stc Bahrain B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

stc Bahrain B.S.C. (c)

Contents of the Consolidated Financial Statements for the year ended 31 December 2020

stc Bahrain B.S.C. (c)

Administration and contact details as at 31 December 2020

Commercial registration no.	71117 obtained on 1 March 2009
Directors	Mohammed Al Hakbani - Chairman Dr. Abdullah Al Abdulqader Dr. Yahya Al Jaber Moaeed H. Al Yami Abdulaziz Al Ghamdi Abdullah Al Owini
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 Gulf Finance House Khaleeji Commercial Bank
Auditors	EY 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 2020.

Principal activities and review of business developments:

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

Dividend

The Board of Directors did not propose to pay dividend to the shareholders for the year ended 31 December 2020 (2019: BD nil). The proposed dividend only becomes payable once it has been approved by the shareholders in the Annual General Meeting.

Directors

The following are the serving directors of the Group as on 31 December 2020:

1) Mohammed Al Hakbani - Chairman
2) Dr. Abdullah Al Abdulqader
3) Dr. Yahya Al Jaber
4) Moaeed H. Al Yami
5) Abdulaziz Al Ghamdi
6) Abdullah Al Owini

Representation and audit

The Group’s activities for the year ended 31 December 2020 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 auditors, EY.

Chairman

Director

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	**2020 BD**	*2019 BD*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**70,260,643**	74,694,844
Capital work-in-progress	5	**12,426,187**	4,442,936
Intangible assets	6	**85,434,429**	87,505,258
Non-current portion of trade and other receivables	9	**3,850,595**	5,382,368
Right-of-use assets	7	**27,324,509**	20,690,821
		199,296,363	192,716,227
Current assets			
Inventories	8	**5,352,036**	7,482,186
Trade and other receivables	9	**40,829,311**	42,317,342
Murabaha deposits		**-**	8,000,000
Amounts due from related parties	22	**5,570,487**	4,606,121
Cash and cash equivalents	10	**19,441,611**	20,470,121
		71,193,445	82,875,770
TOTAL ASSETS		**270,489,808**	275,591,997
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**75,000,000**	75,000,000
Statutory reserve	12	**9,220,949**	8,204,406
Cash flow hedge reserve	13	**-**	(182,911)
Retained earnings		**37,584,542**	28,435,655
Total equity		**121,805,491**	111,457,150
Non-current liabilities			
Derivatives at fair value	13	**236,359**	185,928
Non-current portion of Murabaha and Mudarabah facilities	14	**27,248,386**	55,287,203
Non-current portion of lease liabilities	15	**21,428,748**	15,547,759
Non current portion of trade and other payables	17	**5,233,154**	8,891,100
Employees' end of service benefits	16	**1,498,511**	1,203,825
		55,645,158	81,115,815
Current liabilities			
Derivatives at fair value	13	**261,926**	124,958
Current portion of Murabaha and Mudarabah facilities	14	**28,194,990**	28,243,076
Current portion of lease liabilities	15	**14,400,161**	11,261,902
Amounts due to related parties	22	**-**	1,057,563
Trade and other payables	17	**50,182,082**	42,331,533
		93,039,159	83,019,032
Total liabilities		**148,684,317**	164,134,847
TOTAL EQUITY AND LIABILITIES		**270,489,808**	275,591,997

Chairman

Director

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

	Notes	***2020*** ***BD***	*2019* *BD*
Revenue	18	**167,040,221**	156,218,326
Cost of sales	19	**(81,581,130)**	(68,126,353)
GROSS PROFIT		**85,459,091**	88,091,973
General and administrative expenses	20	**(39,641,137)**	(40,236,594)
Selling and distribution expenses	21	**(3,139,062)**	(4,208,512)
Amortisation of intangible assets	6	**(5,836,791)**	(4,758,742)
Amortisation of cost to obtain a contract		**(2,215,127)**	(2,335,070)
Amortisation of right-of-use assets	7	**(6,069,088)**	(6,019,314)
Depreciation	4	**(15,425,821)**	(15,571,343)
PROFIT FROM OPERATIONS		**13,132,065**	14,962,398
Finance cost		**(3,139,490)**	(4,430,351)
Fair value gain on derivatives	13	**102,408**	60,123
Recycling of loss on cash flow hedge to the statement of income		**(472,718)**	-
Profit on Murabaha deposits and saving accounts		**561,002**	796,453
Foreign exchange and other losses		**(17,837)**	(26,359)
PROFIT FOR THE YEAR		**10,165,430**	11,362,264
Earnings before interest, tax depreciation and amortisation		**42,678,892**	43,646,867
Basic and diluted earnings per share	23	**13.554 fils**	15.150 fils

Chairman

Director

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	*2019*
	BD	*BD*
PROFIT FOR THE YEAR	**10,165,430**	11,362,264
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to the consolidated statement of income in subsequent periods:		
Net movement in cash flow hedges	**(289,807)**	(182,911)
Recycling of loss on cash flow hedge to statement of income	**472,718**	-
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**182,911**	(182,911)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**10,348,341**	11,179,353

Chairman

Director

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital BD	*Statutory reserve BD*	*Cash flow hedge reserve BD*	*Retained earnings BD*	*Total equity BD*
At 31 December 2018	75,000,000	7,068,180	-	18,209,617	100,277,797
Total comprehensive income for the year	-	-	(182,911)	11,362,264	11,179,353
Transferred to statutory reserve	-	1,136,226	-	(1,136,226)	-
At 31 December 2019	75,000,000	8,204,406	(182,911)	28,435,655	111,457,150
Total comprehensive income for the year	-	-	182,911	10,165,430	10,348,341
Transferred to statutory reserve	-	1,016,543	-	(1,016,543)	-
At 31 December 2020	**75,000,000**	**9,220,949**	**-**	**37,584,542**	**121,805,491**

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020** **BD**	*2019* *BD*
OPERATING ACTIVITIES			
Profit for the year		**10,165,430**	11,362,264
Adjustments for:			
Depreciation	4	**15,425,821**	15,571,343
Amortisation of intangible assets	6	**5,836,791**	4,758,742
Amortisation of cost to right-of-use assets	7	**6,069,088**	6,019,314
Amortisation of cost to obtain a contract		**2,215,127**	2,335,070
Amortisation of transaction cost on murabaha and mudarabah facilities		**127,788**	93,715
Provision for employees' end of service benefits	16	**383,877**	313,223
Gain on disposal of property, plant and equipment		**-**	(10,918)
Finance costs		**3,139,490**	4,430,351
Fair value gain on derivatives	13	**(102,408)**	(60,123)
Recycling of loss on cash flow hedge to statement of income		**472,718**	-
Provision for slow-moving inventories	8	**61,053**	71,699
Provision for expected credit losses	9	**2,035,574**	1,246,852
Operating profit before changes in working capital		**45,830,349**	46,131,532
Working capital changes:			
Inventories		**2,069,097**	(2,083,750)
Trade and other receivables		**(1,230,897)**	(9,223,614)
Trade and other payables		**4,463,327**	11,786,337
Employees' end of service benefits paid	16	**(89,191)**	(187,157)
Amounts due from related parties		**(964,366)**	(4,114,697)
Amounts due to related parties		**(1,057,563)**	(3,115,182)
Net cash flows from operating activities		**49,020,756**	39,193,469
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	**(4,224,081)**	(2,989,370)
Murabaha deposits		**8,000,000**	(5,500,000)
Additions to capital work-in-progress	5	**(14,750,790)**	(13,704,427)
Proceeds from disposal of property, plant and equipment		**-**	22,060
Additions in intangible assets	6	**(3,765,962)**	(15,059,907)
Net cash flows used in investing activities		**(14,740,833)**	(37,231,644)
FINANCING ACTIVITIES			
Principal repayments of lease liabilities		**(3,683,528)**	(2,243,448)
Proceeds from Murabaha and Mudarabah facilities		**-**	26,393,500
Repayments of Murabaha and Mudarabah facilities		**(28,214,691)**	(11,627,736)
Finance costs paid		**(3,410,214)**	(4,711,166)
Net cash flows (used in) from financing activities		**(35,308,433)**	7,811,150
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(1,028,510)**	9,772,975
Cash and cash equivalents at 1 January		**20,470,121**	10,697,146
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	10	**19,441,611**	20,470,121

Non-cash transaction

Movements in unpaid finance costs of BD 270,724 (2019: BD 280,815) have been excluded from the movement of trade and other payables.

The attached notes 1 to 28 form part of these consolidated financial statements.

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, Commerce and Tourism in the Kingdom of Bahrain and operates under commercial registration number 71117 obtained on 1 March 2009. The registered office of the Company is in the 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") which is also the ultimate controlling entity incorporated in the Kingdom of Saudi Arabia.

The consolidated financial statements were authorised for issue by the Board of Directors on …………… 2021.

The Group comprises of the Company and its following subsidiaries:

		Ownership interest		
Relationship / name	***Country of incorporation***	***31 December 2020***	***31 December 2019***	***Principal activities***
Subsidiaries				
Mena Telecom W.L.L. (CR - 51486)	Kingdom of Bahrain	100%	100%	Provision of wireless telephony services, value added and other telecommunication services to local and international customers.
Viva Tech S.P.C. (CR -117921-1)	Kingdom of Bahrain	100%	100%	Selling and buying shares and securities for company's account only.

VIVA Tech S.P.C. owns 0.1% shares of Mena Telecom as a nominee, on behalf of and for the beneficial interest of STC.

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 which is the functional currency of the Group.

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 2020. 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
- The ability to use its power over the investee to affect its returns

2.3 Impact of Coronavirus (COVID-19)

2.3.1 Novel Coronavirus (COVID-19)

The Group’s operations and financial results have not been significantly impacted by the COVID-19 outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in the telecom sector. However, the outbreak of COVID-19 continues to progress and evolve. The extent and duration of the outbreak and its related impact remain uncertain and dependent on future developments that cannot be accurately predicted at the date of approval of these consolidated financial statements for the year ended ended 31 December 2020. Such uncertainties include transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. These developments could impact the Group's financial results, cash flows and financial condition going forward and the Group continues to monitor the impact of this pandemic on its business and financial results.

2.3.2 Expected credit losses

For the year ended 31 December 2020, management has updated the assumption of the GDP growth rate, a macroeconomic indicator used within the expected credit loss (“ECL”) model. The GDP growth rate is one of the assumptions used in determining the probability of default (PD) rates to calculate the ECL of the Group’s trade receivables. The management used the updated IMF GDP forecasts for the year to reflect the impact of COVID-19.

2.3.3 Government grants

As part of the stimulus package announced by the Government of Bahrain to counter the effects of COVID-19, the Group received government grants in respect of salaries of Bahraini employees amounting to BD 793,019 during the year ended ended 31 December 2020 (2019: nil) which were netted off against staff expenses included under general and administrative expenses.

2.4 Summary of significant accounting policies

New standards, interpretations and amendments adopted by the Group

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 during the year. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- *Amendments to IFRS 3: Definition of a Business;*
- *Amendments to IAS 1 and IAS 8: Definition of Material;*
- *Amendments to IFRS 7, IFRS 9 and IAS 37: Interest Rate Benchmark Reform;*
- *Amendments to IFRS 16: Covid 19 Related Rent Concessions;*
- *Amendments to Conceptual Framework for Financial Reporting.*

The adoption of the above standards and interpretations did not have any material impact on the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 are disclosed below. The Group intends to adopt these standards if applicable, when they become effective:

- *Amendments to IAS 1: Classification of Liabilities as Current or Non-current;*
- *Reference to the Conceptual Framework – Amendments to IFRS 3;*
- *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;*
- *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37;*
- *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.*

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.

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 life as follows:

Building	25 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.

Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalised.

Capital work-in-progress

Capital work-in-progress represents expenditures incurred in setting up the 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 amortised 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 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

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Intangible assets (continued)

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.

Impairment of non-financial assets

The Group reviews periodically non-financial assets to determine whether they are impaired, whenever events or changes in circumstances indicate an impairment. When such indications are present the recoverable amount of the asset is estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit to which the asset relates is used instead. The excess of the carrying amount of the asset over its recoverable amount is treated as impairment in its value to be recognised in the consolidated statement of income of the period in which it occurs. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount will be reversed and recorded as income in the consolidated statement of income of the period in which such reversal is determined. Reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous financial periods.

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and are measured using the EIR method less provision for impairment.

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 consists 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.

Impairment

The Group is required to record an allowance for expected credit losses ("ECL") for all financial assets carried at amortised cost. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Group has established a policy to perform an assessment by considering the change in the risk of default occurring over the remaining life of the financial instrument. To calculate ECL, the Group has estimated the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the EIR.

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 and other payables, Murabaha and Mudarabah facilities and derivative financial instruments. After initial recognition, Murabaha and Mudarabah facilities are subsequently measured at amortised cost using the EIR method. Derivative financial instruments are subsequently measured at fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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.

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.

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.

Provisions for site dismantling

Provision for site dismantling and restoration exists where the Group has a legal and constructive obligation to remove an infrastructure asset and restore the site. Site dismantling and restorations costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the particular asset. The cash flows are discounted at a rate that reflects the risk specific to the site dismantling and restoration obligation.

Subsequent to initial recognition, an unwinding expense relating to the provision is recognised as a finance cost.

While the provision is based on the best estimate of future costs and the useful lives of infrastructure assets, there is uncertainty regarding both the amount and timing of incurrence of these costs. Any subsequent change in the present value of the estimated expenditure due to changes in the gross removal costs or discount rates is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to infrastructure assets.

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)

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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 18.

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 (standalone 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 average customer life or contract period, as the case may be.

Expenses

Expenses comprise of 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

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Employee benefits (continued)

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Group contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain. This is a defined contribution pension plan and the Group's contributions are charged to the consolidated statement of income in the year to which they relate. In respect of this plan, the Group has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Group are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Group accrues for its liability in this respect during the period of their service.

Transactions and balances with related parties

Related parties consist of the shareholders, the parent Company, the directors and businesses under their control. The Group's transactions with related parties are authorised by the management.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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.

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 consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions in these consolidated financial statements relate to:
- economic useful lives of intangible assets and property, plant and equipment;
- economic useful lives of right of use assets;
- going concern; and
- impairment allowance for trade receivables and slow-moving inventories.

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Economic useful life of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment 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. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of income in specific periods.

The Group's property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Economic useful lives of property, plant and equipment are reviewed by management periodically. 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.

Economic useful life of right of use assets

Right of use assets are amortised 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. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of income in specific periods.

The Group's right of use assets are amortised on a straight-line basis 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. Economic useful lives of right of use assets are reviewed by management periodically. 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.

Going concern

The management of the Group reviews the financial position on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due.

Allowance for impaired trade receivables and slow-moving inventories

The Group creates an allowance for impairment of trade receivables to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2020, in the opinion of the management a provision of BD 12,504,363 (2019: BD 10,839,151) was required towards impaired trade receivables. The Group is required to record an allowance for expected losses for all financial assets not held at FVTPL. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. The details of the allowance for trade receivables are disclosed in note 9.

The Group also makes provision against slow-moving inventories. At 31 December 2020, in the opinion of management, a provision of BD 250,088 (2019: BD 189,035) was required towards slow-moving inventories. When evaluating the provisioning norms for inventory, management bases its estimate on overall conditions, ageing of the inventories, historical write-off experience and inventory requirements.

4 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	*Building*	*Furniture & Fixtures*	*Information Technology Equipment*	*Network Equipment*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Cost						
At 31 December 2018	6,127,280	9,719,977	5,843,227	35,892,969	118,164,531	175,747,984
Reclassification	-	-	31,016	(31,637)	621	-
Additions during the year	-	-	151,500	858,240	2,181,031	3,190,771
Transferred from capital work-in-progress (Note 5)	-	-	278,647	2,414,404	11,164,174	13,857,225
Cost adjustment*	-	-	(7,386)	(4,429)	(189,586)	(201,401)
Disposals	-	-	-	(10,700)	(24,541)	(35,241)
At 31 December 2019	6,127,280	9,719,977	6,297,004	39,118,847	131,296,230	192,559,338
Reclassification	-	432,649	(436,429)	3,780	-	-
Additions during the year	-	-	153,388	1,120,412	3,485,808	4,759,608
Transferred from capital work-in-progress (Note 5)	-	-	241,740	2,283,342	4,242,457	6,767,539
Cost adjustment*	-	-	-	(263,336)	(272,191)	(535,527)
Disposals	-	-	-	(9,820)	-	(9,820)
Written-off	-	-	-	(1,773,950)	-	(1,773,950)
At 31 December 2020	**6,127,280**	**10,152,626**	**6,255,703**	**40,479,275**	**138,752,304**	**201,767,188**

*The Group has made settlements with counterparties, resulting in adjustments amounting to BD 535,527 (2019: BD 201,401) in cost and BD 237,719 (2019: BD 165,697) in depreciation expense and accumulated depreciation.

4 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold Land	*Building*	*Furniture & Fixtures*	*Information Technology Equipment*	*Network Equipment*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Accumulated depreciation						
At 31 December 2018	-	2,635,847	4,446,673	28,415,666	66,819,064	102,317,250
Charge for the year	-	388,799	562,775	3,392,015	11,393,451	15,737,040
Reclassification	-	-	26,783	(33,782)	6,999	-
On cost adjustment*	-	-	(2,876)	(4,244)	(158,577)	(165,697)
On disposals	-	-	-	(10,456)	(13,643)	(24,099)
At 31 December 2019	-	3,024,646	5,033,355	31,759,199	78,047,294	117,864,494
Charge for the year	-	398,439	374,483	3,720,357	11,170,261	15,663,540
Reclassification	-	101,318	(104,288)	2,970	-	-
On cost adjustment*	-	-	-	(100,977)	(136,742)	(237,719)
On disposals	-	-	-	(9,820)	-	(9,820)
Written-off	-	-	-	(1,773,950)	-	(1,773,950)
At 31 December 2020	-	3,524,403	5,303,550	33,597,779	89,080,813	131,506,545
Net book value						
At 31 December 2020	**6,127,280**	**6,628,223**	**952,153**	**6,881,496**	**49,671,491**	**70,260,643**
At 31 December 2019	6,127,280	6,695,331	1,263,649	7,359,648	53,248,936	74,694,844

*The Group has made settlements with counterparties, resulting in adjustments amounting to BD 535,527 (2019: BD 201,401) in cost and BD 237,719 (2019: BD 165,697) in depreciation expense and accumulated depreciation.

The Group's freehold land and building are pledged as security against the Murabaha facility from its bankers (Note 14).

5 CAPITAL WORK-IN-PROGRESS

	2020 ***BD***	*2019* *BD*
Opening balance	**4,442,936**	4,595,734
Additions during the year	**14,750,790**	13,707,991
Transferred to property, plant and equipment (Note 4)	**(6,767,539)**	(13,857,225)
Cost adjustment*	**-**	(3,564)
Closing balance	**12,426,187**	4,442,936

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

*During the year, the Group made no settlements with counterparties resulting in a cost adjustment in capital work-in-progress (2019: BD 3,564).

6 INTANGIBLE ASSETS

	Mobile license & spectrum fees *BD*	*Other intangible assets* *BD*	*Total* *BD*
Cost			
At 31 December 2018	104,222,984	5,265,082	109,488,066
Additions during the year	4,434,000	10,626,460	15,060,460
Cost adjustment*	-	(553)	(553)
At 31 December 2019	108,656,984	15,890,989	124,547,973
Additions during the year	1,406,447	2,359,515	3,765,962
At 31 December 2020	**110,063,431**	**18,250,504**	**128,313,935**
Accumulated amortisation			
At 31 December 2018	30,990,626	1,293,347	32,283,973
Amortisation for the year	4,022,394	736,348	4,758,742
At 31 December 2019	35,013,020	2,029,695	37,042,715
Amortisation for the year	4,438,201	1,398,590	5,836,791
At 31 December 2020	**39,451,221**	**3,428,285**	**42,879,506**
Net carrying value			
At 31 December 2020	**70,612,210**	**14,822,219**	**85,434,429**
At 31 December 2019	73,643,964	13,861,294	87,505,258

*During the year, the Group made no settlements with counterparties resulting in a cost adjustment in intangible assets (2019: BD 553).

6 INTANGIBLE ASSETS (continued)

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.

7 RIGHT-OF-USE ASSETS

	GSM Sites	*Shop Rentals*	*IP Transit*	*Others*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Cost					
As at 1 January 2019	13,298,089	885,687	2,150,653	1,085,155	17,419,584
Additions	14,070,086	524,533	1,282,080	57,153	15,933,852
Termination	(72,297)	-	-	-	(72,297)
Amendments / Adjustments	(4,750)	11,402	193,933	-	200,585
As at 31 December 2019	27,291,128	1,421,622	3,626,666	1,142,308	33,481,724
Additions	9,753,245	582,497	2,576,754	-	12,912,496
Termination	(22,839)	-	-	-	(22,839)
Amendments / Adjustments	(186,881)	-	-	-	(186,881)
Balance at 31 December 2020	**36,834,653**	**2,004,119**	**6,203,420**	**1,142,308**	**46,184,500**
Accumulated amortisation					
Charge for the year 2019	8,461,103	876,198	2,687,799	765,803	12,790,903
Balance at 31 December 2019	8,461,103	876,198	2,687,799	765,803	12,790,903
Charge for the year 2020	3,975,827	461,345	1,514,486	117,430	6,069,088
Balance at 31 December 2020	**12,436,930**	**1,337,543**	**4,202,285**	**883,233**	**18,859,991**
Net carrying value at 31 December 2020	**24,397,723**	**666,576**	**2,001,135**	**259,075**	**27,324,509**
At 31 December 2019	18,830,025	545,424	938,867	376,505	20,690,821

8 INVENTORIES

	2020	*2019*
	BD	*BD*
Inventories	**5,602,124**	7,671,221
Allowance for slow-moving and obsolete inventories	**(250,088)**	(189,035)
	5,352,036	7,482,186

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

8 INVENTORIES (continued)

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

	2020 BD	*2019 BD*
Opening balance	**189,035**	119,100
Provision made for the year	**61,053**	71,699
Written-off	**-**	(1,764)
Closing balance	**250,088**	189,035

9 TRADE AND OTHER RECEIVABLES

	2020 BD	*2019 BD*
Trade receivables	**36,180,755**	31,769,377
Unbilled instalments (Note 18 - contract assets)	**16,661,084**	21,485,891
Allowance for expected credit losses	**(12,504,363)**	(10,839,151)
	40,337,476	42,416,117
Prepayments and other receivables	**1,262,572**	2,730,592
Advances to suppliers	**1,708,227**	1,064,795
Cost to obtain a contract	**7,785,129**	5,686,577
Amortisation of cost to obtain a contract	**(6,413,498)**	(4,198,371)
	44,679,906	47,699,710
Less: Non current portion	**(3,850,595)**	(5,382,368)
	40,829,311	42,317,342

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, the Group has applied the IFRS 9 simplified approach to measure the expected credit loss ("ECL") based on the lifetime expected loss excluding wholesale receivables. 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 excluding wholesale receivables. The PD is based on the payment profiles of sales over a period of thirty six months before 31 December 2020. The historical loss rates are adjusted to reflect current and forward-looking information on 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 2020 for trade receivables, excluding wholesale receivables, amounted to BD 10,454,068 (2019: BD 8,948,103).

9 TRADE AND OTHER RECEIVABLES (continued)

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. The Company has performed an assessment of the counterparties of wholesale receivables and determined the impairment loss amounting to BD 2,050,295 (2019: BD 1,891,048).

The Group also has receivables with the Government and the likelihood of sovereign default is remote unless there is a bill dispute raised by them. As a result, the identified impairment loss was immaterial.

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

	2020	*2019*
	BD	*BD*
Opening balance	**10,839,151**	9,638,953
Provision made for the year	**2,035,574**	1,246,852
Bad debts written off	**(370,362)**	(46,654)
Closing balance	**12,504,363**	10,839,151

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

31 December 2020

i) Customer receivables

Category	***Current***	***Past due but not impaired***	***Impaired***	***Gross***	***Provision***	***Net***
Individuals	**19,537,993**	**1,227,070**	**12,091,942**	**32,857,005**	**(8,420,590)**	**24,436,415**
SME's	**859,476**	**102,400**	**1,381,933**	**2,343,809**	**(1,247,490)**	**1,096,319**
Enterprise	**1,080,111**	**1,763,570**	**893,498**	**3,737,179**	**(727,005)**	**3,010,174**
VIP's	**324,426**	**49,580**	**87,543**	**461,549**	**(58,983)**	**402,566**
Total	**21,802,006**	**3,142,620**	**14,454,916**	**39,399,542**	**(10,454,068)**	**28,945,474**
ii) Wholesale and other receivables				**13,442,297**	**(2,050,295)**	**11,392,002**
Total - trade receivables				**52,841,839**	**(12,504,363)**	**40,337,476**

9 TRADE AND OTHER RECEIVABLES (continued)

31 December 2019

i) Customer receivables

Category	*Current*	*Past due but not impaired*	*Impaired*	*Gross*	*Provision*	*Net*
Individuals	24,668,875	2,611,573	7,110,329	34,390,777	(6,605,826)	27,784,951
SME's	812,158	106,273	1,159,402	2,077,833	(1,123,972)	953,861
Enterprise	1,375,057	1,443,952	1,442,965	4,261,974	(1,148,172)	3,113,802
VIP's	431,239	59,938	31,182	522,359	(70,133)	452,226
Total	27,287,329	4,221,736	9,743,878	41,252,943	(8,948,103)	32,304,840
ii) Wholesale and other receivables				12,002,325	(1,891,048)	10,111,277
Total - trade receivables				53,255,268	(10,839,151)	42,416,117

10 CASH AND CASH EQUIVALENTS

	2020 ***BD***	*2019* *BD*
Savings and call account balances with banks	**14,498,947**	15,353,032
Current account balances with banks	**2,590,171**	2,215,128
Cash on hand and in transit	**2,352,493**	2,901,961
	19,441,611	20,470,121

The savings accounts bear profit rates up to 3.35% (31 December 2019: up to 3.5%) and the current account balances with banks are non-profit bearing.

11 SHARE CAPITAL

	2020 ***BD***	*2019* *BD*
Authorised		
2,000,000,000 Ordinary shares with a nominal value of 100 fils each	**200,000,000**	200,000,000
Issued and fully paid-up		
750,000,000 Ordinary shares with a nominal value of 100 fils each	**75,000,000**	75,000,000

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

12 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, amount of BD 1,016,543 has been transferred to the statutory reserve (2019: BD 1,136,226).

13 DERIVATIVES

The Group has a Profit Rate Swap with HSBC and a zero-cost collar agreement with Standard Chartered Bank. For the zero-cost collar agreement, cash flow hedge accounting was followed up to 31 December 2019 as the hedge met the critical terms match test and was considered effective. However, during the year ended 31 December 2020, management reassessed the hedge effectiveness and concluded that hedge is no longer effective due to recent significant decrease in LIBOR rates. As a result, management recycled the loss on the cash flow hedge amounting to BD 472,718 to the consolidated statement of income during the year ended 31 December 2020.

The fair values of open positions of derivatives have been based on the mark-to-market valuations performed at the consolidated statement of financial position date and are summarised as below together with their notional amounts:

	31 December 2020		*31 December 2019*	
	Notional amount BD	***Negative fair value BD***	*Notional amount BD*	*Negative fair value BD*
Derivatives held at fair value through profit or loss				
Profit rate SWAP	**4,706,806**	**25,567**	4,712,423	127,975
Zero cost collar	**22,623,000**	**472,718**	-	-
Derivative designated as cash flow hedge				
Zero cost collar	**-**	**-**	34,918,750	182,911
Total	**27,329,806**	**498,285**	39,631,173	310,886

The fair values of open positions of the derivatives are classified in the consolidated statement of financial position as follows:

	2020	*2019*
	BD	*BD*
Non-current portion	**236,359**	185,928
Current portion	**261,926**	124,958
Total	**498,285**	310,886

14 MURABAHA AND MUDARABAH FACILITIES

	Last instalment	*Note*	***2020 BD***	*2019 BD*
Murabaha facilities				
Building Murabaha facility	*December 2021*	*(a)*	**2,696,250**	5,392,500
Syndicated Murabaha facility	*May 2022*	*(b)*	**50,714,318**	75,953,425
Mudarabah facilities				
Al Salam Bank	*May 2026*	*(c)*	**2,032,808**	2,184,354
			55,443,376	83,530,279
Current portion of Murabaha and Mudarabah facilities			**(28,194,990)**	(28,243,076)
Non-current portion of Murabaha and Mudarabah facilities			**27,248,386**	55,287,203

a) This Murabaha facility is repayable by December 2021 and is fully secured against the land and building of the Group's headquarters.

b) The Group entered into a financing arrangement for an unsecured Murabaha facility of BD 84.8 million (USD 225 million) with its bankers during June 2017. The facility ranks pari-passu with the claims of other unsecured and unsubordinated creditors of the Group. The facility is repayable in 13 instalments starting from June 2019 and ending in May 2022.

c) During 2018, the Group entered a financing arrangement for a Mudarabah facility of BD 2.5 million with Al Salam Bank over a tenure of 7 years ending in November 2025. During the year ended 31 December 2020, repayment of 6 months installments were postponed and the revised final settlement date was agreed to be 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.

All of the above facilities bear market rates of profit. The main covenants under these facilities relate to certain specific financial ratios and satisfaction of financial condition tests.

15 LEASE LIABILITIES

	2020 BD	*2019 BD*
Lease liabilities	**35,828,909**	26,809,661
Less: Current lease liabilities*	**(14,400,161)**	(11,261,902)
Non-current lease liabilities	**21,428,748**	15,547,759

*The current lease liabilities include amounts due but not paid to the parent company in respect of the IP transit rentals amounting to BD 4,739,200 (31 December 2019: BD 4,768,351) (Note 22).

15 LEASE LIABILITIES (continued)

	2020	*2019*
	BD	*BD*
Maturity analysis - contractual undiscounted cash flows		
Less than one year	**14,804,644**	11,540,269
One to five years	**14,810,571**	10,297,499
More than five years	**10,080,378**	8,308,733
Total undiscounted lease liabilities	**39,695,593**	30,146,501

16 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 2020 amounted to BD 452,225 (2019: BD 420,954).

Expatriate employees

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

	2020	*2019*
	BD	*BD*
Balance at the beginning of the year	**1,203,825**	1,077,759
Provided during the year	**383,877**	313,223
End of service benefits paid	**(89,191)**	(187,157)
Balance at the end of the year	**1,498,511**	1,203,825

17 TRADE AND OTHER PAYABLES

	2020	*2019*
	BD	*BD*
Trade payables	**11,656,684**	9,717,372
Accrued operating expenses	**22,694,982**	16,148,262
Unearned revenue (Note 18 - contract liabilities)	**2,767,195**	2,954,316
Capital expenditures payable to contractors	**10,373,320**	13,173,550
Post-paid subscription received in advance	**5,084,919**	5,623,578
Consultancy accruals	**1,341,156**	2,140,070
Staff accruals	**1,496,980**	1,465,485
	55,415,236	51,222,633
Less: Non current portion	**(5,233,154)**	(8,891,100)
	50,182,082	42,331,533

18 REVENUE

	2020	*2019*
	BD	*BD*
Mobile services revenue	**55,281,618**	59,350,525
Enterprise & wholesale revenue	**33,771,117**	31,285,897
Data subscription	**18,997,757**	18,906,195
Handsets and other devices	**27,591,552**	24,888,938
Transit revenues	**26,079,609**	19,594,205
ICT revenue	**5,318,568**	2,192,566
	167,040,221	156,218,326

	2020	*2019*
	BD	*BD*
Timing of revenue recognition		
Products and services transferred at a point in time	**27,591,552**	24,888,938
Products and services transferred over time	**139,448,669**	131,329,388
	167,040,221	156,218,326

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 movement in the contract assets and the contract liabilities balances during the year are as follows:

	2020		*2019*	
	Contract Assets BD	***Contract Liabilities BD***	*Contract Assets BD*	*Contract Liabilities BD*
At beginning of the year	**21,485,891**	**2,954,316**	16,800,026	4,235,264
Increase due to cash received, excluding amount recognised as revenue during the year	**-**	**3,168,743**	-	2,939,169
Revenue recognised that was included in the contract liabilities at the beginning of the year	**-**	**(3,355,864)**	-	(4,220,117)
Addition in contract assets due to additional contracts during the year	**17,429,323**	**-**	30,583,094	-
Transfers from contract assets that were recognised at the beginning of the year	**(22,254,130)**	**-**	(25,897,229)	-
At end of the year	**16,661,084**	**2,767,195**	21,485,891	2,954,316

18 REVENUE (continued)

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.

	2020	*2019*
	BD	*BD*
Pre-paid revenue	**2,202,764**	2,789,301
Post-paid revenue	**564,431**	165,015
	2,767,195	2,954,316

Contract cost

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 7,785,129 (2019: BD 5,686,577).

The contract costs are amortised when the related revenues are recognised. During the year ended 31 December 2020, the amount of amortisation was BD 2,215,127 (2019: BD 2,335,070) and there was no impairment loss in relation to the costs capitalised.

19 COST OF SALES

	2020	*2019*
	BD	*BD*
Interconnection and roaming costs	**35,310,224**	31,395,123
Handsets and SIM card starter packs	**26,346,623**	22,294,771
Leased lines	**14,025,385**	11,158,830
ICT costs	**3,017,668**	893,129
Content and Value Added Services (VAS)	**2,881,230**	2,384,500
	81,581,130	68,126,353

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2020	*2019*
	BD	*BD*
Staff expenses	**13,705,293**	13,870,684
Managed services and outsourcing expenses	**9,467,821**	8,767,938
TRA fees	**4,912,503**	5,000,650
Maintenance costs	**3,548,742**	2,965,006
Allowance for impaired trade receivables (note 9)	**2,035,574**	1,246,852
Consultancy and professional charges	**1,764,930**	2,644,981
Billing and collection activities	**1,437,828**	1,474,473
Corporate social responsibility	**1,066,018**	1,032,450
Utilities, rent of equipment, properties and motor vehicles	**714,702**	1,053,921
Advertising expenses	**613,176**	1,486,134
Office management expenses	**157,601**	182,819
Training, travel and hospitality expenses	**154,959**	422,567
Allowance for slow-moving and obsolete inventories (note 8)	**61,053**	71,699
Other expenses	**937**	16,420
	39,641,137	40,236,594

21 SELLING AND DISTRIBUTION EXPENSES

	2020	*2019*
	BD	*BD*
Re-charge distribution discount	**1,499,854**	2,084,579
Sales activation and commission expenses	**1,238,037**	1,203,597
Promotional expenses	**401,171**	920,336
	3,139,062	4,208,512

22 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, directors and executive management of the Group and businesses under their control. The Group's transactions with related parties are approved by the management.

22 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*	***2020 BD***	*2019 BD*
Trade revenue	stc Kingdom of Saudi Arabia	Parent company	**11,497,069**	15,175,156
Trade expenses	stc Kingdom of Saudi Arabia	Parent company	**11,602,048**	14,127,717
Trade expenses	Bahrain Channels	Entity under common control	**4,809,598**	3,203,510
Trade revenue	stc Kuwait	Entity under common control	**785,203**	775,959
Trade expenses	stc Kuwait	Entity under common control	**210,911**	269,520
Staff and administration costs	stc Kingdom of Saudi Arabia	Parent company	**500,153**	590,848
Staff and administration costs	Bahrain Channels	Entity under common control	**756,588**	429,274

	2020 BD	*2019 BD*
Key management personnel*		
Short-term benefits and remunerations	**2,277,893**	2,298,498
Provision for leaves and end of service benefits	**31,627**	38,976
	2,309,520	2,337,474

* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This includes BD 157,601 (2019: BD 182,818) of Board remuneration in the form of annual compensation, attendance allowances for board meetings and related travel expenses.

Balances of the related parties included in the consolidated statement of financial position as at 31 December 2020 and as at 31 December 2019 are as follows:

	2020 BD	*2019 BD*
Amounts due from related parties		
Amounts due from Parent Company, net*	**1,949,575**	3,448,039
Amounts due from STC Kuwait, net	**689,326**	1,158,082
Amounts due from Bahrain Channels, net	**2,931,586**	-
	5,570,487	4,606,121
Amounts due to related parties		
Amounts due to Bahrain Channels, net	**-**	1,057,563

22 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

The amounts due from / to 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 2020 amounted to BD 4,739,200 (2019: 4,768,351) are included in current lease liabilities (Note 15).

23 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.

	2020	*2019*
Net profit attributable to the shareholders (BD)	**10,165,430**	11,362,264
Number of ordinary shares issued	**750,000,000**	750,000,000
Basic earnings per share	**13.554 fils**	15.150 fils

There are no potentially dilutive ordinary shares at 31 December 2020 (2019: nil).

24 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 9,935,901 as at 31 December 2020 (2019: BD 10,680,432).

b) Letter of credit commitments

Letters of credit other than for capital expenditure at the end of the year amounted to BD 1,508,200 (2019: BD 3,397,500).

25 CONTINGENT LIABILITIES

Bank guarantees

Guarantees have been issued by banks on behalf of the Group in the normal course of business aggregating to BD 1,272,289 (31 December 2019: BD 296,208).

26 DIVIDENDS

The Board of Directors did not propose to pay dividend to the shareholders for the year ended 31 December 2020 (2019: BD Nil).

27 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 9.

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*	***2020 BD***	*2019 BD*
Saving and call account balance with banks	+/-0.50%	+/- 72,495	+/- 76,765
Murabaha and Mudaraba facilities	+/-0.50%	+/- 277,217	+/- 417,651

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.

2020	***Less than 3 months BD***	***3 to 12 months BD***	***1 to 2 years BD***	***2 to 5 years BD***	***More than 5 years BD***	***Total BD***
Derivatives at fair value	**59,090**	**202,836**	**236,359**	**-**	**-**	**498,285**
Murabaha and Mudaraba facilities	**6,684,318**	**22,641,133**	**25,981,538**	**1,237,481**	**185,680**	**56,730,150**
Trade payables	**-**	**11,656,684**	**-**	**-**	**-**	**11,656,684**
	6,743,408	**34,500,653**	**26,217,897**	**1,237,481**	**185,680**	**68,885,119**

27 RISK MANAGEMENT (continued)

Liquidity risk (continued)

2019	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 2 years BD*	*2 to 5 years BD*	*More than 5 years BD*	*Total BD*
Derivatives at fair value	15,242	109,716	124,958	60,970	-	310,886
Murabaha and Mudaraba facilities	6,494,174	22,607,870	30,205,360	29,292,096	-	88,599,500
Amount due to related parties	-	1,057,563	-	-	-	1,057,563
Trade payables	-	9,717,372	-	-	-	9,717,372
	6,509,416	33,492,521	30,330,318	29,353,066	-	99,685,321

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.

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, cash flow hedge reserve and retained earnings, and is measured at BD 121,805,491 as at 31 December 2020 (2019: BD 111,457,150).

28 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.