stc Bahrain B.S.C. (c)

REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

stc Bahrain B.S.C. (c)

Contents of the Consolidated Financial Statements for the year ended 31 December 2022

Index	**Page**
Administration and contact details	2
Board of Directors' report	3-4
Independent auditor's report	5-8
Consolidated statement of financial position	9
Consolidated statement of comprehensive income	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12-13
Notes to the consolidated financial statements	14-44

stc Bahrain B.S.C. (c)

Administration and contact details as at 31 December 2022

Commercial registration no.	71117 obtained on 1 March 2009
Directors	Mohammed Al Hakbani - Chairman Dr. Abdullah Al Abdulqader Dr. Yahya Al Jabr Moaeed Huwaij H AlSaloom Abdulaziz Al Ghamdi Hamoud Al Rumayan
Chief Executive Officer	Nezar Banabeela
Head office and registered office	stc Tower 15 Road 68, PO Box 21529 Seef District Manama Kingdom of Bahrain
Bankers	Standard Chartered Bank HSBC Bank Middle East Ahli United Bank Bank of Bahrain and Kuwait National Bank of Bahrain National Bank of Kuwait Kuwait Finance House Bahrain Islamic Bank Al Salam Bank Al Baraka Bank Khaleeji Commercial Bank Abu Dhabi Islamic Bank MUFG Bank (Malaysia) Berhad
Auditors	Ernst & Young - Middle East 10th Floor Bahrain World Trade Centre - East Tower P.O.Box 140 Manama Kingdom of Bahrain

The Board of Directors have pleasure in submitting the audited consolidated financial statements of stc Bahrain B.S.C. (c) ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2022.

Principal activities

The principal activity of the Group is to provide telecommunications services throughout the Kingdom of Bahrain.

Results for the year

The Group made a profit of BD 8,617 thousand for the year ended 31 December 2022 compared to a profit of BD 11,090 thousand for the year ended 31 December 2021.

Movements in retained earnings of the Group during the year are as follows:

	BD '000
Balance as of 1 January 2022	**47,566**
Total comprehensive income for the year	**8,617**
Transfer to statutory reserve	**(862)**
Balance as of 31 December 2022	**55,321**

Representation and audit

The Group's activities for the year ended 31 December 2022 have been conducted in accordance with the Bahrain Commercial Companies Law, Decree Number 21 of 2001, and other relevant statutes of the Kingdom of Bahrain.

The Group has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditor.

Remuneration of Board of Directors

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
1- Mr. Mohammed Al Hakbani	25	2	-	-	27	-	-	-	-	-	-	-	-
2- Dr. Yahya Al Jaber	20	2	-	-	22	-	-	-	-	-	-	-	-
3- Mr. Moaed Al Saloom	20	2	-	-	22	-	-	-	-	-	-	-	-
4- Dr. Abdullah Al Abdulqader	20	2	-	-	22	-	-	-	-	-	-	-	-

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
Second: Non-Executive Directors:													
1- Mr. Abdulaziz Al Ghamdi	20	3	-	-	23	-	-	-	-	-	-	-	-
2- Mr. Hamoud Alrumayan	20	2	-	-	22	-	-	-	-	-	-	-	-
3- Mr. Saad Alhamlan (AC observing member)	6	1	-	-	7	-	-	-	-	-	-	-	-
Total	**131**	**14**	**-**	**-**	**145**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022*	Aggregate Amount
Remunerations for top 6 executives, including CEO and Chief Financial Officer	1,029	-	235	1,264

* This represents accrued share based remuneration for the executive management.

Mohammed Al Hakbani
Chairman

Dr. Yahya Al Jaber
Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
stc BAHRAIN B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of stc Bahrain B.S.C. (c) ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statements of comprehensive income, changes in equity and 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 financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Report of the Board of Directors

Other information consists of the information included in the Report of the Board of Directors, set out on page 3 and 4 other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of the Board of Directors for the consolidated financial statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as the Board of Directors 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, the Board of Directors 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 the Board of Directors either intends to liquidate the Company and its subsidiary or to cease operations, or has no realistic alternative but to do so.

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 ISAs 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 ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' 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 the Board of Directors 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.

Report on Other Legal and Regulatory Requirements

A As required by the Bahrain Commercial Companies Law, we report that:

1) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
2) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
3) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Group or on its financial position; and
4) satisfactory explanations and information have been provided to us by the Company's management in response to all our requests.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
stc BAHRAIN B.S.C. (c) (continued)

Report on Other Legal and Regulatory Requirements (continued)

B As required by Article (8) of section (2) of chapter (1) of the Bahrain Corporate Governance Code, we report that the Company:

1) has appointed a Corporate Governance Officer; and
2) has Board approved written guidance and procedures for Corporate Governance.

Partner's Registration No ……….
…………….…..... 2023
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Note	**2022 BD '000**	*2021 BD '000*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**63,845**	68,837
Capital work-in-progress	5	**68,365**	13,360
Intangible assets	6	**74,244**	80,347
Right-of-use assets	7	**24,565**	25,246
Investment in an associate	8	**3,238**	1,885
Trade and other receivables	10	**4,980**	4,352
		239,237	194,027
Current assets			
Inventories	9	**7,178**	3,837
Trade and other receivables	10	**56,357**	45,875
Murabaha deposits	12	**-**	11,000
Amounts due from related parties	24	**12,002**	4,244
Cash and cash equivalents	11	**14,319**	30,598
		89,856	95,554
TOTAL ASSETS		**329,093**	289,581
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**75,000**	75,000
Statutory reserve	14	**11,192**	10,330
Other reserve		**360**	125
Retained earnings		**55,321**	47,566
Total equity		**141,873**	133,021
Non-current liabilities			
Murabaha and Mudarabah facilities	15	**71,041**	71,383
Lease liabilities	16	**19,066**	19,979
Trade and other payables	18	**11,016**	2,966
Employees' end of service benefits	17	**2,044**	1,752
		103,167	96,080
Current liabilities			
Derivatives at fair value		**-**	68
Murabaha and Mudarabah facilities	15	**333**	308
Lease liabilities	16	**15,771**	14,740
Amounts due to related parties	24	**565**	-
Trade and other payables	18	**67,384**	45,364
		84,053	60,480
Total liabilities		**187,220**	156,560
TOTAL EQUITY AND LIABILITIES		**329,093**	289,581

Mohammed Al Hakbani
Chairman

Dr. Yahya Al Jaber
Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	***2022*** ***BD '000***	*2021* *BD '000*
Revenue	19	**179,594**	168,226
Cost of sales	20	**(93,541)**	(83,258)
GROSS PROFIT		**86,053**	84,968
General and administration expenses	21	**(39,271)**	(38,973)
Selling and distribution expenses	22	**(2,577)**	(2,447)
Amortisation of intangible assets	6	**(6,349)**	(5,865)
Amortisation of cost to obtain a contract	19	**(2,968)**	(2,189)
Amortisation of right-of-use assets	7	**(5,624)**	(5,629)
Depreciation	4	**(18,382)**	(17,194)
PROFIT FROM OPERATIONS		**10,882**	12,671
Finance costs	23	**(2,793)**	(2,439)
Fair value gain on derivatives		**68**	431
Profit on Murabaha deposits and saving accounts		**417**	459
Foreign exchange and other income (losses)		**10**	(32)
Share of profit of an associate	8	**33**	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,617**	11,090
Basic and diluted earnings per share	25	**11.489 fils**	14.787 fils
Earnings before interest, tax depreciation and amortisation	30	**44,205**	43,548

Mohammed Al Hakbani
Chairman

Dr. Yahya Al Jaber
Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital BD '000	*Statutory reserve BD '000*	*Other reserve BD '000*	*Retained earnings BD '000*	*Total equity BD '000*
At 31 December 2020	75,000	9,221	-	37,585	121,806
Profit and total comprehensive income for the year	-	-	-	11,090	11,090
Transferred to statutory reserve (note 14)	-	1,109	-	(1,109)	-
Share-based payment transactions (note 24)	-	-	125	-	125
At 31 December 2021	75,000	10,330	125	47,566	133,021
Profit and total comprehensive income for the year	-	-	-	8,617	8,617
Transferred to statutory reserve (note 14)	-	862	-	(862)	-
Share-based payment transactions (note 24)	-	-	235	-	235
At 31 December 2022	**75,000**	**11,192**	**360**	**55,321**	**141,873**

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	*2022 BD'000*	*2021 BD '000*
OPERATING ACTIVITIES			
Profit for the year		**8,617**	11,090
Adjustments for:			
Depreciation of property, plant and equipment	4	**18,382**	17,194
Amortisation of intangible assets	6	**6,349**	5,865
Amortisation of right-of-use assets	7	**5,624**	5,629
Amortisation of cost to obtain a contract	19	**2,968**	2,189
Share based payment expense	24	**235**	125
Provision for employees' end of service benefits	17	**437**	407
Loss (gain) on disposal of property, plant and equipment		**17**	(1)
Finance costs	23	**2,793**	2,439
Finance income		**(417)**	(459)
Fair value gain on derivatives		**(68)**	(431)
Provision for slow-moving inventories	9	**57**	131
Provision for expected credit losses	10	**2,175**	1,890
Share of profit of an associate	8	**(33)**	-
Operating profit before changes in working capital		**47,136**	46,068
Working capital changes:			
Inventories		**(3,398)**	1,384
Trade and other receivables		**(16,283)**	(8,253)
Trade and other payables		**29,296**	(8,066)
Amounts due from related parties		**(7,758)**	1,326
Amounts due to related parties		**565**	-
Cash flows from operations		**49,558**	32,459
Employees' end of service benefits paid	17	**(145)**	(153)
Net cash flows from operating activities		**49,413**	32,306
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	**(6,532)**	(3,806)
Proceeds from disposal of property, plant and equipment		**2**	1
Additions to capital work-in-progress	5	**(61,882)**	(12,899)
Additions to intangible assets	6	**(246)**	(777)
Investment in an associate	8	**(1,320)**	(1,885)
Murabaha deposits withdrawn (placed)	12	**11,000**	(11,000)
Finance income received		**447**	416
Net cash flows used in investing activities		**(58,531)**	(29,950)
FINANCING ACTIVITIES			
Repayments of lease liabilities	16	**(5,668)**	(5,609)
Proceeds from Murabaha and Mudarabah facilities	28	**-**	70,131
Repayments of Murabaha and Mudarabah facilities	28	**(352)**	(54,083)
Finance costs paid		**(1,141)**	(1,639)
Net cash flows (used in) from financing activities		**(7,161)**	8,800
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(16,279)**	11,156
Cash and cash equivalents at 1 January		**30,598**	19,442
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	**14,319**	30,598

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2022

Non-cash transactions:

Movement in unpaid finance costs of BD 774 thousand (2021: BD 348 thousand) has been excluded from the movement of trade and other payables.

Movement in finance income receivable of BD 30 thousand (2021: BD 40 thousand) has been excluded from the movement of trade and other receivables.

1 CORPORATE INFORMATION

stc Bahrain B.S.C (c) (“the Company”) and its subsidiaries (collectively referred as “the Group”), is a closed shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 71117 obtained on 1 March 2009. The registered office of the Company is Building 15, Road 1605, Block 428, Seef, Kingdom of Bahrain.

The principal activities of the Group are to provide telecommunications services, sale and trade of information and communication equipment, repair of communication equipment, data processing, hosting and related activities throughout the Kingdom of Bahrain. The operations of the Company are regulated in the Kingdom of Bahrain through the Telecommunication Regulatory Authority under legislative Decree No. 48 of 2002.

The Company is a 100% subsidiary of Saudi Telecom Company (“the Parent Company”). The Ultimate Parent of the Company is the Public Investment Fund of the Kingdom of Saudi Arabia.

The consolidated financial statements were authorised for issue by the Board of Directors on …..............

The Group comprises of the Company and its subsidiaries and associate incorporated in the Kingdom of Bahrain:

	Ownership interest		
Relationship / name	***31 December 2022***	***31 December 2021***	***Principal activities***
Subsidiaries			
stc Tech W.L.L. (CR -117921-1)	100%	100%	Selling and buying shares and securities for company's account only.
stc Pay Bahrain B.S.C (c) (CR -153695-1)	100%	-	Other activities auxiliary to financial service activities - Ancillary Service Providers - Card Processing and Payment Service Provider
stc Pay Bahrain Remittance B.S.C (c) (CR -157985-1)	100%	-	Money exchange companies
Associate			
STC GCC Cable Systems W.L.L. (CR - 145260-1) (note 8)	10%	10%	Sale and installation of telecommunications equipment and construction of utility projects.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been presented in Bahrain Dinars (BD) which is the functional currency of the Company and all amounts are rounded to the nearest thousand (BD '000).

The consolidated financial statements have been prepared using the going concern assumption under the historical cost convention, except for derivatives which are carried at their fair values.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2022. Control is achieved 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; and
- The ability to use its power over the investee to affect its returns.

2.3 Summary of significant accounting policies

New standards, interpretations and amendments adopted by the Group effective as of 1 January 2022

The accounting and reporting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for certain new standards and interpretations and amendments to standards and interpretations adopted by the Group as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

- *Amendments to IAS 37 - Onerous Contracts - Costs of Fulfilling a Contract;*
- *Amendments to IFRS 3 - Reference to the Conceptual Framework;*
- *Amendments to IAS 16 Leases - Property, Plant and Equipment: Proceeds before intended use;*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter;*
- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities; and*
- *IAS 41 Agriculture – Taxation in fair value measurements;*

The adoption of the amendments to standards did not have any material impact on the Group's consolidated financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements and which management anticipates to be reasonably applicable to the Group are disclosed below. The Group intends to adopt these standards, when they become effective:

- *Amendments to IAS 1: Classification of Liabilities as Current or Non-current - In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2023;*
- *Definition of Accounting Estimates - Amendments to IAS 8 - In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments are effective for annual reporting periods beginning on or after 1 January 2023; and*
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023.*

The Group does not expect any material impact arising from the adoption of the above standards.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, including site dismantling and site restoration costs. Software that is integral to the functionality of the related equipment is capitalised as part of cost of that asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation commences when assets are available to use and is calculated using the straight-line method to write-off the cost of property, plant and equipment to their estimated residual values over their expected economic useful lives as follows:

Building	15 years
Furniture & fixtures	Up to 5 years
Information technology equipment	Up to 5 years
Network equipment	Up to 15 years

Freehold land is not depreciated as it is deemed to have an infinite life.

Gains and losses resulting from the disposal/sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-of/sale assets, and the gains or losses are included in the consolidated statement of income.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. The effect of any adjustment to residual values, useful lives and methods is recognised prospectively as a change of accounting estimate.

When significant parts of a property, plant and equipment are to be replaced, the Group recognizes such parts as individual assets with a specific useful life. All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.

Capital work-in-progress

Capital work-in-progress represents expenditure incurred in setting up infrastructure and other network development costs, which are capitalised when they are available to be put into commercial use. Depreciation on capital work-in-progress is not charged until such time as these assets are completed, transferred to the respective category of property, plant and equipment and put into commercial use.

The Group as a lessee

Right-of-use assets

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right-of-use of asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

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

Amortisation is calculated on a straight line basis over the following useful lives:

GSM sites	Up to 15 years
Shop rentals	Up to 3 years
IP transit	Up to 2 years
Others	Up to 5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

The Group as a lessee (continued)

Lease liabilities

Leases are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the Effective Interest Rate Method ("EIR"). It is remeasured when the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because 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 remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Operating lease income is recognized in the consolidated statement of comprehensive income 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. Total benefits from incentives are recognized as a reduction in rental income on a straight-line basis, unless there is another basis that better represents the period of time in which the economic benefits of the leased asset are exhausted.

Intangible assets

Intangible assets are recorded if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and that the cost of such an asset can also be measured reliably.

Intangible assets acquired or developed by the Group are recognised at cost and are amortised starting from the date of service provisioning on a straight line basis over their remaining useful lives or statutory durations, whichever is shorter. Subsequent expenditure to the extent that it increases productivity or extends the useful life of an asset is capitalised.

In accordance with the Group's policy, the license fee is amortised using the straight line basis over the period of license, as the directors of the Group regard this period as the effective length of the license.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. The effect of any adjustment to residual values, useful lives and methods is recognised prospectively as a change of accounting estimate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Intangible assets (continued)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and the estimated useful life and amortisation method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Software

Computer software licenses are capitalized based on the cost incurred to acquire the specific software and bring it into use. Amortisation is charged to the consolidated statement of comprehensive income on a straight line basis over the estimated useful life from the date the software is available for use.

Licence and frequency spectrum fees

Amortisation periods for licence and frequency spectrum fees are determined primarily by reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies. Amortisation is charged to the consolidated statement of of comprehensive income on a straight-line basis over the estimated useful lives when the related network services are available for use which is 10 to 30 years.

Indefeasible Rights of Use ("IRU")

IRUs correspond to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized at cost as an asset when the Group has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibres or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are amortized on a straight line basis over the shorter of the expected period of use and the life of the contract which ranges between 5 to 15 years.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or on 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 of comprehensive income.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that a non-financial asset (other than inventory) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Financial assets

Initial recognition and measurement

All of the Group's financial assets fall under the category of amortised cost which are measured at amortised cost using the EIR method less provision for impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed below in Revenue recognition policy.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

Financial assets at amortised cost (debt instruments) are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, murabaha deposits and cash and cash equivalents. Trade receivables arise through provision of goods and services to customers. Murabaha deposits consist of fixed deposits held with Group's bankers with maturities of more than 90 days but less than 365 days. Cash and cash equivalents consist of cash on hand, balances with banks and murabaha deposits with maturities of 90 days or less from the acquisition date.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(a) the rights to receive cash flows from the asset have expired; or

(b) the Company 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;

- the Company has transferred substantially all the risks and rewards of the asset; or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial and contract assets

The Group recognises an allowance for expected credit losses (ECLs) for all of its debt instruments not held at fair value through profit or loss and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there have been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For government, related parties and key private customers, the Group estimates the loss allowance based on the internal assessment to evaluate the collectability of the balances and such assessment is done based on the available information and negotiations underway. An estimate of the collectible amount is made when collection of the amount is no longer probable. For certain customer categories, this estimate is performed on an individual basis while other customer categories are assessed collectively and an allowance is applied according to the length of time past due.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within 'Share of profit of an associate' in the statement of income. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in of comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities are recognised initially at fair value and, in the case of Murabaha and Mudarabah facilities, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, Murabaha and Mudarabah facilities, lease liabilities and derivative financial instruments which are subsequently measured at amortised cost using the EIR method except for derivative financial instruments which are subsequently measured at fair value.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. 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 derecognition 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 of comprehensive income.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which is determined on the weighted average basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Where necessary, provision is made for obsolete and slow-moving inventories.

Foreign currency transactions and balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the date of the consolidated statement of financial position. Gains and losses arising on the settlement of foreign currency transactions, and unrealised gains and losses resulting from the translation of foreign currency denominated monetary balances to Bahraini Dinar are recorded in the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future and the amount of the obligations can be reliably estimated.

Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. In this case the Group does not recognize the contingent liabilities but discloses them in the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Revenue recognition

The Group recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15. Revenue is recognized based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or services to a customer.

The timing of revenue recognition is either at a point in time or over time depending upon the satisfaction of the performance obligation by transferring control of goods or services to the customer.

When there is a high degree of uncertainty about the possibility of collection from certain customers, the Group recognizes revenue only upon collection.

Telecommunication services

Telecommunication services include voice, data and text services. The Group recognises revenue as and when these services are provided (i.e. actual usage by the customer). The revenue for these services is reflected as mobile services revenue, enterprise & wholesale revenue, data subscription and transit revenues in note 19.

Handsets and other devices

The Group recognises revenue when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device. Further, any up front revenue more than the billing is recognised as unbilled instalments under trade and other receivables.

Information and Communication Technology ("ICT") revenue

ICT revenue includes sale of hardware and provision of services. Hardware revenue is recognised when delivered to the customer whereas service revenue is recognised based on percentage of completion as of reporting date.

Bundled packages

Arrangements involving multiple products and services are separated into individual items and revenue is recognised on the basis of fair value (stand-alone selling prices) of the individual items by allocating the total arrangement consideration to the individual items on the basis of the relative value of the selling prices of the individual items. Items are separable if they are of separate value to the customer.

Activation fees

Activation fees are amortised over the average customer life or contract period, as the case may be.

Termination penalty

Termination penalty is recognised as income when the consideration in cash is collected from the customer.

Principal vs agent

The Group has determined that for most of goods and services provided to the customer, it acts as a principal as it controls the goods and services before they are transferred to customers. However, the Group provides certain value added services in which it acts as an agent. In cases where Group acts as an agent, it only recognises its share of revenue.

Costs to obtain the contracts

The Group incurs incremental costs in acquiring contracts with customers which are deferred and amortized over the average customer life or contract period, as the case may be.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Contract balances

Contract assets

A contract asset is the Group's right to consideration in exchange for goods and services transferred by the Group to the customer. If the Group transfers goods or services to a customer before the customer pays any consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract costs

Contract costs relate to incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognized as an asset when:

- The costs relate directly to the contract (or to a specified anticipated contract);
- The costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- The costs are expected to be recovered.

Contract costs recognized by the Group are amortized on a systematic basis that is consistent with the Group's transfer of related goods or services to the customer.

Contract liabilities

A contract liability is recognized if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

Expenses

Expenses comprise cost of sales, general and administrative expenses and selling and distribution expenses. Cost of sales is expensed in the period in which the related revenue is recognised. General and administrative expenses and selling and distribution expenses are recognised in the period in which they are incurred.

Employee benefits

The Group provides end of service benefits to its non-Bahraini employees in accordance with the Bahraini Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over their period of employment.

The Group also makes contributions to the Social Insurance Organisation (SIO) and the Group's obligations are limited to these contributions, which are expensed when due.

Share-based payments

The Group's executive employees receive share based remuneration. Under the terms of the incentive program, eligible employees of the Group are entitled to receive Parent Company's shares. The cost of these equity settled transactions is determined by the fair value of 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 reserve within equity. 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 Company's best estimate of the number of shares that will ultimately vest. The expense or credit in the interim condensed consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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 recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

A hedging relationship qualifies for hedge accounting if it meets the effectiveness requirements. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income must be accounted for depending on the nature of the underlying transaction as described above.

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Determining the lease term of contracts with renewal and termination options – the Group as a lessee

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's lease contracts include extension and termination options. 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 circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

Determining the lease term of contracts with renewal and termination options – the Group as a lessee (continued)

The Group has not included optional renewal period in the lease term as it is not reasonably certain that the lease contract will be renewed after expiry of the original lease terms. Furthermore, the periods covered by termination options are included as part of the lease term as it is reasonably certain that termination option will not be exercised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Economic useful lives of intangible assets, property, plant and equipment and right-of-use assets

Intangible assets, property, plant and equipment and right-of-use assets are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of income in specific periods.

During the year ended 31 December 2022, management reviewed the useful life of its property, plant and equipment and intangibles resulting in a reduction in their useful lives. The review considered the usage since installation, current physical condition, expected recurring wear and tear, technological changes and overall market practices. The evaluation resulted in increase in depreciation expense by BD 2,482 thousand and increase in amortisation of intangible assets by BD 313 thousand and decrease in profit for the year by BD 2,795 thousand. In accordance with the requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this change in accounting estimated is accounted for prospectively.

Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer types).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the consumer sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward·looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future.

At 31 December 2022, gross trade receivables and contract assets were BD 66,514 thousand (2021: BD 57,125 thousand), and the allowance for expected credit losses of trade receivables was BD 16,527 thousand (2021: BD 14,394 thousand).

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete or if their selling prices have declined, an estimate is made of their net realisable values. For individually significant amounts this estimation is performed on an individual basis. Items 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.

At 31 December 2022, gross inventories were BD 7,616 thousand (2021: BD 4,218 thousand) with allowance for slow-moving and obsolete inventories of BD 438 thousand (2021: BD 381 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Impairment of intangible assets, property, plant and equipment and right-of-use assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Management does not believe there is any impairment of intangible assets, property, plant and equipment and right-of-use assets as of 31 December 2022 and 31 December 2021.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, 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 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.

4 PROPERTY, PLANT AND EQUIPMENT

	Freehold land BD '000	*Building BD '000*	*Furniture & Fixtures BD '000*	*Information Technology Equipment BD '000*	*Network Equipment BD '000*	*Total BD '000*
Cost						
At 31 December 2020	6,127	10,153	6,256	40,479	138,752	201,767
Additions during the year	-	20	161	749	2,876	3,806
Transferred from capital work-in-progress (Note 5)	-	11	338	1,698	9,918	11,965
Disposals	-	-	-	-	(40)	(40)
Written-off	-	-	-	(16)	(559)	(575)
At 31 December 2021	6,127	10,184	6,755	42,910	150,947	216,923
Additions during the year	-	-	166	1,338	5,028	6,532
Transferred from capital work-in-progress (Note 5)	-	8	112	5,077	1,680	6,877
Written-off	-	-	-	(40)	-	(40)
Disposals	-	-	(1)	(111)	(310)	(422)
At 31 December 2022	**6,127**	**10,192**	**7,032**	**49,174**	**157,345**	**229,870**

4 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land BD '000	*Building BD '000*	*Furniture & Fixtures BD '000*	*Information Technology Equipment BD '000*	*Network Equipment BD '000*	*Total BD '000*
Accumulated depreciation						
At 31 December 2020	-	3,524	5,304	33,598	89,081	131,507
Charge for the year	-	417	409	3,219	13,149	17,194
Disposals	-	-	-	-	(40)	(40)
Written-off	-	-	-	(16)	(559)	(575)
At 31 December 2021	-	3,941	5,713	36,801	101,631	148,086
Charge for the year	-	420	470	3,268	14,224	18,382
Written-off	-	-	-	(40)	-	(40)
Disposals	-	-	-	(111)	(292)	(403)
At 31 December 2022	-	4,361	6,183	39,918	115,563	166,025
Net book value						
At 31 December 2022	**6,127**	**5,831**	**849**	**9,256**	**41,782**	**63,845**
At 31 December 2021	6,127	6,243	1,042	6,109	49,316	68,837

*During the year ended 31 December 2022, management reviewed the useful life of its property, plant and equipment. The evalution resulted in increase in depreciation expense by BD 2,482 thousand (refer note 3).

5 CAPITAL WORK-IN-PROGRESS

	2022	*2021*
	BD '000	*BD '000*
Opening balance	**13,360**	12,426
Additions during the year	**61,882**	12,899
Transferred to property, plant and equipment (Note 4)	**(6,877)**	(11,965)
Closing balance	**68,365**	13,360

Capital work-in-progress represents amounts incurred towards infrastructure and other network development costs.

6 INTANGIBLE ASSETS

	Mobile license & spectrum fees	*Other intangible assets*	*Total*
	BD '000	*BD '000*	*BD '000*
Cost			
At 31 December 2020	110,063	18,251	128,314
Additions during the year	-	777	777
At 31 December 2021	110,063	19,028	129,091
Additions during the year	-	246	246
At 31 December 2022	**110,063**	**19,274**	**129,337**
Accumulated amortisation			
At 31 December 2020	39,451	3,428	42,879
Amortisation for the year	4,261	1,604	5,865
At 31 December 2021	43,712	5,032	48,744
Amortisation for the year	4,261	2,088	6,349
At 31 December 2022	**47,973**	**7,120**	**55,093**
Net carrying value			
At 31 December 2022	**62,090**	**12,154**	**74,244**
At 31 December 2021	66,351	13,996	80,347

License fees represent the amount paid to the Telecommunication Regulatory Authority ("the TRA") to obtain a mobile operating license in the Kingdom of Bahrain. The license was issued on 1 March 2009 and is valid for twenty five years up to 2034, renewable after fifteen years at the option of the Group subject to compliance with regulatory requirements. During 2013, the Group was awarded an additional spectrum and extension of the original mobile license by the TRA to be valid until 2038. Furthermore, the Group entered into an agreement with the TRA for an additional spectrum, required to introduce additional products and services, which was awarded during 2019 and is valid until 2034.

Other intangible assets include contractual intangible assets such as indefeasible rights of use (IRU) and other IT licenses.

*During the year ended 31 December 2022, management reviewed the useful life of intangible assets. The evalution resulted in increase in amortisation expense by BD 313 thousand (refer note 3).

7 RIGHT-OF-USE ASSETS

	GSM sites	*Retail outlets*	*IP transit*	*Car park rentals and others*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cost					
As at 1 January 2021	36,835	2,004	6,203	1,142	46,184
Additions / renewals	3,265	408	-	16	3,689
Termination	(499)	-	-	-	(499)
Amendments / adjustments	315	46	-	-	361
As at 31 December 2021	39,916	2,458	6,203	1,158	49,735
Additions / renewals	2,304	181	2,613	-	5,098
Termination	-	(116)	-	-	(116)
Amendments / adjustments	10	(49)	-	-	(39)
Balance at 31 December 2022	**42,230**	**2,474**	**8,816**	**1,158**	**54,678**
Accumulated depreciation					
As at 1 January 2021	12,437	1,338	4,202	883	18,860
Charge for the year	3,744	468	1,288	129	5,629
Balance at 31 December 2021	16,181	1,806	5,490	1,012	24,489
Charge for the year	3,845	362	1,296	121	5,624
Balance at 31 December 2022	**20,026**	**2,168**	**6,786**	**1,133**	**30,113**
Net carrying value at 31 December 2022	**22,204**	**306**	**2,030**	**25**	**24,565**
31 December 2021	23,735	652	713	146	25,246

8 INVESTMENT IN AN ASSOCIATE

The Group acquired 10% ownership in STC GCC Cable Systems W.L.L., an entity incorporated in the Kingdom of Bahrain and established to engage in sale and installation of telecommunications equipment and construction of utility projects.

By virtue of the Group's shareholding, representation on the investee's board of directors and participation in its policy making process, management concluded that the Group has significant influence over the investee. Accordingly, the Group has classified the investee as an associate.

The associate has not commenced commercial operations during the year. The summarised financial information of the associate as of 31 December 2022 is as follows:

8 INVESTMENT IN AN ASSOCIATE (continued)

Statement of financial position:	***2022 BD '000***	*2021 BD '000*
Non-current asset		
Capital work-in-progress	**14,979**	13,098
Current asset		
Bank balance	**19,448**	5,755
Current liabilities		
Advance from a customer	**(2,036)**	-
Accruals	**(7)**	-
Equity	**32,384**	18,853
The Group's share in equity - 10% and the Group's carrying amount of the investment	**3,238**	1,885

Statement of profit or loss:	***2022 BD '000***	*2021 BD '000*
Income	**332**	-
Expense	**(5)**	-
Profit for the year	**327**	-
The Group's share of profit - 10%	**33**	-

During the year ended 31 December 2022, the Group made additional investment of BD 1,320 thousand in the associate (2021: BD 1,885 thousand). The Group's share of capital commitments of the associate as of 31 December 2022 amounted to BD 3,731 thousand (31 December 2021: BD 3,919 thousand).

9 INVENTORIES

	2022 BD '000	*2021 BD '000*
Inventories	**7,616**	4,218
Allowance for slow-moving and obsolete inventories	**(438)**	(381)
	7,178	3,837

The inventories represent handsets, accessories, routers and SIM cards used in sales and promotions.

The movement in provision for slow-moving inventories is as follows:

	2022 BD '000	*2021 BD '000*
Opening balance	**381**	250
Provision made during the year	**57**	131
Closing balance	**438**	381

10 TRADE AND OTHER RECEIVABLES

	2022	*2021*
	BD '000	*BD '000*
Trade receivables	**44,946**	39,178
Unbilled instalments (note 19 - contract assets)	**21,568**	17,947
Allowance for expected credit losses	**(16,527)**	(14,394)
	49,987	42,731
Prepayments and other receivables	**4,407**	3,114
Advances to suppliers	**4,714**	2,831
Cost to obtain a contract (note 19)	**13,799**	10,153
Amortisation of cost to obtain a contract	**(11,570)**	(8,602)
	61,337	50,227
Less: Non-current portion	**(4,980)**	(4,352)
	56,357	45,875

Trade receivables are generally on 30 days' credit terms.

Unbilled instalments consist of the amount to be billed to customers in accordance with the terms of contracts.

For trade receivables (excluding wholesale receivables), the Group has applied the simplified approach under IFRS 9 to measure the expected credit loss (“ECL”) based on the lifetime expected loss. To calculate ECL, the Group measures the expected credit loss (“ECL”) based on the Probability of Default (“PD”) over the next 12 months and on historical Loss Given Default (“LGD”) arrived at after deducting Recovery Rate. The historical loss rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has applied an economic adjustment by using GDP growth as the relevant factor. The allowance for expect credit losses as at 31 December 2022 for trade receivables (excluding wholesale receivables) amounted to BD 16,238 thousand (2021: BD 12,514 thousand).

For wholesale receivables, the Group has calculated credit risk at a counterparty level. For wholesale receivables, the balances are settled on a net basis and can vary from month to month depending on the inbound and outbound traffic. At 31 December 2022, the allowance for expected credit losses for wholesale receivables amounted to BD 289 thousand (2021: BD 1,880 thousand).

The Group also has receivables due from the Government where the likelihood of sovereign default is remote unless there is a bill dispute raised by them.

The movement in the allowance for expected credit losses is as follows:

	2022	*2021*
	BD '000	*BD '000*
Opening balance	**14,394**	12,504
Provision made during the year	**2,175**	1,890
Bad debts written off	**(42)**	-
Closing balance	**16,527**	14,394

10 TRADE AND OTHER RECEIVABLES (continued)

Set out below is information about the credit risk exposure of the Group's trade receivables and unbilled instalments:

i) Retail and other receivables

	31 December 2022			*31 December 2021*		
	Gross BD '000	***Allowance for ECL BD '000***	***ECL Rate***	*Gross BD '000*	*Allowance for ECL BD '000*	*ECL Rate*
Not past due	**27,204**	**(877)**	**3.2%**	23,120	(716)	3.1%
Past due:						
1-30 days	**2,110**	**(15)**	**0.7%**	1,693	(19)	1.1%
31-90 days	**1,368**	**(8)**	**0.6%**	773	(9)	1.2%
91-150 days	**2,266**	**(331)**	**14.6%**	1,143	(244)	21.3%
151-365 days	**2,385**	**(688)**	**28.8%**	1,502	(597)	39.7%
>365 days	**13,950**	**(12,197)**	**87.4%**	13,047	(10,902)	83.6%
	49,283	**(14,116)**	**28.6%**	41,278	(12,487)	30.3%

ii) Wholesale and ICT project receivables

	31 December 2022			*31 December 2021*		
	Gross BD '000	***Allowance for ECL BD '000***	***ECL Rate***	*Gross BD '000*	*Allowance for ECL BD '000*	*ECL Rate*
Not past due	**6,490**	**-**	**0.0%**	2,492	-	0.0%
Past due:						
1-30 days	**878**	**-**	**0.0%**	3,850	-	0.0%
31-90 days	**1,797**	**-**	**0.0%**	2,620	-	0.0%
91-150 days	**1,752**	**-**	**0.0%**	1,243	-	0.0%
151-365 days	**1,338**	**-**	**0.0%**	2,888	-	0.0%
>365 days	**4,976**	**(2,411)**	**48.5%**	2,754	(1,907)	69.2%
Total	**66,514**	**(16,527)**	**24.8%**	57,125	(14,394)	25.2%

11 CASH AND CASH EQUIVALENTS

	2022 BD '000	*2021 BD '000*
Savings and call account balances with banks	**8,416**	24,062
Current account balances with banks	**3,295**	4,393
Cash on hand and in transit	**2,608**	2,143
	14,319	30,598

The savings and call accounts bear profit rates up to 3.35% (2021: up to 3.35%) and the current account balances with banks are non-profit bearing.

12 MURABAHA DEPOSITS

As of 31 December 2021, the deposits were held with financial institutions in the Kingdom of Bahrain and were denominated in Bahraini Dinars. The maturity dates of these deposits ranged between March 2022 to September 2022 and carried profit rates ranging between 2.3% to 3.1%.

13 SHARE CAPITAL

	2022 ***BD '000***	*2021* *BD '000*
Authorised		
2,000,000,000 Ordinary shares with a nominal value of 100 fils each	**200,000**	200,000
Issued and fully paid-up		
750,000,000 Ordinary shares with a nominal value of 100 fils each	**75,000**	75,000

The Company's shareholding as of 31 December 2022 and 31 December 2021 are as follows:

	Number of shares	*Share Capital*	*Percentage of ownership interest*
Saudi Telecom Company	742,500	74,250	99%
stc Investment Holding (wholly owned subsidiary of Saudi Telecom Company)	7,500	750	1%
	750,000	**75,000**	100%

14 STATUTORY RESERVE

Under the provision of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Group's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time a minimum of 50% of the issued share capital is set aside. During the year, BD 862 thousand has been transferred to the statutory reserve (2021: BD 1,109 thousand). The reserve can not be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahraini Commercial Companies Law.

15 MURABAHA AND MUDARABAH FACILITIES

	Last instalment	*Note*	***2022*** ***BD '000***	*2021* *BD '000*
Murabaha facilities				
Murabaha facility	*August 2026*	*(a)*	**69,968**	69,968
Mudarabah facilities				
Al Salam Bank	*May 2026*	*(b)*	**1,406**	1,723
			71,374	71,691
Current portion of Murabaha and Mudarabah facilities			**(333)**	(308)
Non-current portion of Murabaha and Mudarabah facilities			**71,041**	71,383

15 MURABAHA AND MUDARABAH FACILITIES (continued)

a) The Group entered into a financing arrangement, for an unsecured Murabaha facility of BD 70.1 million (USD 186 million) (2021: BD 70.1 million (USD 186 million)) with its bankers during the year ended 31 December 2022. The facility ranks pari-passu with the claims of other unsecured and unsubordinated creditors of the Group. The Parent Company has provided a corporate guarantee to lenders in respect of this facility (note 24). The facility is repayable in a single instalment due in August 2026. This facility carries profit rate at 6 months LIBOR plus 0.75% margin (2021: carries profit rate at 6 months LIBOR plus 0.75% margin).

b) During 2018, the Group had entered into a financing arrangement for an unsecured Mudarabah facility of BD 2.5 million with Al Salam Bank over a tenure of 7 years ending in November 2025. During the period ended 30 September 2020, repayment of 6 months' instalments were postponed and the revised final settlement was agreed to be in May 2026. The facility ranks pari passu with the claims of other unsecured and unsubordinated creditors of the Group. This arrangement has been facilitated by Tamkeen which bears a portion of the profit rate. This facility carries annual profit rate at 2.1%.

16 LEASE LIABILITIES

Set out below are the carrying amounts of lease liabilities and the movements during the year.

	2022 BD '000	*2021 BD '000*
As at 1 January	**34,719**	35,829
Additions - net	**4,943**	3,551
Accretion of interest (note 23)	**843**	948
Payments	**(5,668)**	(5,609)
As at 31 December	**34,837**	34,719

	2022 BD	*2021 BD*
Lease liabilities	**34,837**	34,719
Less: Current lease liabilities*	**(15,771)**	(14,740)
Non-current lease liabilities	**19,066**	19,979

*The current lease liabilities include amounts due but not paid to the parent company in respect of the IP transit rentals amounting to BD 6,436 thousand (2021: BD 5,588 thousand) (Note 24).

	2022 BD '000	*2021 BD '000*
Maturity analysis - contractual undiscounted cash flows		
Less than one year	**16,352**	15,261
One to five years	**15,622**	14,594
More than five years	**5,395**	8,055
Total undiscounted lease liabilities	**37,369**	37,910

17 EMPLOYEES' END OF SERVICE BENEFITS

Local employees

The contributions made by the Group towards the pension scheme for Bahraini nationals administered by the Social Insurance Organization in the Kingdom of Bahrain for the year ended 31 December 2022 amounted to BD 520 thousand (2021: BD 451 thousand).

Expatriate employees

Movements in the provision for end of service benefits during the year are as follows:

	2022 ***BD '000***	*2021* *BD '000*
Balance at the beginning of the year	**1,752**	1,499
Provided during the year	**437**	407
End of service benefits paid	**(145)**	(154)
Balance at the end of the year	**2,044**	1,752

18 TRADE AND OTHER PAYABLES

	2022 ***BD '000***	*2021* *BD '000*
Trade payables	**12,798**	8,756
Accrued operating expenses	**20,226**	21,398
Unearned revenue (Note 19 - contract liabilities)	**1,520**	4,008
Capital expenditures payable to contractors	**35,237**	7,428
Post-paid subscription received in advance	**6,771**	5,260
Staff accruals	**1,848**	1,480
	78,400	48,330
Less: Non-current portion	**(11,016)**	(2,966)
	67,384	45,364

19 REVENUE

	2022 ***BD '000***	*2021* *BD '000*
Mobile services revenue	**52,607**	51,357
Enterprise & wholesale revenue	**38,178**	33,084
Data subscription	**17,803**	19,689
Handsets and other devices	**25,125**	26,025
Transit revenues	**38,632**	29,869
ICT revenue	**7,249**	8,202
	179,594	168,226

19 REVENUE (continued)

	2022	*2021*
	BD '000	*BD '000*
Timing of revenue recognition		
Products and services transferred at a point in time	**25,125**	26,025
Products and services transferred over time	**154,469**	142,201
	179,594	168,226

The Group's revenue is substantially generated within the Kingdom of Bahrain.

Contract assets and contract liabilities

Contract assets primarily relate to work completed but not billed at the reporting date in relation to mobile services, data subscription and handsets and other devices. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities primarily relate to advances received from customers for which revenue is recognised on completion of the contract obligation.

The Group expects to recognise revenue related to the contract liabilities within one year from the reporting date (2021: within one year). Revenue recognised that was included in the contract liabilities at the beginning of the year amounting to BD 9,268 thousand (2021: BD 3,377 thousand).

Transaction price allocated to the remaining performance obligations:

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date.

	2022	*2021*
	BD '000	*BD '000*
Pre-paid revenue	**1,520**	4,008
Post-paid revenue	**6,771**	5,260
	8,291	9,268

Cost to obtain a contract

Management expects that the incremental costs incurred to obtain customer contracts are recoverable. The Group has therefore capitalised them as contract costs in the amount BD 13,799 thousand (2021: BD 10,153 thousand).

The contract costs are amortised over average customer life or contract period. During the year ended 31 December 2022, the amount of amortisation was BD 2,968 thousand (2021: BD 2,189 thousand) and there was no impairment loss in relation to the costs capitalised.

20 COST OF SALES

	2022	*2021*
	BD '000	*BD '000*
Interconnection and roaming costs	**48,618**	37,208
Handsets and SIM card starter packs	**24,473**	24,816
Leased lines	**14,368**	13,781
ICT costs	**3,773**	4,870
Content and Value Added Services (VAS)	**2,309**	2,583
	93,541	83,258

21 GENERAL AND ADMINISTRATION EXPENSES

	2022	*2021*
	BD '000	*BD '000*
Staff expenses	**15,814**	15,098
Managed services and outsourcing expenses	**7,010**	9,015
TRA fees	**3,214**	3,074
Maintenance costs	**4,664**	3,470
Allowance for expected credit losses for trade receivables - net	**1,986**	1,890
Consultancy and professional charges	**1,710**	1,084
Billing and collection activities	**1,477**	1,424
Corporate social responsibility	**1,101**	1,059
Utilities, rent of equipment, properties and motor vehicles	**1,055**	758
Advertising expenses	**681**	1,731
Training, travel and hospitality expenses	**502**	239
Allowance for slow-moving and obsolete inventories (note 9)	**57**	131
	39,271	38,973

22 SELLING AND DISTRIBUTION EXPENSES

	2022	*2021*
	BD '000	*BD '000*
Recharge distribution discount	**1,137**	1,227
Sales activation and commission expenses	**483**	817
Promotional expenses	**957**	403
	2,577	2,447

23 FINANCE COST

	2022	*2021*
	BD '000	*BD '000*
Profit on Murabaha and Mudarabah facilities	**1,915**	1,292
Interest on lease liabilities (note 16)	**843**	948
Amortisation of transaction cost	**35**	199
	2,793	2,439

24 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, parent company, shareholders, associate, directors and executive management of the Group and businesses under their control. The Group's transactions with related parties are approved by the management.

24 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

A summary of related party transactions is as follows:

Transaction type	*Name of the related party*	*Nature of relationship*	***2022 BD '000***	*2021 BD '000*
Trade revenue	stc Kingdom of Saudi Arabia	Parent company	**19,394**	12,437
Trade expenses	stc Kingdom of Saudi Arabia	Parent company	**12,863**	10,838
Trade expenses	Bahrain Channels	Entity under common control	**4,536**	3,842
Trade revenue	stc Kuwait	Entity under common control	**754**	1,431
Trade expenses	stc Kuwait	Entity under common control	**642**	264
Staff and administration costs	stc Kingdom of Saudi Arabia	Parent company	**221**	519
Staff and administration costs	Bahrain Channels	Entity under common control	**1,231**	1,258
Trade expenses	Gulf Digital Media Model Company	Entity under common control	**565**	-
Trade revenue	Solutions by stc	Entity under common control	**239**	-
Trade expenses	Solutions by stc	Entity under common control	**73**	-

	2022 BD '000	*2021 BD '000*
Key management personnel*		
Short-term benefits and remunerations	**2,500**	2,433
Shared-based payments**	**235**	125
Provision for leaves and end of service benefits	**118**	62
	2,853	2,620

* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This includes BD 160 thousand (2021: BD 149 thousand) of Board remuneration in the form of annual compensation, attendance allowances for board meetings and related travel expenses.

** The Group's executive employees receive share based remuneration. Under the terms of the incentive program, eligible employees of the Group are entitled to receive Parent Company's shares.

Balances of the related parties included in the consolidated statement of financial position as at 31 December 2022 and as at 31 December 2021 are as follows:

	2022 BD '000	*2021 BD '000*
Amounts due from related parties		
Amounts due from Parent Company, net*	**7,516**	1,459
Amounts due from stc Kuwait, net	**1,850**	1,737
Amounts due from Bahrain Channels, net	**2,470**	1,048
Amounts due from Solutions by stc, net	**166**	-
	12,002	4,244

24 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Amounts due to related parties		
Amounts due to Gulf Digital Media Model Company, net	**565**	-

The amounts due from related parties are non-profit bearing and arise from transactions in the normal course of business.

*In addition to the above related party balances, amounts due but not paid to the parent company in respect of the IP transit rentals as of 31 December 2022 amounted to BD 6,436 thousand (2021: BD 5,588 thousand) are included in current lease liabilities (Note 16).

The Parent Company has provided corporate guarantee in respect of a Murabaha facility [note 15 (a)].

25 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2022	*2021*
Net profit attributable to the shareholders (BD '000)	**8,617**	11,090
Number of ordinary shares issued	**750,000**	750,000
Basic earnings per share	**11.489 fils**	14.787 fils

There are no potentially dilutive ordinary shares at 31 December 2022 (2021: nil).

26 COMMITMENTS

a) Capital commitments
The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to BD 14,821 thousand as at 31 December 2022 (2021: BD 8,380 thousand).

b) Letter of credit commitments
Letters of credit other than for capital expenditure at the end of the year amounted to BD 3,016 thousand (2021: BD 4,902 thousand).

c) Information and Communications Technology (ICT) Investment Licensing Commitment
As of 31 December 2022, as part of mobile operating licensing condition, the Group is required to establish an ICT Fund amounting to USD 300 million (BD 113,117 thousand) (2021: USD 300 million (BD 113,117 thousand)). As of 31 December 2022, the Group has established fund amounting to USD 85 million (BD 32,050 thousand) (2021: USD 50 million (BD 18,853 thousand)) (note 8). There is no specific timeline set by the regulator for establishment of the fund. Management believes that the above mentioned commitment has no impact on the consolidated financial statements of the Group for the year ended 31 December 2022.

27 CONTINGENT LIABILITIES

Bank guarantees

Guarantees have been issued by banks on behalf of the Group in the normal course of business aggregating to BD 993 thousand (2021: BD 8,107 thousand).

28 RISK MANAGEMENT

The main risks arising from the Group's financial instruments are credit, liquidity and profit rate risks. The Company's Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables and amounts due from related parties. There is no significant concentration of trade receivables due to the Company's diversified customer base. With respect to bank balances, the Group seeks to limit its credit risk by dealing with reputable financial institutions. For balances due from related parties, the Group has not experienced any default historically and forward looking factors do not indicate any default. The risk management policy relating to trade receivables is provided in Note 10.

Profit rate risk

Profit rate risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in market profit rates. The Group's Murabaha facilities bear profit rates which are linked to BIBOR and LIBOR which fluctuates frequently. Also, the Group earns profit on saving and call accounts balances with banks based on variable rates. In the opinion of the management, there is no significant profit rate risk on Group's other assets and liabilities.

		Impact on equity/profit	
Description	*Change*	***2022 BD '000***	*2021 BD '000*
Saving and call account balance with banks	+/-0.50%	**+/- 42**	+/- 120
Murabaha and Mudaraba facilities	+/-0.50%	**+/- 357**	+/- 358

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Group limits its liquidity risk by monitoring the liquidity requirements on a regular basis to help ensure that sufficient funds are available to meet all liabilities as and when they fall due. The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market profit rates. The maturity analysis of lease liabilities is disclosed in note 16.

2022	***Less than 3 months BD '000***	***3 to 12 months BD '000***	***1 to 2 years BD '000***	***2 to 5 years BD '000***	***More than 5 years BD '000***	***Total BD '000***
Murabaha and Mudaraba facilities	**903**	**2,713**	**3,635**	**76,092**	**-**	**83,343**
Trade payables	**-**	**12,798**	**-**	**-**	**-**	**12,798**
	903	**15,511**	**3,635**	**76,092**	**-**	**96,141**

28 RISK MANAGEMENT (continued)

Liquidity risk (continued)

2021	*Less than 3 months BD '000*	*3 to 12 months BD '000*	*1 to 2 years BD '000*	*2 to 5 years BD '000*	*More than 5 years BD '000*	*Total BD '000*
Derivatives at fair value	-	68	-	-	-	68
Murabaha and Mudaraba facilities	251	757	1,025	72,908	-	74,941
Trade payables	-	8,756	-	-	-	8,756
	251	9,581	1,025	72,908	-	83,765

Changes in liabilities arising from financing activities

	As at 1 January 2022 BD '000	***Receipts BD '000***	***Payments BD '000***	***Interest accretion BD '000***	***Others BD '000***	***As at 31 December 2022 BD '000***
Murabaha and Mudaraba facilities	**71,691**	**-**	**(352)**	**-**	**35**	**71,374**
Lease liabilities	**34,719**	**-**	**(5,668)**	**843**	**4,943**	**34,837**
	106,410	**-**	**(6,020)**	**843**	**4,978**	**106,211**

	As at 1 January 2021 BD '000	*Receipts BD '000*	*Payments BD '000*	*Interest accretion BD '000*	*Others BD '000*	*As at 31 December 2021 BD '000*
Murabaha and Mudaraba facilities	55,444	70,131	(54,083)	-	199	71,691
Lease liabilities	35,829	-	(5,610)	949	3,551	34,719
	91,273	70,131	(59,693)	949	3,750	106,410

Others include transaction cost related to Murabaha and Mudarabah facilities and additions/ terminations of lease liabilities.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's major transactions are carried out in Bahraini Dinars and United States Dollar. The Bahraini Dinar is effectively pegged to the United States Dollar and therefore the management considers the currency rate risk as minimal with respect to the United States Dollar. Further, the Group's finance department constantly monitors the fluctuations in foreign currencies and minimises the exposure to foreign currencies.

28 RISK MANAGEMENT (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital base in order to support its business and maximise shareholder's value. The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. Equity comprises share capital, statutory reserve, other reserve and retained earnings, and is measured at BD 141,873 thousand as at 31 December 2022 (2021: BD 133,021 thousand).

29 FAIR VALUE MEASUREMENT

Fair value is the amount 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. Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

The Group's derivative financial instruments are measured at fair value using interest rate curve which falls under level 2 hierarchy. In the opinion of management, the fair values of other financial instruments are not materially different from their carrying values at the statement of financial position date.

30 EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

The Company has included EBITDA a voluntary disclosure because management believes that the measure provides useful information regarding the Company's ability to service debt and to fund capital expenditures and compare its operating performance with that of other companies.