIPMENT (continued)

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

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31 December 2021

17. PROPERTY AND EQUIPMENT (continued)

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

	31 December 2021	31 December 2020
	SR	SR
Cost of revenue	129,600,773	33,255,818
Selling and distribution expenses (note 7)	296,853	274,182
General and administration expenses (note 6)	25,512,937	21,867,165
Impairment loss on property and equipment (note 8)	621,965	3,517,908
	156,032,528	58,915,073

18. RIGHT-OF-USE ASSETS

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

	Land and Buildings	Vehicles	Total
	SR	SR	SR
Balance as at 1 January 2020	76,573,162	842,539	77,415,701
Additions to right of use assets	13,289,341	-	13,289,341
Depreciation charge for the year ended 31 December 2020	(18,043,910)	(728,421)	(18,772,331)
Balance as at 31 December 2020	71,818,593	114,118	71,932,711
Depreciation charge for the year ended 31 December 2021	(17,315,820)	(114,118)	(17,429,938)
Balance as at 31 December 2021	54,502,773	-	54,502,773

Right of use assets are depreciated as follows:

Leasehold lands	15 years
Buildings	4 years
Vehicles	3 years

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

	31 December 2021	31 December 2020
	SR	SR
General and administration expenses (note 6)	17,184,250	18,013,421
Cost of revenue	245,688	758,910
	17,429,938	18,772,331

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31 December 2021

19. ACCOUNTS PAYABLE AND ACCRUALS

	31 December 2021	31 December 2020
	SR	SR
Accrued project costs	723,274,789	425,117,739
Accrued expenses (note 19.1)	608,250,608	501,060,307
Trade payables	459,879,696	653,070,944
Amounts due to related parties (note 29)	59,265,811	114,942,706
Accrued connectivity charges (note 29)	51,422,467	239,657,376
Lease liabilities (note 22)	29,256,240	40,104,398
	1,931,349,611	1,973,953,470

19.1 Accrued expenses include an amount of SR 133 million (2020: SR 108 million) due to STC (note 29). Trade payables are normally settled within 90 days of the invoice dates.

20. 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 SR 1,197 million (2020: SR 1,066 million) and total revenue recognized relating to the deferred revenue during the year amounted to SR 624 million (2020: SR 787 million).

21. CONTRACT LIABILITIES

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

22. LEASES

As a lessee:

	31 December 2021	31 December 2020
	SR	SR
Opening	88,275,291	76,674,505
Additions to lease liabilities, net	-	12,933,987
Finance cost (note 9)	1,072,276	2,537,652
Payments	(28,756,121)	(3,870,853)
Total discounted lease liabilities as at 31 December	60,591,446	88,275,291

Following is the maturity analysis of undiscounted cash flows relating to leases payments as at 31 December 2021.

Maturity analysis of lease undiscounted cash flows	31 December 2021	31 December 2020
	SR	SR
Less than 1 year	29,443,672	40,279,245
More than 1 year	33,417,569	51,187,531
Total undiscounted lease liabilities as at 31 December	62,861,241	91,466,776

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31 December 2021

22. LEASES (continued)

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

	31 December 2021	31 December 2020
	SR	SR
Current portion (included in accounts payable and accruals – note 19)	29,256,240	40,104,398
Non-current portion	31,335,206	48,170,893
Total	60,591,446	88,275,291

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 16, 17 and 18 are as follows:

	31 December 2021	31 December 2020
	SR	SR
Property and Equipment	346,074,097	-
Intangible assets	188,178	-
Land - Right-of-use assets	3,255,340	3,501,026
	349,517,615	3,501,026

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

	31 December 2021	31 December 2020
	SR	SR
Less than one year	132,569,580	-
More than one year	450,736,572	-
Total	583,306,152	-

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23. END OF SERVICE INDEMNITIES

	<i>31 December 2021</i> <i>SR</i>	<i>31 December 2020</i> <i>SR</i>
Defined benefit obligation (DBO)	236,586,315	294,776,761

The Group grants end of service indemnities (benefit plan) 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.

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

The DBO is calculated periodically by qualified actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Due to the lack of liquidity and the deep market constraints of local corporate bonds, reference needs to be made to the Saudi Government Issuance of US dollar denominated bonds rates.

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

The following table represents the movement of the DBO:

	<i>31 December 2021</i> <i>SR</i>	<i>31 December 2020</i> <i>SR</i>
Balance as at 1 January	294,776,761	189,138,652
Amount recognised in the consolidated statement of profit or loss		
Current service costs	55,072,652	83,882,654
Finance cost	5,051,700	6,250,000
	60,124,352	90,132,654
Actuarial (gain) / loss recognized in the other comprehensive income	(85,644,949)	35,271,285
Payments	(32,669,849)	(19,765,830)
Balance as at 31 December	236,586,315	294,776,761

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2021

23. END OF SERVICE INDEMNITIES (continued)

Significant actuarial assumptions

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

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

	31 December 2021	31 December 2020
Attrition rates	15% & 46%	15%
Salary escalation rate	1.6% & 4.5%	4.5%
Discount rate	2.1%	2.65%
Retirement age	65	65

Sensitivity analysis

The results are sensitive to the assumptions used. The table below shows the change in DBO based on increase or decrease in the base assumption value as of 31 December 2021:

			<i>Impact on defined benefit obligation</i>	
	<i>Change in Assumption</i>	<i>Base value SR</i>	<i>Increase in assumption SR</i>	<i>Decrease in assumption SR</i>
Discount rate	1%	236,586,315	(12,025,677)	13,486,413
Salary escalation rate	1%	236,586,315	13,098,825	(11,940,396)

Cost of revenue includes employees' cost amounting to SR 1,718 million (2020: SR 1,579 million).

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24. SHARE CAPITAL, DIVIDENDS, TREASURY SHARES & SHARE BASED PAYMENTS

24.1 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 SR 100 Million to SR 1,200 Million (divided into 120 Million shares of SR 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).

On June 28, 2021, the Company has received approval from the Capital Market Authority (CMA) for an initial public offering (IPO), through the offering of 24 Million shares, representing 20% of the Company's shares. The Company started trading its shares on Tadawul on 30 September 2021.

24.2 Dividends distribution

The General Assembly in its extraordinary general meeting held on 4 Rajab 1442H (corresponding to 16 February 2021) approved to distribute dividends of SR 3.33 per share, totaling to SR 400 Million. No dividends were declared in year ended 31 December 2020.

24.3 Treasury shares

On 29 September 2021, the Company purchased 1.2 Million of its own shares from the Parent Company at cost of SR 151 per share, for cash consideration of SR 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 24.4).

24.4 Share-based payments

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 2021, the Group has recorded SR 9.6 million (2020: SR 0.2 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.

25. STATUTORY RESERVE

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

26. EARNINGS PER SHARE

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

	31 December 2021	31 December 2020
Net profit for the year 'SR'	832,918,610	701,795,504
Weighted average no of shares for basic earnings per share	119,690,959	120,000,000
Weighted average no of ordinary shares repurchased	309,041	-
Weighted average no of shares for diluted earnings per share	120,000,000	120,000,000
Basic earnings per share (restated)	6.96	5.85
Diluted earnings per share (restated)	6.94	5.85

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27. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

31 December 2021

<i>Financial assets</i>	<i>Category of financial assets</i>	<i>Carrying amount</i>	<i>Fair value level</i>
Cash and cash equivalents	Amortized Cost	1,607,556,524	N/A
Accounts receivable, contract assets and other receivables	Amortized Cost	4,605,491,482	N/A
<u>Financial liabilities</u>			
Accounts payable and accruals	Amortized Cost	1,962,684,817	N/A

31 December 2020

<i>Financial assets</i>	<i>Category of financial assets</i>	<i>Carrying amount</i>	<i>Fair value level</i>
Cash and cash equivalents	Amortized Cost	993,473,644	N/A
Accounts receivable, contract assets and other receivables	Amortized Cost	4,408,805,996	N/A
<u>Financial liabilities</u>			
Accounts payable and accruals	Amortized Cost	2,022,124,363	N/A

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

28. FINANCIAL RISK AND CAPITAL MANAGEMENT

Market risk

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

Foreign currency risk management

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

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28. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Profit and liquidity rate risk management (continued)

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

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both profit and principal cash flows.

	<i>Profit rate %</i>	<i>Within one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
31 December 2021				
Accounts payable and accruals	NA	1,902,093,371	-	1,902,093,371
Lease liabilities relating to right of use assets	1.49% to 3.25%	29,443,672	33,417,569	62,861,241

	<i>Profit rate %</i>	<i>Within one year SR</i>	<i>More than one year SR</i>	<i>Total SR</i>
31 December 2020				
Accounts payable and accruals	NA	1,933,849,072	-	1,933,849,072
Lease liabilities relating to right of use assets	1.57% to 3.47%	40,279,245	51,187,531	91,466,776

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28. FINANCIAL RISK AND CAPITAL MANAGEMENT (continued)

Credit risk management

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 accounts receivables. The Group uses a provision matrix to measure the ECLs of trade receivables and contract assets.

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from private customers as at 31 December 2021:

<i>31 December 2021</i>	<i>Gross carrying amount</i>	<i>Weighted average loss rate</i>	<i>Loss allowance</i>
Unbilled	105,072,766	7.47%	7,848,936
0-90 days	153,283,859	9.91%	15,190,430
91-180 days	58,657,969	26.20%	15,368,388
181 - 270 Days	20,054,856	47.31%	9,487,952
271 - 365 Days	12,834,043	94.29%	12,101,219
More than 1 year	27,256,956	94.29%	25,700,584
	377,160,449	22.72%	85,697,509

Capital management

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

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

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29. RELATED PARTY INFORMATION

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

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

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

	31 December 2021	31 December 2020
	SR	SR
Sales of goods and services (Parent Company and its subsidiaries) (a)	6,010,278,244	5,313,919,469
Purchases (Parent Company and its subsidiaries)	439,870,537	252,077,760
Discount on certain projects (b)	-	199,071,534
Sale of intangible assets and property and equipment (notes 16 & 17) (Other related party)	-	31,627,259
Long term incentive expense charged by the Parent Company	645,975	216,016

(a) Sales of goods and services to Parent Company and its subsidiaries include an amount of SR 3.8 billion (2020: SR 2.9 billion) for which Parent Company is not the end customer.

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

(c) Revenue related to direct transactions with government and government related entities for the year-ended 31 December 2021 is SR 1.3 billion (2020: SR 1.5 billion).

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

	31 December 2021	31 December 2020
	SR	SR
Accounts receivable: gross (note 12)	2,388,079,460	2,146,107,981
Contract assets	846,921,803	949,422,179
Other assets: receivable from related parties (note 13)	8,516,330	80,661,693
Deferred revenue	(2,075,342,306)	(1,606,137,371)
Amounts due to related parties (note 19)	(59,265,811)	(114,942,706)
Accrued connectivity charges (note 19)	(51,422,467)	(239,657,376)
Contract liabilities	(342,315,572)	(260,457,485)
Accrued expenses (note 19)	(132,994,447)	(108,058,882)

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

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29. RELATED PARTY INFORMATION (Continued)

Age of unimpaired amounts due from Parent Company and its subsidiaries

	Total SR	Neither past due nor impaired SR	Past due but not impaired			
			0 - 3 months SR	4 - 6 months SR	7 - 12 months SR	Over 1 years SR
31 December 2021	2,308,756,211	1,703,356,671	506,744,301	71,570,695	27,084,544	-
31 December 2020	2,065,262,857	932,147,422	450,520,253	379,906,106	298,474,987	4,214,089

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

	31 December 2021 SR	31 December 2020 SR
Employment benefits	46,957,616	34,911,209

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

	31 December 2021 SR	31 December 2020 SR
End of service indemnities and annual leave	8,025,952	5,578,995

30. SEGMENT INFORMATION

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

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

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

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30. SEGMENT INFORMATION (continued)

There are no intersegments revenue for the year ended 31 December 2021 (2020: Nil), therefore reconciliation of segments revenue to total revenue is not relevant.

	31 December 2021	31 December 2020
	SR	SR
Core ICT Services	4,231,204,538	3,743,571,801
IT Managed and Operational Services	1,955,164,641	1,630,024,588
Digital Services	1,629,428,223	1,517,822,674
Total revenue	7,815,797,402	6,891,419,063
Total cost of revenue	(6,107,830,676)	(5,469,447,120)
Total operating expenses	(808,862,552)	(664,964,608)
Total non-operating income / (expenses)	4,921,009	(3,233,713)
Zakat charge for the year	(71,106,574)	(51,978,118)
Total net profit for the year	832,918,609	701,795,504

31. CAPITAL COMMITMENTS

The Group had no capital commitments at the reporting date

32. SIGNIFICANT EVENT

The Group's operations and financial results have not incurred significant impact from the Corona virus outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in telecom sector.

The impact of the pandemic on the Group's operations and financial results was assessed using judgments and assumptions that contain sources of uncertainty, as it depends on several future factors and developments that cannot be reliably forecasted.

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

33. CONTINGENT LIABILITIES

	31 December 2021	31 December 2020
	SR	SR
Letters of guarantees	271,433,635	205,670,965

The above letter of guarantee were issued under a borrowing facility of SR 500 million (2020: 500 million).

34. EVENTS AFTER THE REPORTING DATE

The Board of Directors recommended in its meeting held on 14 Rajab 1443H (corresponding to 15 February 2022) to distribute dividends of SR 4 per share, totaling to SR 475.2 million.

No events have arisen subsequent to 31 December 2021 and before the issuance of the consolidated financial statements that could have a significant effect on the consolidated financial statements as at 31 December 2021.

35. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements for the year ended 31 December 2021 was approved on the company's board of directors meeting held on 14 Rajab 1443H (corresponding to 15th February 2022).