Notes to the consolidated financial statements
for the year ended 31 December 2021

1 Corporate information

Al Yah Satellite Communications Company (the "Company") was incorporated on 23 January 2007 as a private joint stock company in Abu Dhabi, United Arab Emirates (UAE). UAE Federal Law No. 2 of 2015 (Companies Law) is applicable to the Company and has come into effect on 1 July 2015.

On 16 June 2021, the Company was converted into a public joint stock company and on 14 July 2021, the Company's shares were listed on the Abu Dhabi Securities Exchange (refer to Note 30).

The Company is a subsidiary of Mubadala Investment Company PJSC (the "Parent Company" or the "Shareholder"), an entity wholly owned by the Government of Abu Dhabi.

These consolidated financial statements include the financial performance and position of the Company, its subsidiaries (collectively referred to as the "Group") and the Group's interest in its equity-accounted investees.

The Group's principal activity is the leasing of satellite communication capacity and providing telecommunication services via satellite to customers. Details of the Company's subsidiaries and its equity-accounted investee are set out in Notes 18 and 19.

2 Significant accounting policies

2.1 Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and comply where appropriate, with the Articles of Association and applicable requirements of the laws of the UAE.

The Group is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended). The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and investment property, which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Functional and presentation currency

These consolidated financial statements are presented in United States Dollars ("USD" or "$"), the functional currency of the Company and the presentation currency of the Group. Subsidiaries and its equity-accounted investees determine their own functional currency and items included in the financial statements of these companies are measured using that functional currency. All financial information presented in USD has been rounded to the nearest thousand ("$ 000"), unless stated otherwise.

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 2021. The basis of consolidation is referred in the following notes:

Basis of consolidation	Note
(i) Subsidiaries	18
(ii) Investments in associates	19
(iii) Transactions eliminated on consolidation	18,19
(iv) Business combinations	37
(v) Transfer of entities under common control	37
(vi) Loss of control of a subsidiary	37
(vii) Acquisition of an associate in a business combination	37

2.3 Summary of significant accounting policies

The Group has applied these accounting policies consistently to all periods presented in these consolidated financial statements.

A) Financial instrument

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

(i) Non-derivative financial assets

Non-derivative financial assets comprise loans and receivables and cash and short-term deposits.

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 determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income (OCI), 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.

Financial assets at amortised cost 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 receivables, amounts due from related parties and other receivables.

The Group does not have financial assets at fair value through OCI or fair value through profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows of the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, where the time value of money is material, receivables are measured at amortised cost using the effective interest method, less impairment losses, if any.

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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 profit or loss.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial liabilities comprise trade payables, amounts due to related parties, borrowings and other payables and accruals.

(iii) Derivative financial instruments including hedge accounting: Refer to Note 26.

B) Revenue from contract with customers

Refer Note 5.

C) Leases – the Group as a lessor

Refer Note 5 (Infrastructure services) and Note 15 (Investment property).

D) Finance income

Refer Note 11.

2 Significant accounting policies continued

2.3 Summary of significant accounting policies continued

E) Other income
Refer Note 9.

F) Property, plant and equipment
Refer Note 13.

G) Capital work in progress
Refer Note 14.

H) Investment property
Refer Note 15.

I) Leases – the Group as a lessee
Refer Note 16.

J) Intangible assets
Refer Note 17.

K) Borrowing costs
Refer Note 11.

L) Impairment

Financial assets
The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets meeting SPPI test carried at amortised cost and at fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information including actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

Financial assets carried at amortised cost
The Group recognizes lifetime expected credit loss (ECL) for trade receivables, using the simplified approach. The expected credit losses on these financial assets are estimated using loss rates applied against each customer segment for each revenue type to measure expected credit losses. The Group determines the loss rates based on historical credit loss experience, analysis of the debtor's current financial position adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of current and forecast direction of conditions at the reporting date, including, where appropriate, time value of money.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in the consolidated statement of profit or loss. The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Non-financial assets and investment in associates
The carrying amounts of the Group's non-financial assets and investments in associates are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

M) Foreign currency
Transactions in foreign currencies are translated to USD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to USD at the exchange rate at that date. The resultant foreign exchange gains and losses are recognised in the consolidated statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Where functional currencies of subsidiaries are different from USD, income and cash flow statements of subsidiaries are translated into USD at average exchange rates for the year that approximate the cumulative effect of rates prevailing on the transaction dates and their assets and liabilities are translated at the exchange date ruling at the end of the reporting period. The resulting exchange differences are recognised in the consolidated statement of other comprehensive income.

The Group's share of results and share of movement in other comprehensive income of equity accounted investments are translated into USD at average exchange rates for the year. Translation differences relating to investments in associates and monetary assets and liabilities that form part of a net investment in a foreign operation are recognised in the consolidated statement of other comprehensive income. When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

N) Employee terminal benefits
Refer Note 7.

O) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

P) Income tax
Refer Note 12.

Q) Government Grants
Refer Note 28.

2 Significant accounting policies continued

2.3 Summary of significant accounting policies continued

R) Current vs non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:
- expected to be realised or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period

Or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when it is:
- expected to be settled in the normal operating cycle
- held primarily for the purpose of trading
- due to be settled within twelve months after the reporting period

Or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

S) Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes as explained below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The levels of fair value hierarchy are defined as follows:
Level 1: Measurement using quoted prices (unadjusted) from the active market.
Level 2: Measurement using valuation methods with parameters derived directly or indirectly from observable market data.
Level 3: Measurement using valuation methods with parameters not based exclusively on observable market data.

2.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the consolidated financial statements of the Group as of 31 December 2021.

The amendments also require additional disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed and how the entity manages those risks. See Note 36 – Market risk for related disclosures about risks, financial assets and financial liabilities indexed to LIBOR and hedge accounting.

Amendments to IFRS 16 COVID-19 Related Rent Concessions
On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. In March 2021, the IASB has extended, by one year, the May 2020 amendment. The amendment is effective for annual reporting periods beginning on or after 1 April 2021 with earlier adoption permitted. The amendments did not have a material impact on the Group.

2.5 Standards issued but not yet effective
The new and amended standards and interpretations that are 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 new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-Current
The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are to be applied retrospectively. The Group is assessing the potential impact of this amendment.

Reference to the Conceptual Framework – Amendments to IFRS 3
The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group is assessing the potential impact of these amendments.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
The amendment prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

2 Significant accounting policies continued

2.5 Standards issued but not yet effective continued

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

The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. The amendment is not expected to have a material impact on the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendment is not expected to have a material impact on the Group.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

IFRS 16 Leases – Lease incentives

The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

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

The amendment clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendment is effective for annual periods beginning on or after 1 January 2023 with earlier adoption permitted. The amendment is not expected to have a material impact on the Group.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Making Materiality Judgements

The amendment refined its definition of material and issued non-mandatory practical guidance on applying the concept of materiality. The amendment is effective for annual periods beginning on or after 1 January 2023. The amendment is not expected to have a material impact on the Group.

Amendments to IAS 8: Definition of Accounting Estimate

The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The amendment is effective for annual periods beginning on or after 1 January 2023. The amendment is not expected to have a material impact on the Group.

3 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure 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.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

i) Capital management (Note 36)
ii) Financial instrument risk management (Note 36)

Significant accounting judgments

Revenue from contract with customers

Refer Note 5.

Determining the lease term of contracts with renewal and termination options – Group as 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 has lease contracts that 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 (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period in the lease term for a) satellite capacity leases where the intention to renew is supported by an approved business case and b) for lease of buildings housing satellite gateways where there are no approved plans for relocation of gateways or cancellation of leases. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Classification of investments

The Group applies significant judgement with respect to the classification of investments, control (including de-facto control), joint control and significant influence exercised on those investments made by the Group. For assessing control, the Group considers power over 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. In case, where the Group has less than majority of the voting or similar rights in an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee and de-facto control on listed securities. Management's assessment considers the Group's ability to exercise control in the event of a deadlock situation with other vote holders and in situations where the Group holds convertible instruments, the Group considers potential voting rights.

Based on management's assessment, the classification of the Group's investments do not require any change as of 31 December 2021.

Significant accounting estimates

Impairment of non-financial assets

At the end of each reporting period, management applies the guidance in IAS 36 Impairment of Assets to identify whether there is any objective evidence of impairment of its non-financial assets. In such instances, the assets are subject to an impairment test by comparing their carrying amounts at the balance sheet date to their recoverable amounts. The recoverable amount for an individual asset is estimated and is the higher of its fair value less costs of disposal and its value in use. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets the recoverable amount of the cash-generating unit (CGU) to which the asset belongs is determined. An estimate of fair value less cost of disposal or the value in use of the CGU (or asset) is made, using estimated future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU (asset). The assumptions and judgments made in assessing the recoverable value include expectations of contract renewals, price increases on existing contracts and inflation rates.

At the end of the year, management has not identified any indicator that suggests its non-financial assets are impaired.

3 Significant accounting judgments, estimates and assumptions continued

Significant accounting estimates continued

Impairment of equity-accounted investments

At the end of each reporting period, management applies the guidance in IAS 28 Investments in Associates and Joint Ventures to identify whether there is any objective evidence of impairment of its equity-accounted investments. In such instances, the investments are subject to impairment tests by comparing the carrying amount to the recoverable amount of each investment. Considering the long term nature of these investments, the recoverable amount is determined based on discounted cash flows calculations. Estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The assumptions and judgments made in assessing the value in use include expectations of contract renewals, price increases on existing contracts and inflation rates.

At the end of the year, management identified an indicator that the HPE cash generating unit (HPE CGU) may be impaired. Accordingly the value in use of the HPE CGU was estimated to determine its recoverable amount, using discounted cash flow projections from approved financial forecasts. The projections cover the period from 2022 to 2036 and were discounted using a discount rate of 10.3%. The recoverable amount of the HPE CGU exceeded its carrying value as of 31 December 2021, indicating the CGU is not impaired. The recoverable amount would still be above carrying amount even with a 0.5% reduction in the terminal growth rate or a 0.5% increase in discount rate.

At the end of the year, management has not identified any indicator that suggests that the Group's investment in Al Maisan is impaired.

Impairment of goodwill allocated to Thuraya CGU

At the end of the year, the Group performed its annual impairment test of goodwill which is allocated to the Thuraya CGU. The recoverable amount of this CGU was based on fair value less costs of disposal, estimated using discounted cash flows using inputs to the valuation technique that fall under Level 3 of the fair value hierarchy. The recoverable amount as at 31 December 2021 has been determined using cash flow projections from financial budgets approved by senior management covering the period from 2022 to 2029. No growth rate has been applied on the cash flows beyond 2025. The discount rate applied to the cash flow projections is 9.5%. The recoverable amount of the CGU exceeded the carrying value as of 31 December 2021, indicating the CGU is not impaired. The recoverable amount would still be above carrying amount even with a 0.5% reduction in the terminal growth rate or a 0.5% increase in discount rate.

Impairment losses on receivables and contract assets

The Group reviews its receivables and contract assets to assess impairment on a regular basis. In determining whether impairment losses should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime credit losses (ECL) to be recognised from initial recognition of the receivables. An impairment analysis is performed at each reporting date using loss rates applied against each customer segment to measure expected credit losses. The provision rates are based on historical patterns of default for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. 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.

As at 31 December 2021, the Group is carrying an allowance of US$ 21.2 million (2020: US$ 24.9 million).

Useful lives of property, plant and equipment and intangible assets

Management assigns useful lives to property, plant, equipment, and intangible assets based on the intended use of assets and the economic lives of those assets. Subsequent change in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

For satellite systems, management reviews the technical reports including estimates of the fuel life of the satellites, in determining if any adjustments are required to the useful life. Management also considers other factors including inputs from the satellite insurance markets on total insurable life and availability of underwriters for insurance of the satellite payloads. For other items of property, plant and equipment and intangible assets management has reviewed the useful lives of major items of and determined that no adjustment is necessary.

Fair value of derivative financial instruments

The fair value of interest rate swaps is based on broker quotes, which are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments.

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 (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). The Group applied incremental borrowing rates ranging from 5.9% to 6.3% to the lease liabilities.

Key sources of estimation uncertainty – COVID-19

The outbreak of the novel coronavirus (COVID-19) pandemic resulted in the implementation of significant measures by governments globally, including lockdowns, closures, quarantines and travel bans intended to control the spread of the virus.

The Group's activity has demonstrated a certain resilience compared to other industries. The Group's major source of revenue is secured through long term contracts with governments. However, some of the Group's operations relating to Mobility, Data and Managed Solutions were slightly affected mainly due to supply chain disruption. While COVID-19 does have an indirect exposure to customer segments on these operations, there is no evidence that there is a pervasive impact on the ability of the Group's customers to pay. On another note, the pandemic resulted in reduced business travel, marketing and other operating expenses.

While things are returning to normalcy, future developments cannot be accurately predicted which could impact future financial results, cash flows and financial position.

4 Segment information

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 Operating Segments.

Accounting policies

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM) who is the Chief Executive Officer. The CODM makes strategic decisions and is responsible for allocating resources and assessing performance of the operating segments.

Information on segments

The CODM monitors the operating results of the segments for the purpose of making decisions, allocating resources and assessing performance. The segments are based on lines of business as follows:

- Infrastructure segment, which primarily provides long-term satellite capacity leases, and satellite operation services. This is the largest operating segment.
- Managed Solutions segment includes end-to-end managed solutions provided mainly to government customers (Yahsat Government Solutions) and other industry solutions.
- Mobility Solutions segment provides narrow-band satellite solutions under the trade name Thuraya.
- Data Solutions (BCS) segment primarily represents the Group's Yahclick business providing broadband satellite solutions in Africa, Middle East and Asia.
- 'Others' include two segments: a) Data Solutions – Brazil representing the Group's Brazilian associate HPE and b) Broadcast segment representing the Group's associate Al Maisan.

Notes to the consolidated financial statements continued
for the year ended 31 December 2021

4 Segment information continued

Information on segments continued

Segment revenue is measured in a manner consistent with that in the consolidated statement of profit or loss. The performance of the segments are evaluated on the following basis:

- Infrastructure and Managed Solutions segments are evaluated based on segment Adjusted EBITDA, a measure broadly consistent with Group Adjusted EBITDA.
- Data Solutions (BCS) and Mobility Solutions segments are evaluated based on segment Adjusted EBITDA and segment profit or loss which is measured consistently with profit for the year in the consolidated financial statements.
- Data solutions (Brazil) and Broadcast segments are evaluated based on the Group's share of results in the respective equity accounted investments (associates).

Elimination of inter-segment revenue and other consolidation adjustments, if any, are presented under the column 'reconciliations'.

Capital expenditure includes additions during the period to property, plant and equipment, capital work in progress, right-of-use assets and intangible assets.

The breakdown of revenue from external customers by nature of business activity is provided in Note 5.

The segment information for the year ended 31 December 2021 is as follows:

	Infrastructure $ 000	Managed solutions $ 000	Mobility solutions $ 000	Data solutions (BCS) $ 000	Other $ 000	Reconciliation $ 000	Total $ 000
External revenue	236,020	64,227	80,330	26,992	–	–	407,569
Inter-segment revenue	3,300	1,574	680	742	–	(6,296)	–
Total revenue	**239,320**	**65,801**	**81,010**	**27,734**	**–**	**(6,296)**	**407,569**
Adjusted EBITDA	**183,335**	**33,184**	**27,477**	**(3,515)**	**–**	**–**	**240,481**
Depreciation, amortisation and impairment	(90,918)	(115)	(24,581)	(32,976)	–	–	(148,590)
Fair value losses on investment property	–	–	(1,906)	–	–	–	(1,906)
Finance income	2,819	–	8	2,366	–	(4,798)	395
Finance costs	(21,380)	–	(956)	(165)	–	4,798	(17,703)
Share of results – HPE	–	–	–	–	(11,486)	–	(11,486)
Share of results – Al Maisan	–	–	–	–	1,897	–	1,897
Income tax expense	(31)	–	(13)	(171)	–	–	(215)
Profit/(loss) for the year	**73,825**	**33,069**	**29**	**(34,461)**	**(9,589)**	**–**	**62,873**
Profit/(loss) for the year attributable to non-controlling interests	–	–	3	(6,892)	–	–	(6,889)
Profit/(loss) for the year attributable to the Shareholders	**73,825**	**33,069**	**26**	**(27,569)**	**(9,589)**	**–**	**69,762**
Capital expenditure	143,339	467	5,579	5,621	–	–	155,006

The segment information for the year ended 31 December 2020 is as follows:

	Infrastructure $ 000	Managed solutions $ 000	Mobility solutions $ 000	Data solutions (BCS) $ 000	Other $ 000	Reconciliation $ 000	Total $ 000
External revenue	238,497	63,220	79,035	26,755	–	–	407,507
Inter-segment revenue	1,299	–	–	578	–	(1,877)	–
Total revenue	239,796	63,220	79,035	27,333	–	(1,877)	407,507
Adjusted EBITDA	199,244	29,043	23,933	(5,290)	–	–	246,930
Depreciation, amortisation and impairment	(91,318)	(122)	(26,325)	(31,802)	–	–	(149,567)
Fair value losses on investment property	–	–	(2,030)	–	–	–	(2,030)
Finance income	696	–	6	3,050	–	(536)	3,216
Finance costs	(19,510)	–	(1,244)	(371)	–	536	(20,589)
Share of results – HPE	–	–	–	–	(14,307)	–	(14,307)
Share of results – Al Maisan	–	–	–	–	(2,053)	–	(2,053)
Income tax expense	20	–	(1)	(219)	–	–	(200)
Profit/(loss) for the year	89,132	28,921	(5,661)	(34,632)	(16,360)	–	61,400
Loss for the year attributable to non-controlling interests	–	–	(576)	(6,926)	–	–	(7,502)
Profit/(loss) for the year attributable to the Shareholders	89,132	28,921	(5,085)	(27,706)	(16,360)	–	68,902
Capital expenditure	78,526	340	6,420	6,904	–	–	92,190

Geographical information

The information on Group's revenue by geography has been compiled based on the principal location of the customers. The Group's principal place of operations is the United Arab Emirates.

Information on significant revenues from a single customer is provided in Note 21.

	2021 $ 000	2020 $ 000
United Arab Emirates	**337,292**	326,405
Europe	**23,732**	35,642
Asia	**23,510**	25,987
Africa	**15,084**	9,626
North America	**7,024**	8,792
Others	**927**	1,055
Revenue	**407,569**	**407,507**

5 Revenue

Accounting policies

The Group has applied the following accounting policy for revenue recognition in the preparation of its consolidated financial statements.

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

Step 1: Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. Contracts can be written, oral or implied by the Group's customary business practices.
Step 2: Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
a) The Group's performance does not create an asset with an alternate use to the Group and the Group has as an enforceable right to payment for performance completed to date.
b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

The Group is in the business of leasing of satellite communication capacity and providing telecommunication services via satellite to customers. 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. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Infrastructure revenue primarily represents revenue from leasing of satellite capacity and related services. Lease revenue is recognised in accordance with IFRS 16 (refer to Leases – the Group as a lessor). Service revenue is recognised over time as rendered.

Managed solutions revenue represents end-to-end integrated satellite communication and managed solutions provided to customers (which includes supply of services, goods or both). Revenue is typically recognized in profit or loss based on milestones reached, time elapsed or units delivered. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, the associated costs or the possible return of the goods or the rejection of the services provided.

Mobility solutions revenue includes revenue from mobile satellite services (airtime revenue – voice, data and messaging services) and sale of related equipment and accessories. Service revenue is recognised over the period in which the services are provided. Revenue from the sale of goods (i.e. equipment and accessories) is recognised at the point in time when control of the asset is transferred to the customer, generally when the goods are delivered and titles have passed. Revenue is recognised net of returns, upfront discounts and sales commissions. Revenue from the sale of prepaid cards is recognized on the actual utilisation of the prepaid card and is deferred in deferred revenue until the customer uses the airtime, or the credit expires.

Data solutions revenue includes revenue from provision of satellite broadband services to customers and sale of related equipment and accessories. Service revenue is recognised as rendered. Revenue from the sale of goods (i.e. equipment and accessories) is recognised at the point in time when control of the asset is transferred to the customer, generally when the goods are delivered and titles have passed. Revenue is recognised net of returns, upfront discounts and sales commissions.

Leases – the Group as a lessor

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases where the Group transfers substantially all of the risks and benefits of ownership of the asset through its contractual arrangements to the customer are considered as a finance lease.

The amounts due from lessees are recorded in the consolidated statement of financial position as financial assets (finance lease receivables) and are carried at the amount of the net investment in the lease after making provision for impairment.

Leases in which the Group does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases.

Income from operating leases are recognised in profit or loss on a straight-line basis over the lease term.

Infrastructure revenue primarily represents revenue from leasing of satellite capacity and related services. Satellite capacity lease payments are recorded on a straight-line basis over the term of the contract concerned. Deferred revenue represents the unearned balances remaining from amounts received from customers.

5 Revenue continued

Revenue	Notes	2021 $ 000	2020 $ 000
Service rendered		**373,756**	380,248
Sale of equipment and accessories		**33,813**	27,259
		407,569	407,507
Revenue from related parties is disclosed in Note 21.			
Revenue includes:			
Revenue from contracts with customers (IFRS 15)		**276,648**	273,804
Income from operating leases (IFRS 16)		**130,921**	133,703
		407,569	407,507
Disaggregation of revenue by operating segment:			
Services rendered:			
Infrastructure		**236,020**	238,497
Managed solutions*		**64,227**	63,220
Mobility solutions		**49,472**	52,078
Data solutions – BCS		**24,037**	26,453
Sale of equipment and accessories (recognised at a point in time)			
Mobility solutions		**30,858**	26,957
Data solutions – BCS		**2,955**	302
	4	**407,569**	407,507
*Managed solutions includes revenue recognised at a point in time of $0.9 million (2020: $3 million).			
Timing of recognition of revenue from contracts with customers:			
Over time		**241,967**	243,525
At a point in time		**34,681**	30,279
		276,648	273,804
Revenue by geography is disclosed in note 4.			
Contracted future revenues			
a) Remaining performance obligations from contracts with customers, expected to be recognised as revenue:			
Within one year		**162,401**	148,777
More than one year		**1,241,145**	593,322
		1,403,546	742,099
b) Future minimum lease rental receivables under non-cancellable operating leases, where Group is a lessor (excluding investment property)	34	**624,624**	753,380
Total contracted future revenues		**2,028,170**	1,495,479
Contract balances:			
Trade receivables, net of loss allowance	22	**110,651**	94,448
Contract assets	22	**17,836**	19,827
Contract liabilities:			
Advances from a related party	21	**128,040**	128,040
Advances from other customers	24	**1,592**	5,999
Deferred revenue	27	**26,988**	22,095
Revenue recognised from contract liabilities at the beginning of the year		**3,632**	3,850

The disclosure on remaining performance obligations does not include the expected consideration related to performance obligations in respect of satellite services for which the group elects to recognize revenue in the amount it has a right to invoice (e.g. subscription revenue on fixed and mobile satellite services).

Trade receivables and amounts due from related parties are non-interest bearing and are generally on terms ranging from 10 to 45 days.

The future minimum lease payments under operating lease arrangements, where the Group is a lessor, are disclosed in Note 34.

Significant accounting judgments and estimates

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining whether unsigned agreements meet the definition of contract under IFRS 15

In relation to certain projects for the Government of Abu Dhabi, its department or related parties performance obligations are fulfilled based on unsigned agreements. Management considers such unsigned contracts to meet the definition of a 'contract with customer' under IFRS 15 since the Group and the customers agree upon the essential elements of a contract and any other lawful conditions. Pending matters of detail to be agreed upon later, the contract is deemed to be binding even in the absence of agreement on these matters of detail. In addition, under Article 132 of the UAE Civil Code, a contract can be oral or written; a contract can also result from acts, which demonstrate the presence of mutual consent between the relevant parties.

Classification of leases

The Group has entered into a Capacity Services Agreement ("CSA") with the UAE Armed Forces (UAEAF), an entity under common control, for a period of 15 years. The capacity services include the lease of capacity of satellite transponders and provision of services relating to the operation of satellite network. The capacity charges payable under the terms of the CSA includes a lease element and a service element which corresponds to the capacity lease and provision of services respectively.

The Group has made various judgments in the process of determining – a) whether this arrangement contains a lease, b) whether it is an operating lease or a finance lease and c) how the capacity charges relating to the lease element and service element will be accounted.

In making its judgments, the Group's management considered the terms and conditions of the CSA, the requirements of relevant standards and the relevant industry practice. The relevant standards include i) IFRS 16 – Leases and ii) IFRS 15 – Revenue from contracts with customers.

Based on the matters mentioned in the preceding paragraphs the Group management has determined that:
a) the arrangement contains a lease, as it conveys a right to use the asset and the fulfilment of the arrangement is dependent on the use of a specified asset
b) the lease element of the arrangement will be accounted as an operating lease as the Group does not transfer substantially risks and rewards incidental to ownership of the assets to UAEAF (Note 21) and
c) the service element of the arrangement will be accounted as revenue to be recognized over time.

6 Cost of revenue

	2021 $ 000	2020 $ 000
Cost of services sold*	**18,636**	19,971
Cost of equipment and accessories sold	**26,842**	20,070
	45,478	40,041

* Cost of services sold mainly represents supplies procured for managed services and mobile satellite services.

Notes to the consolidated financial statements continued
for the year ended 31 December 2021

7 Staff costs

Accounting policies

Employee terminal benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

	Note	2021 $ 000	2020 $ 000
Employee costs		**73,384**	73,266
Outsourced staff costs		**12,122**	10,942
		85,506	84,208
Employee costs include:			
Pension contributions made in respect of UAE national employees in accordance with the UAE Federal Law No. (2), 2000		**2,768**	2,885
Charged during the year towards employee end of service benefits	29	**2,148**	2,342

8 Other operating expenses

	Note	2021 $000	2020 $000
Satellite services operations costs		**13,601**	12,107
Insurance expenses		**7,394**	8,716
Facilities and asset maintenance costs		**4,378**	5,376
Allowance for expected credit losses (reversal)		**(2,418)**	6,522
IT support costs		**3,362**	2,974
Marketing expenses		**2,895**	3,404
Consultancy, legal and advisory expenses		**2,511**	2,715
Inventory obsolescence (reversal)	20	**(1,087)**	2,692
Registration and filing expenses		**1,388**	1,436
Business travel expenses		**1,318**	985
Bank fees and charges		**506**	679
Learning and development expenses		**312**	332
Currency exchange losses – net		**916**	216
Other expenses		**3,351**	3,842
		38,427	51,996

The Group did not make any material social contributions during the year.

9 Other income

Accounting policies

Income from claims for liquidated damages is recognised in profit or loss as other income or a reduction to operating costs when a contractual entitlement exists, amounts can be reliably measured and receipt is virtually certain. When such claims do not relate to compensations for loss of income or are not towards incremental operating costs, the amounts are taken to the consolidated statement of financial position and recorded as a reduction in the cost of the related asset.

Insurance proceeds received from loss claims relating to assets insured is recognised in profit or loss as other income when the Group has an unconditional contractual right to receive the compensation.

Gain arising from transfer of Orbital rights is recognised in profit or loss, as other income, when:
a) Yahsat has fulfilled all its material obligations that allow the transfer of the rights and
b) any remaining Yahsat obligation(s), is merely administrative with a low risk of failure.

For the purpose of calculating the gain arising from transfer of Orbital rights, if the consideration for transfer comprises both cash and non-cash elements, the fair value of consideration is
a) The consideration agreed in cash plus
b) Fair value of non-monetary consideration. Where the non-monetary consideration is in the form of services to be rendered (either by the buyer of the orbital rights or by another third party), recent market transactions or quotations obtained from other service providers for a similar service forms the basis for estimating the fair value.

	Notes	2021 $ 000	2020 $ 000
Rental income from investment property	15	**1,287**	1,091
Gain on transfer of orbital rights		**–**	14,000
Others		**1,036**	577
		2,323	15,668

During the previous year, the Group entered into an Orbital Location Agreement with a satellite operator to transfer the beneficial rights in certain orbital rights to the operator. The fair value of the consideration for the transfer was $14 million, comprising of $4 million in cash and a non-monetary consideration in the form of a right to future orbital services valued at $10 million. The fair value of the consideration received was recorded as gain on transfer of orbital right included within Other income for the year ended 31 December 2020.

10 Depreciation, amortisation and impairment

	Notes	2021 $ 000	2020 $ 000
Depreciation of property, plant and equipment	13	**139,307**	139,286
Depreciation of right-of-use assets	16	**5,377**	5,534
Amortisation of intangible assets	17	**3,906**	4,534
Impairment of non-current assets	13	**–**	213
		148,590	149,567

11 Finance costs and Finance income

Accounting policies

Finance income

Finance income comprises interest income on funds invested and is recognised as it accrues in profit or loss using the effective interest method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time the assets are substantially ready for their intended use.

Where funds are borrowed specifically for the purpose of obtaining a qualifying asset, any investment income earned on temporary surplus funds is deducted from borrowing costs eligible for capitalisation. In the case of general borrowings, a capitalisation rate, which is the weighted average rate of general borrowing costs, is applied to the expenditure on qualifying assets and included in the cost of the asset.

A borrowing originally made to develop a qualifying asset is treated as part of general borrowings when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense when incurred.

Finance costs and Finance income	Notes	2021 $ 000	2020 $ 000
Finance income			
Interest on short term deposit with banks		**204**	432
Interest on deposits with related party	21	**191**	2,784
		395	3,216
Finance costs			
Interest expense on borrowings – term loans		**(4,710)**	(8,225)
Interest expense on borrowings – lease liabilities	16	**(973)**	(1,216)
Finance charges		**(425)**	–
Fair value losses on derivative financial instruments transferred from other comprehensive income		**(11,595)**	(11,148)
		(17,703)	(20,589)
Net finance costs		**(17,308)**	(17,373)

12 Income tax expense

Accounting policies

The tax expense/credit for the year comprise current and deferred tax.

The current income tax charge is calculated on the basis of the tax laws enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Also deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill in a business combination. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted in the jurisdiction of the individual companies by the end of the reporting period and are expected to apply when the related deferred income tax liability is settled or the deferred income tax asset is realised. A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised.

Deferred income tax assets and liabilities offset when:

a) a legally enforceable right exists to offset current income tax assets against current income tax liabilities
b) the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The taxes mainly relate to the subsidiaries in the Netherlands and South Africa and are not significant. Hence no further disclosures are provided.

Notes to the consolidated financial statements continued
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13 Property, plant and equipment

Accounting policies

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of a qualifying asset are capitalised.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income/other expenses in profit or loss.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at the financial year-end and adjusted if appropriate.

The estimated useful lives used in the current and comparative periods are as follows:

Asset category	Years
Buildings	15-40
Leasehold improvements (included in buildings)	5-10
Satellite systems	9-18
Plant and machinery	15-40
Furniture and fixtures	3-4
Office equipment and vehicles	3-5
Computers and software	3

	Land and building $000	Satellite systems $000	Plant and machinery $000	Other equipment $000	Capital work in progress $000	Total $000
Cost						
At 1 January 2020	100,541	2,970,985	16,753	32,616	19,180	3,140,075
Additions	–	6,595	87	1,962	82,016	90,660
Transfers	–	2,665	–	–	(2,665)	–
Disposals/write-offs	(7)	–	–	–	–	(7)
Exchange differences	–	–	–	148	–	148
Other transfers	–	(263)	–	–	–	(263)
At 31 December 2020	100,534	2,979,982	16,840	34,726	98,531	3,230,613
Depreciation						
At 1 January 2020	22,642	1,727,757	6,439	28,390	–	1,785,228
Charge for the year	2,674	133,769	893	1,950	–	139,286
Exchange differences	–	–	–	16	–	16
At 31 December 2020	25,316	1,861,526	7,332	30,356	–	1,924,530
Impairment						
At 1 January 2020	5,272	184,064	–	–	–	189,336
Charge for the year	213	–	–	–	–	213
At 31 December 2020	5,485	184,064	–	–	–	189,549
Net book value	69,733	934,392	9,508	4,370	98,531	1,116,534
Cost						
At 1 January 2021	**100,534**	**2,979,982**	**16,840**	**34,726**	**98,531**	**3,230,613**
Additions	**59**	**4,265**	**128**	**3,163**	**146,851**	**154,466**
Transfers	**–**	**18,273**	**–**	**161**	**(18,434)**	**–**
Transfer to intangible assets (Note 17)	**–**	**–**	**–**	**(597)**	**–**	**(597)**
Disposals	**–**	**–**	**–**	**(159)**	**–**	**(159)**
Write-offs	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Exchange differences	**–**	**–**	**–**	**(284)**	**–**	**(284)**
At 31 December 2021	**100,593**	**3,002,520**	**16,968**	**37,010**	**226,943**	**3,384,034**
Depreciation						
At 1 January 2021	**25,316**	**1,861,526**	**7,332**	**30,356**	**–**	**1,924,530**
Charge for the year	**2,674**	**133,642**	**853**	**2,138**	**–**	**139,307**
Disposals	**–**	**–**	**–**	**(141)**	**–**	**(141)**
Exchange differences	**–**	**–**	**–**	**(41)**	**–**	**(41)**
Transfer to intangible assets (Note 17)	**–**	**–**	**–**	**(464)**	**–**	**(464)**
At 31 December 2021	**27,990**	**1,995,168**	**8,185**	**31,848**	**–**	**2,063,191**
Impairment						
At 1 January and 31 December 2021	**5,485**	**184,064**	**–**	**–**	**–**	**189,549**
Net book value	**67,118**	**823,288**	**8,783**	**5,162**	**226,943**	**1,131,294**

Other equipment includes furniture and fixtures, office equipment vehicles and computers.
Note 14 provides details of the capital work in progress.

14 Capital work in progress

Accounting policies

The Group capitalises all costs relating to assets as capital work in progress, until the date of completion and commissioning of these assets. These costs are transferred from capital work in progress to the appropriate asset category upon completion and commissioning and depreciated over their useful economic lives from the date of such completion and commissioning.

Capital work in progress as of the end of the reporting period comprise mainly of satellite systems.

During the prior year, the Group entered into a contract for the procurement of a next generation satellite known as Thuraya 4 (T4-NGS), with an option to procure an additional satellite known as Thuraya 5 (T5). Additions during the year relating to T4-NGS amounted to $141.6 million (2020: $76.8 million). As of 31 December 2021, the cumulative cost relating to T4-NGS amounted to $218.4 million (31 December 2020: $76.8 million).

Borrowing costs capitalised during the year relating to T4-NGS amounted to $4.3 million at a capitalisation rate of 3.7% (2020: $ 1 million at a capitalisation rate of 5.4%).

15 Investment property

Accounting policies

Investment properties are properties which are held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost including transaction costs and for properties under development all direct costs attributable to the design and construction including related staff costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the statement of profit or loss in the period in which they arise.

Transfers from owner-occupied property to investment property is made only when there is a change in use evidenced by end of owner-occupation. Up to the date when an owner-occupied property becomes an investment property carried at fair value, the group depreciates the property and recognizes any impairment losses that have occurred relating to the property transferred.

	Land $000	Building $000	Total $000
Investment property accounted at fair value			
At 1 January 2020	18,451	5,716	24,167
Net loss from fair value adjustment	(1,540)	(490)	(2,030)
At 31 December 2020	16,911	5,226	22,137
At 1 January 2021	**16,911**	**5,226**	**22,137**
Net loss from fair value adjustment	**(1,446)**	**(460)**	**(1,906)**
At 31 December 2021	**15,465**	**4,766**	**20,231**

The investment property relates to the Dubai building and associated land (property) of Thuraya. The fair value measurement for the investment property is classified as Level 2. The fair value has been determined by an external valuer based on transactions observable in the market.

Leasing arrangements

The investment properties are leased to tenants under operating leases with rents payable periodically. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the group may obtain bank guarantees for the term of the lease. Although the group is exposed to changes in the residual value at the end of the current leases, the group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

Rental income from investment property is recognized in other income (Note 9). Direct operating expenses incurred on investment property during the year amounted to $606 thousand (2020: $564 thousand).

	2021 $000	2020 $000
Minimum lease payments receivable on leases of investment properties are as follows:		
Year 1	**891**	953
Year 2	**301**	418
Year 3	**265**	12
Year 4	**188**	–
Year 5	**188**	–
Beyond Year 5	**62**	–
	1,895	1,383

16 Leases – Group as a Lessee

This note provides information for leases where the group is a lessee, related right-of-use assets and lease liabilities.

Accounting policies

Leases, where the Group is a lessee, are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

a) fixed payments (including in-substance fixed payments), less any lease incentives receivable
b) variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
c) amounts expected to be payable by the group under residual value guarantees
d) the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
e) payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

a) where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
b) uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the lessee which does not have recent third party financing, and
c) makes adjustments specific to the lease, e.g. term, country, currency and security.

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16 Leases – Group as a Lessee continued

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
a) the amount of the initial measurement of lease liability
b) any lease payments made at or before the commencement date less any lease incentives received
c) any initial direct costs, and
d) restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

A lease modification is a change in scope of the lease, or the consideration for the lease that was not part of the original terms of the lease. When a modification increases the scope of the lease adding more underlying assets and the consideration is commensurate, the modification is accounted as a separate lease contract. However, if a modification increases the scope of the lease without adding the right to use of more underlying assets, or the increase in lease consideration is not commensurate, the modification is accounted for by remeasuring the existing lease. The lease liability is remeasured at the effective date of modification, using a revised discount rate, with a corresponding adjustment to the right of use asset. The lessee uses the incremental borrowing rate as the revised discount rate if the rate implicit in the lease for the remainder of the lease term is not readily determinable.

The estimated useful lives of right-of-use assets are as follows:

Asset category	Years
Right-of-use assets – satellite systems	3.5
Right-of-use assets – buildings	4-10

A) Right-of-use assets

Carrying amounts and movements during the period	Satellite systems $000	Buildings $000	Total $000
At 1 January 2020	13,477	14,678	28,155
Lease modification	(2,384)	–	(2,384)
Additions	–	446	446
Retirement	–	(38)	(38)
Depreciation expense	(3,790)	(1,744)	(5,534)
At 31 December 2020	7,303	13,342	20,645
At 1 January 2021	**7,303**	**13,342**	**20,645**
Additions	**–**	**20**	**20**
Depreciation expense	**(3,659)**	**(1,718)**	**(5,377)**
At 31 December 2021	**3,644**	**11,644**	**15,288**

B) Lease liabilities

The table below provides the changes in the lease liabilities arising from financing activities, including both cash and non-cash changes:

	Notes	2021 $000	2020 $000
Lease liabilities			
At 1 January		**19,797**	31,502
Additions		**20**	446
Accretion of interest	11	**973**	1,216
Retirement		**–**	(38)
Lease modification		**–**	(2,384)
Payments		**(4,254)**	(10,945)
At 31 December	25	**16,536**	19,797
of which current		**4,773**	5,466
of which non-current		**11,763**	14,331
Amounts recognized in profit or loss in relation to leases			
Depreciation expense of right-of-use assets		**5,377**	5,534
Interest expense on lease liabilities		**973**	1,216
Expense relating to of low-value assets (included in other operating expenses)		**196**	161
Total		**6,546**	6,911
Cash flow information			
Total cash outflows for leases		**4,254**	10,945

The Group leases premises to host its satellite gateway equipment and leases satellite capacity assets. Rental contracts are typically made for fixed periods of 3 years to 10 years, but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants. Leased asset may not be used for borrowing purposes.

The Group has lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased asset and align with the Group's business needs. The extension and termination options held are usually exercisable only by the group and not by the respective lessor.

Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3).

17 Intangible assets

Accounting policies

Licenses, representing a right to transmission of telecommunication signals utilizing geo-stationary satellite and use of associated radio frequencies, are capitalized at cost only when future economic benefits are probable. Cost includes purchase price together with any directly attributable expenditure.

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

Refer Note 37 Business combinations, for accounting policy on goodwill.

The estimated useful lives for current and comparative periods are as follows:

Asset category	Years
Licenses	10-15
Development costs (user terminal development)	3-5
Software (including operation and billing support systems)	2-10

	Development costs $000	Licenses $000	Software $000	Goodwill $000	Total $000
Cost					
At 1 January 2020	72,569	180	13,825	3,745	90,319
Additions	–	–	1,084	–	1,084
Exchange differences	–	–	12	–	12
At 31 December 2020	72,569	180	14,921	3,745	91,415
Amortisation					
At 1 January 2020	63,600	128	10,067	–	73,795
Charge for the year	3,449	–	1,085	–	4,534
Exchange differences	–	–	3	–	3
At 31 December 2020	67,049	128	11,155	–	78,332
Net book value at 31 December 2020	5,520	52	3,766	3,745	13,083
Cost					
At 1 January 2021	**72,569**	**180**	**14,921**	**3,745**	**91,415**
Additions	**–**	**–**	**520**	**–**	**520**
Exchange differences	**–**	**–**	**(6)**	**–**	**(6)**
Transfer from property, plant and equipment (Note 13)	**–**	**–**	**597**	**–**	**597**
At 31 December 2021	**72,569**	**180**	**16,032**	**3,745**	**92,526**
Amortisation					
At 1 January 2021	**67,049**	**128**	**11,155**	**–**	**78,332**
Charge for the year	**2,758**	**52**	**1,096**	**–**	**3,906**
Exchange differences	**–**	**–**	**(4)**	**–**	**(4)**
Transfer from property, plant and equipment (Note 13)	**–**	**–**	**464**	**–**	**464**
At 31 December 2021	**69,807**	**180**	**12,711**	**–**	**82,698**
Net book value at 31 December 2021	**2,762**	**–**	**3,321**	**3,745**	**9,828**

18 Group information

A) Subsidiaries

Accounting policies

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights of an entity that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Adjustments are made to the amounts reported by subsidiaries, when necessary, to align them with the policies adopted by the Group.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

The consolidated financial statements of the Group include:

Name	Principal activities	Country*	Equity % 2021	Equity % 2020
Al Yah Advanced Satellite Communication Services PJSC (Al Yah Advanced)	Leasing of satellite communication capacity	UAE	**100%**	100%
Star Satellite Communications Company PJSC (Star)	Telecommunication services via Satellite and integrated satellite communication and managed services	UAE	**100%**	100%
Al Yah 3 B.V.	Holding company (liquidated during 2021)	Netherlands	**–**	100%
Yahsat Treasury Sole Proprietorship LLC (formerly Amwaj Communications LLC)	Group corporate treasury	UAE	**100%**	100%
Thuraya Telecommunications Company PJSC (Thuraya)	Mobile telecommunication services via Satellite	UAE	**89.83%**	89.83%
Thuraya Telecommunications Japan Co. Ltd.	Mobile telecommunication services via Satellite	Japan	**89.83%**	89.83%
BCS Group (BCS)				
Broadband Connectivity Solutions (Restricted) Limited (BCS Holdco)	Holding company	UAE	**80%**	80%
BCS Investments LLC (BCS Opco)	Telecommunication services via satellite	UAE	**80%**	80%
Star Network Marketing Services Company (Proprietary) Limited (SNMS)	Marketing support office	South Africa	**80%**	80%
Al Najm Communications Company LLC (Al Najm)	Telecommunication services via satellite	UAE	**80%**	80%
Yala B.V. (Yala)	Telecommunication services via satellite	Netherlands	**80%**	80%
Broadband Connectivity Solutions Limited (BCS Nigeria)	Telecommunication services via satellite	Nigeria	**80%**	–

B) Material partly-owned subsidiaries

Financial information of subsidiaries that have significant non-controlling interests is provided below.

	31 December 2021		31 December 2020	
	Thuraya $000	BCS $000	Thuraya $000	BCS $000
Proportion of equity interest held by non-controlling interests	**10.17%**	**20.00%**	10.17%	20.00%
Non-controlling interests	**13,111**	**63,591**	13,088	70,503
Profit attributable to non-controlling interests	**3**	**(6,892)**	(576)	(6,926)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss:	31 December 2021 Thuraya $000	31 December 2021 BCS $000	31 December 2020 Thuraya $000	31 December 2020 BCS $000
Revenue	**81,010**	**27,734**	79,035	27,333
Adjusted EBITDA	**27,477**	**(3,515)**	23,933	(5,290)
Depreciation, amortisation and impairment	**(24,581)**	**(32,976)**	(26,325)	(31,802)
Fair value adjustments on investment property	**(1,906)**	**–**	(2,030)	–
Operating profit/(loss)	**990**	**(36,491)**	(4,422)	(37,092)
Net finance income/(cost)	**(948)**	**2,201**	(1,238)	2,679
Income tax expense	**(13)**	**(171)**	(1)	(219)
Profit/(loss) for the year	**29**	**(34,461)**	(5,661)	(34,632)
Other comprehensive income	**196**	**(99)**	(99)	(5)
Total comprehensive (loss)/income	**225**	**(34,560)**	(5,760)	(34,637)
Attributable to non-controlling interests	**23**	**(6,912)**	(586)	(6,927)

Summarised statement of financial position:	Thuraya $000	BCS $000	Thuraya $000	BCS $000
Current assets (Inventories, receivables and cash balances)	**86,935**	**142,875**	79,089	155,315
Non-current assets (Property, plant and equipment and other assets)	**93,648**	**194,405**	114,574	221,978
Current liabilities (Trade and other payables, deferred revenue and borrowings)	**(37,329)**	**(18,560)**	(53,097)	(19,681)
Non-current liabilities (Borrowings and other liabilities)	**(14,323)**	**(766)**	(11,857)	(5,100)
Net assets/Total Equity	**128,931**	**317,954**	128,709	352,512
Attributable to:				
The Shareholders	**115,820**	**254,363**	115,621	282,009
Non-controlling interests	**13,111**	**63,591**	13,088	70,503

19 Equity-accounted investments

Accounting policies

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associate, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Please refer to Note 37 for the Group's accounting policies on acquisition of an associate in a business combination.

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19 Equity-accounted investments continued

The group's associates are:

Name	Principal activities	Country*	Equity % 2021	Equity % 2020
Al Maisan Satellite Communication Company LLC (Al Maisan)	Leasing of satellite capacity primarily for broadcasting customers	UAE	**65%**	65%
HNS Participações Empreendimentos S.A. (HPE; Brazil JV Co)	Telecommunication services via satellite	Brazil	**20%**	20%

Although Star holds more than 50% of the equity in Al Maisan, it does not control the financial and/or operating policies of Al Maisan. This is pursuant to an agreement, which provides the majority board representation to other shareholder of Al Maisan. However, as Star has the power to participate in the financial and operating policy decisions of Al Maisan due its representation on the board, it accounts for its investment as an associate.

Movement in the investments in associates:	Notes	2021 $000	2020 $000
At 1 January		**125,574**	151,285
Contributions made during the year		**9,880**	18,558
Return of investment from Al Maisan		**(2,080)**	–
Share of results for the year		**(9,589)**	(16,360)
Exchange differences		**(7,582)**	(27,909)
At 31 December		**116,203**	125,574

Aggregate financial information of Al Maisan:	2021 $000	2020 $000
Share of results of equity-accounted investee	**1,897**	(2,053)
Share of total comprehensive income of equity-accounted investee	**1,897**	(2,053)

Aggregate financial information of HPE:	2021 $000	2020 $000
Statement of comprehensive income (100%)		
Revenue	**107,165**	109,684
Loss for the year	**(61,177)**	(71,537)
Other comprehensive income	**–**	–
Total comprehensive loss	**(61,177)**	(71,537)
Group's share of total comprehensive loss (20%)	**(11,486)**	(14,307)
Group's share of results in HPE	**(11,486)**	(14,307)
Statement of financial position (100%)		
Current assets	**54,731**	57,215
Non-current assets	**246,573**	295,309
Current liabilities	**(19,103)**	(36,544)
Non-current liabilities	**(8,059)**	(8,647)
Net assets 100%	**274,142**	307,333
Group's share in net assets (20%)	**54,829**	61,467
Goodwill (20%)	**40,950**	43,499
Other costs relating to the investment	**239**	239
Carrying amount of the investment in HPE	**96,018**	105,205

20 Inventories

Accounting policies

Inventories are stated at the lower of cost and net realisable value, after making loss allowance to account for obsolete or slow moving items. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories	Notes	2021 $000	2020 $000
Equipment and accessories – satellite services		**14,952**	23,862
Ground operations spares		**1,732**	1,337
		16,684	25,199
Loss allowance		**(10,821)**	(11,908)
		5,863	13,291
Movement in loss allowance for inventories:			
At 1 January		**11,908**	9,113
Provisions made during the year		**667**	2,692
Reversal for the year		**(1,754)**	–
Other movement		**–**	103
At 31 December		**10,821**	11,908

During 2021, USD 26.8 million (2020: USD 20.1 million) of inventories were recognised as cost of equipment and accessories sold (note 6).

21 Related party transactions and balances

Identity of related parties

The Group, in the ordinary course of business, enters into transactions, at agreed terms and conditions, with other business enterprises or individuals that fall within the definition of related party contained in International Accounting Standard 24 Related Party Disclosures.

The Group has a related party relationship with the Parent Company and business entities over which the Parent Company can exercise control or significant influence; entities which are under common control of the shareholders of the Parent Company and associates.

a) Related party transactions:

Transaction with key management personnel	2021 $000	2020 $000
Key management personnel compensation:		
Short term employment benefits	**6,625**	3,609
Post-employment benefits	**344**	298

21 Related party transactions and balances continued

Transaction with other related parties	Notes	2021 $000	2020 $000
Revenue			
Entities under common control*		283,972	282,409
Associate		1,379	1,326
Total		285,351	283,735

* Revenue from entities under common control includes USD 275 million (2020: USD 278 million) from a single customer (refer to Note 21 b)(i) below). Revenue from such customer is recorded under infrastructure, managed solutions and mobility solutions segments. There are no revenues from an individual customer, except as disclosed above, that represent 10 percent or more of the Group's total revenue.

	Notes	2021 $000	2020 $000
Interest income on short term deposits			
Entities under common control	11	191	2,784
Outsourced expenses, office lease rent, systems support			
Entities under common control		1,337	1,272
Parent Company		–	16
Cost of sales			
Entities under common control		443	1,762
Associate		1,952	534
Total		2,395	2,296
Learning and development expenses			
Entities under common control		–	99

b) Related party balances

	Notes	2021 $000	2020 $000
Trade and other receivables due from related parties			
Entities under common control		71,307	53,596
Associates		157	1,490
Parent company		1,118	150
Total	22	72,582	55,236
Short-term deposits with a related party			
Entity under common control	23	–	130,000
Trade and other payables due to related parties			
Entities under common control		4,830	4,116
Associate		376	1,143
Parent company		74	–
Total	24	5,280	5,259
Deferred revenue			
Entities under common control		3,380	3,994
Associate		183	176
Total	27	3,563	4,170
Advance from a related party			
Entity under common control	24	291,000	291,000

(i) Transactions with an entity under common control

a) The Group provides capacity services pursuant to the Capacity Services Agreement ("CSA") with the UAE Armed Forces (UAEAF). The capacity charges payable under the CSA is billed semi-annually in advance. The future payments pertaining to the lease element included in the capacity charges, where the Group is the lessor, are provided in the table below.

In terms of the CSA with UAEAF, an aggregate amount of USD 291 million (the "Down Payment") was payable by UAEAF in three annual instalments starting June 2008, as an advance. Accordingly, the Group received the first instalment of USD 116.4 million in June 2008 and further two instalments of USD 87.3 million, in June 2009 and June 2010, respectively from UAEAF. The Down Payment will be set off against the capacity charges in equal instalments from 1 January 2023 until the termination of the agreement. The advance is attributable to the lease element at USD 163 million (2020: 163 million), and to service element (contract with customers) at USD 128 million (2020: USD 128 million) (see Note 5).

On 17 June 2021, the Group signed the T4-NGS capacity services agreement with UAEAF (T4-NGSA) for a total contract value of $708.4 million (AED 2.6 billion). The term of the T4-NGSA is 15 years from the date of commencement of commercial services of T4-NGS which is expected in the second half of 2024.

b) The Group has also entered into contracts with UAEAF for the provision of operation, maintenance and training services.

c) The Group has entered into various contracts with UAEAF for the provision of end-to-end integrated satellite communication and managed services. Revenue from such contracts are reported under managed services. The balance due from UAEAF at the reporting date, includes amounts invoiced to date in relation to the afore-mentioned contracts.

d) UAEAF has allocated a plot of land (Secondary site in the emirate of Abu Dhabi) to the Company and has granted permission to the Company to construct and access a Satellite Ground Control Station on the plot. Title to the plot of land has not been transferred to the Company and accordingly the plot has not been recognized in the consolidated financial statements. In addition, refer to note 28 to the consolidated financial statements which discloses information about another plot of land (Primary site) received by the Company.

Future payments pertaining to lease element included in capacity charges	2021 $000	2020 $000
Year 1	**128,184**	128,184
Year 2	**128,184**	128,184
Year 3	**128,184**	128,184
Year 4	**128,184**	128,184
Year 5	**109,723**	128,184
Beyond Year 5	**–**	109,723
At 31 December	**622,459**	750,643

(ii) Transactions with other entities under common control

a) Star has also entered into contracts with various entities under common control for the provision of managed services. These entities mainly include Presidential Guard Command, ADNOC Offshore and ADNOC Drilling.

b) The Company procures outsourced resources from affiliates of its Parent Company. During the previous year, the Group contributed to learning and development programmes in partnership with affiliates of the Parent Company.

c) During the previous year, the Group placed short-term deposits with Mubadala Treasury Holding Company LLC for USD 30 million with interest rates ranging from 0.21% to 0.63%.

d) During the previous year, the Group also placed short-term deposits with Abu Dhabi Commercial Bank for USD 100 million with an interest rate of 0.80%.

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21 Related party transactions and balances continued

(iii) Transactions with associates

a) Star charges both associates, Al Maisan and HPE for satellite operations support services.

b) Star also leases satellite capacity from Al Maisan to facilitate the requirements of its customers relating to managed services contracts.

The outstanding amounts at year end, except for advance from a related party which carry specific repayment terms as specified above, are expected to be settled in cash. No impairment charge has been recognised during the year in respect of amounts owed by related parties.

Also refer Note 25 for other related party transactions.

22 Trade and other receivables

	Reference	Notes	2021 $000	2020 $000
Trade receivables – third parties			**70,096**	74,906
Trade receivables – related parties*			**61,747**	44,406
Sub total	a		**131,843**	119,312
Allowance for expected credit losses	b		**(21,192)**	(24,864)
Trade receivables, net of allowance	**c**		**110,651**	94,448
Accrued income – third parties			**7,031**	9,986
Accrued income – related parties*			**10,805**	9,841
Contract assets	**d**		**17,836**	19,827
Prepayments – orbital services			**10,000**	10,000
Prepayments – others			**2,686**	2,647
Advances – third parties			**11,348**	4,706
Advances – related parties*			**30**	642
Other receivables – third parties			**5,456**	5,906
Other receivables – related parties*			**–**	347
Sub total	e		**29,520**	24,248
Total trade and other receivables	c+d+e		**158,007**	138,523
of which non-current			**10,382**	11,227
of which current			**147,625**	127,296
Additional information:				
*Total due from related parties	y	21	**72,582**	55,236
Total contract balances, net of allowance	a+b+d		**128,487**	114,275
Total contract balances, excluding allowance	a+d		**149,679**	139,139

	2021 Gross carrying amount $000	2021 Loss allowance $000	2020 Gross carrying amount $000	2020 Loss allowance $000
Categories of trade receivables and contract assets				
Managed solutions, government customers	**54,331**	**(535)**	49,748	(859)
Managed solutions, general category	**16,684**	**(472)**	6,391	(352)
Infrastructure services, government customers	**5,892**	**–**	5,829	–
Infrastructure services, general category	**3,395**	**(3,395)**	3,884	(2,339)
Data solutions, general category	**19,648**	**(10,151)**	11,357	(6,000)
Data solutions, high risk category	**990**	**(990)**	4,970	(4,882)
Mobility solutions, general category	**47,555**	**(5,649)**	56,670	(10,432)
Others	**1,184**	**–**	290	–
	149,679	**(21,192)**	139,139	(24,864)

Movement in the allowance for expected credit losses:	Notes	2021 $000	2020 $000
At 1 January		**24,864**	27,095
Charge for the year		**2,647**	6,522
Reversal for the year		**(5,065)**	(320)
Written off during the year as uncollectible		**(1,254)**	(8,432)
Exchange differences		**–**	(1)
At 31 December		**21,192**	24,864

	2021 $000	2020 $000
The ageing of trade receivables is as follows:		
Not past due	**40,960**	32,479
Past due 0 to 90 days	**23,579**	27,908
Past due 91 to 180 days	**17,964**	27,388
Past due above 180 days	**49,340**	31,537
	131,843	119,312

The Group's exposure to credit risk is disclosed in Note 36.

Advances represent advances paid to suppliers for procurement of goods and services mainly relating to managed services contracts.

Other receivables include Staff-related receivables of USD 3.8 million (2020: USD 3.9 million).

23 Cash and short-term deposits

	Notes	2021 $000	2020 $000
Cash on hand and in banks		**277,738**	94,912
Short-term deposits with banks		**122,536**	3
Short-term deposits with related parties	21	**–**	130,000
Cash and short-term deposits		**400,274**	224,915
Less: Short-term deposits with original maturities of over three months		**(122,536)**	(120,000)
Cash and cash equivalents		**277,738**	104,915

The short-term deposits earn interest at prevailing commercial rates.

For purposes of the consolidated statement of cash flows, changes in lease liabilities and borrowings arising from financing activities are disclosed in Notes 16(B) and 25, respectively.

24 Trade and other payables

	Notes	2021 $000	2020 $000
Trade payables – third parties		**37,404**	39,135
Trade payables – related parties*		**677**	1,152
Accruals		**31,886**	32,197
Other payables – third parties		**6,091**	5,949
Other payables – related parties*		**4,603**	4,107
Advance from a related party	21	**291,000**	291,000
Advances from other customers		**1,592**	5,999
Total trade and other payables		**373,253**	379,539
of which non–current		**291,000**	291,000
of which current		**82,253**	88,539
*Trade and other payables due to related parties	21	**5,280**	5,259
Contract liability:			
Included in advance from a related party		**128,040**	128,040
Included in advances from other customers		**1,592**	5,999

Advance from a related party is classified as non-current (Refer Note 21).

Accruals include employee-related accruals of USD 10.3 million (2020: USD 8.3 million).

25 Borrowings

The carrying amount of borrowings are as follows:

	Notes	2021 $000	2020 $000
A) Term loans			
Principal amounts		**532,819**	255,716
Unamortised transaction costs		**(17,118)**	(2,744)
Term loans – net of unamortised transaction costs		**515,701**	252,972
B) Lease liabilities	16	**16,536**	19,797
Total borrowings		**532,237**	272,769
of which current		**62,669**	129,114
of which non-current		**469,568**	143,655

A) Term loans

The breakdown of the carrying amounts of the term loans is as follows:

	Repayment tenor Years	Principal amount $000	Unamortised transaction costs $000	Carrying amount $000
At 31 December 2021				
Term loan 1	2012–2022	**–**	**–**	**–**
Term loan 4	2015–2021	**–**	**–**	**–**
Term loan 5	2022–2026	**400,000**	**(4,135)**	**395,865**
Term loan 6	2024–2032	**132,819**	**(12,983)**	**119,836**
		532,819	**(17,118)**	**515,701**
At 31 December 2020				
Term loan 1	2012–2022	251,461	(2,726)	248,735
Term loan 4	2015–2021	4,255	(18)	4,237
		255,716	(2,744)	252,972

The table below provides the changes in the term loans arising from financing activities, including both cash and non-cash changes:

	2021 $000	2020 $000
At 1 January	**252,972**	367,736
Proceeds	**532,819**	–
Transaction costs (of which $16.3 million was paid in cash)	**(18,043)**	–
Amortisation of transaction costs (non–cash)	**3,670**	1,837
Repayments	**(255,717)**	(116,601)
At 31 December	**515,701**	252,972

Notes to the consolidated financial statements continued
for the year ended 31 December 2021

25 Borrowings continued

The principal amounts of the term loans are repayable as follows:

	Term loan 1 $000	Term loan 4 $000	Term loan 5 $000	Term loan 6 $000	Total $000
At 31 December 2021					
Within one year	–	–	60,000	–	60,000
1 – 2 years	–	–	120,000	–	120,000
2 – 5 years	–	–	220,000	39,065	259,065
Beyond 5 years	–	–	–	93,754	93,754
	–	–	400,000	132,819	532,819
At 31 December 2020					
Within one year	121,229	4,255	–	–	125,484
1 – 2 years	130,232	–	–	–	130,232
2 – 5 years	–	–	–	–	–
Beyond 5 years	–	–	–	–	–
	251,461	4,255	–	–	255,716

Term loan 1: The Group entered into a Credit Agreement with a consortium of banks for a US dollar denominated unsecured term loan facility in the aggregate amount of USD 1,200 million. The Group drew down USD 984 million of the loan facility until the expiry of the availability period in 2012. The loan was repayable in twenty one semi-annual instalments starting from 31 December 2012. The loan bore interest at LIBOR plus margin ranging from 1.1% to 1.4% per annum over the term of the loan. During the year, Term loan 1 was fully acquired by the Group (refer to Term loan 5 below).

Term loan 4: Thuraya obtained this facility in 2016 for a total value of USD 17.7 million (AED 65 million) of which Thuraya obtained USD 5.4 million in 2016 and USD 12.2 million in 2018. The loan was repayable in equal monthly instalments over five years at EIBOR plus 4% with a minimum rate of 5.75%. The loan was structured as an Ijarah facility ("lease to own") related to Thuraya's primary gateway and ground segment assets and business expansion. It was secured by a commercial mortgage on the assets, assignment of receivables, pledge over the bank account maintained with the bank, assignment of insurance over the financed assets and promissory note. During the year, Thuraya repaid the remaining balance of USD 4.3 million (2020: USD 4.3 million).

Term loan 5: On 14 June 2021, the Group entered into a new Term Facility Agreement for a facility amount of $400 million (Term loan 5 or 2021 Term Loan $400m Facility). Term loan 5 has a tenor of five years and is repayable in eight semi-annual installments starting from 14 December 2022. Term loan 5 bears interest at LIBOR plus margin of 1.30% per annum.

On 22 June 2021, the Term loan 5 was drawn in full and was partially used to acquire the outstanding borrowings of Term loan 1 amounting to $251,461 thousand on the same date. Upon acquisition of Term Loan 1, the remaining unamortised transaction cost of $1,858 thousand was charged to profit or loss under finance costs and is included in the line item 'Amortisation of transaction costs' above.

Term loan 6: On 14 June 2021, the Group entered into an export credit agency facility through a BPIFAE Facility Agreement (Term loan 6 or ECA $300.5m Facility). Term loan 6 will be used to partly fund the capital expenditure relating to the T4-NGS. The total facility amount is $300.5 million with a tenor of 8.5 years and an availability period starting from 14 June 2021 until the date falling 5 months after the starting point of credit. The ECA $300.5m Facility bears interest at LIBOR plus margin of 0.60% per annum. During the year, an amount of $132.8 million was drawn from this facility. As of 31 December 2021, the unutilised facility amounted to $167.7 million.

Both Term loan 5 and Term loan 6 contain customary representations, warranties, covenants and undertakings including limitations on incurrence of financial indebtedness, mergers, acquisitions, disposals and negative pledge in relation to certain assets of the Group save, in each case, as permitted under the terms of the facility documents. In both facilities, the Group is required to maintain an interest cover ratio of not less than 4.00:1 and a net leverage ratio of no more than 3.00:1, in each case on a calculation date (which occurs on 30 June and 31 December in each financial year).

Borrowings include outstanding balances due to related parties aggregating to USD 95 million (2020: USD 59.7 million). The interest expense on loans from related party banks amounted to USD 4.2 million (2020: USD 4.8 million).

B) Lease liabilities – Refer to Note 16 B)

26 Derivatives used for hedging

Accounting policies

Derivative financial instruments including hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Such 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.

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.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Interest rate exposure

The Group has an obligation to pay interest at variable rates (LIBOR plus margin) in connection with its borrowings.

Previously, the Group entered into a cash flow hedge, by acquiring an interest rate swap (IRS), to hedge the variability in interest rate with respect to Term Loan 1. Under the IRS agreement, the Group received a variable rate of interest equal to LIBOR and pays fixed rate on notional amounts that mirror the drawdown and repayment schedule of the loan. The IRS settlements were made semi-annually until its termination in June 2021 as described below.

On 15 June 2021, the Group entered into interest rate swap (IRS) agreements to hedge the variability in interest rates with respect to Term loan 5 and the ECA Facility which the Group entered into during the year (refer to Note 25 A). The effective date for both IRS agreements is 14 July 2021.

On 22 June 2021, the Group terminated all, but one, IRS agreements relating to Term Loan 1 resulting in a total settlement of $8.6 million. Consequently, the Group discontinued hedge accounting which resulted in the reclassification of the related balance in the accumulated hedging reserve to profit or loss amounting to $5.2 million. The remaining IRS formed part of the new hedging arrangement relating to Term loan 5.

Notes to the consolidated financial statements continued
for the year ended 31 December 2021

26 Derivatives used for hedging continued

Interest rate swaps – fair value	2021 $ 000	2020 $ 000
A) Derivative financial assets	**4,854**	–
B) Derivative financial liabilities	**(193)**	(9,657)
C) Hedge reserve	**5,426**	(9,657)

A) Derivative financial assets		
Contractual maturities		
Within one year	**1,644**	–
1 – 2 years	**1,280**	–
2 – 5 years	**1,699**	–
After 5 years	**231**	–
	4,854	–
Notional amount outstanding	**504,044**	–
B) Derivative financial liabilities		
Contractual maturities		
Within one year	**193**	8,016
1 – 2 years	**–**	1,641
	193	9,657
Notional amount outstanding	**8,196**	197,252

C) Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the cash-flow hedging instruments related to forecasted transactions.

Accounting estimates and judgments

The fair value of derivative financial instruments is based on their quoted market price, if available. Where the fair value of such instruments cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of derivative financial instruments.

The fair value measurement classification of the derivative financial instruments is disclosed in Note 36.

27 Deferred revenue

	Notes	2021 $ 000	2020 $ 000
Unutilized airtime balances from prepaid scratch cards		**18,001**	12,469
Others		**8,987**	9,626
Total deferred revenue		**26,988**	22,095
of which contract liabilities – related parties	21	**3,563**	4,170

28 Government grants

Accounting policies

Non-monetary government grants

The Group receives certain assets, primarily in the form of land, from entities related to the Government of Abu Dhabi, as grants to carry out its operations. When it is probable that future economic benefits will flow to the Group, such land received is recognised in the consolidated financial statements at nominal value.

During 2009, the Company received a plot of land (Primary site) from the Urban Planning Council, of the Government of Abu Dhabi as a government grant. The plot of land has been used to construct the Satellite Ground Control Station, which forms an integral part of the satellite system. Accordingly, the plot of land has been classified as property, plant and equipment. Both the grant and the land have been recorded at nominal value in the consolidated financial statements.

29 Provision for employees' end of service benefits

Accounting policies

For accounting policies on provision for employees' end of service benefits, refer Note 7.

The movement in the provision is as follows:

	Note	2021 $ 000	2020 $ 000
At 1 January		**10,515**	10,075
Charge during the year		**2,148**	2,342
Payments made during the year		**(1,418)**	(1,891)
Other movements		**15**	–
Exchange differences		**(22)**	(11)
At 31 December		**11,238**	10,515

30 Share capital and additional paid-in capital

The movement in the share capital is as follows:

	2021		2020	
	Shares (000)	$ 000	Shares (000)	$ 000
At 1 January	**10,000**	**2,722**	10,000	2,722
Conversion of additional paid-in capital	**2,429,770**	**661,612**	–	–
At 31 December	**2,439,770**	**664,334**	10,000	2,722

On 17 June 2021, the Company's share capital increased from AED 10,000,000 to AED 2,439,770,265 by conversion of additional paid-in capital into share capital. Share capital is converted into USD at the rate of AED 3.6725 to USD 1.

On 14 July 2021, the Parent Company completed the secondary offering to the public of 975,908,106 shares representing 40% of the Company's share capital, upon which all of the Company's shares were listed on the Abu Dhabi Securities Exchange. Subsequent to the listing, the Parent Company continues to own 60% of the Company's share capital.

31 Dividends

During the year, the Company paid total dividends of $132.5 million as follows:

i) $36 million representing $3.6 per fully paid share which was paid in April 2021 prior to the increase in the Company's share capital (refer to Note 30); and
ii) $96.5 million representing $0.04 per fully paid share which is comprised of $44 million relating to the financial year 2020 and an interim dividend of $52.5 million relating to the financial year 2021, both of which were paid in July 2021.

During the previous year, the Company paid total dividends of $55 million representing $5.5 per fully paid share.

On 28 February 2022, the Board of Directors proposed a final dividend of $52.5 million representing $0.02 (AED 0.08) per share for the second half of the financial year 2021 bringing the total dividends per share to $0.04 (AED 0.16) per share for the year. The proposed dividend is subject to approval of the shareholders at the annual general assembly.

32 Statutory reserve

Article 103 of the UAE Federal Law No.2 of 2015 requires that 10% of the Company's profit be transferred to a non-distributable statutory reserve until the amount of the statutory reserve becomes equal to 50% of the paid-up share capital. The consolidated financial statements include statutory reserve of the Company and of its subsidiaries.

33 Capital commitments and contingent liabilities

	Note	2021 $ 000	2020 $ 000
Capital commitments – committed and contracted		**259,305**	267,440
Contingent liabilities – performance bonds provided by banks in the normal course of business		**30,956**	31,479

During 2020, the Group entered into a contract for procurement of a next generation satellite known as Thuraya 4 (T4), with an option to procure an additional satellite known as Thuraya 5 (T5). As at the reporting date the costs relating to T4 satellite is committed, hence included under capital commitments – committed and contracted.

34 Leases – Group as a Lessor

The future minimum lease rental receivables under non-cancellable operating leases are as follows:

	Note	2021 $ 000	2020 $ 000
Satellite capacity leases – related party	21(i)	**622,459**	750,643
Investment property leases – third parties	15	**1,895**	1,383
Other leases: *			
Satellite capacity leases – third parties		**353**	940
Gateway hosting – third parties		**1,812**	1,797
At 31 December		**626,519**	754,763

	2021 $ 000	2020 $ 000
* The future minimum lease rental receivables under non-cancellable operating leases relating to other leases are as follows:		
Year 1	**1,033**	2,737
Year 2	**604**	–
Year 3	**528**	–
At 31 December	**2,165**	2,737

35 Earnings per share

	2021 $ 000	2020 $ 000
Profit for the period attributable to the Shareholder (in $'000)	**69,762**	68,902
Weighted average number of ordinary shares outstanding ('000)	**2,439,770**	2,439,770
Basic and diluted earnings per share ($)	**0.029**	0.028
Basic and diluted earnings per share (AED)	**0.105**	0.104

On 17 June 2021, the Company's share capital increased from AED 10,000,000 to AED 2,439,770,265 by conversion of additional paid-in capital into share capital (Note 30). As the increase in the number of shares outstanding did not have a corresponding change in resources, the number of shares for 2020 have been adjusted for the purpose of calculating the weighted average number of ordinary shares.

Notes to the consolidated financial statements continued
for the year ended 31 December 2021

36 Financial risk management

Overview
The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash held at bank.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	2021 $ 000	2020 $ 000
Derivative financial assets	26	**4,854**	–
Trade receivables and contract assets	22	**128,487**	114,275
Other receivables	22	**5,456**	6,253
Cash and short-term deposits	23	**400,274**	224,915
		539,071	345,443

Trade receivables and contract assets
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. New customers are analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Outstanding customer receivables and contract assets are regularly monitored.

An impairment analysis is performed at each reporting date using loss rates applied against each customer segment to measure expected credit losses. The provision rates are based on historical patterns of default for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The analysis and segmentation of customers is determined separately for each of the revenue streams, namely, data and mobility solutions satellite services, infrastructure services and managed solutions.

The Group does not hold collateral as security. The Group considers the risk of concentration as low, with respect to trade receivables and contract assets, since credit risk is mitigated by the financial stability of its customers of which approximately 48% (2020: 47%) are related parties or government related entities. Moreover, a substantial portion of the remaining customers are located in several jurisdictions and industries and operate in largely independent markets.

Financial instruments and cash deposits
The Group had credit risk arising from its derivatives used for hedging, which are settled on a net basis. With respect to cash and short-term deposits, management manages its credit risk by only dealing with reputable banks.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group ensures that it has sufficient cash and liquid assets on demand to meet its expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Summarised below in the table is the maturity profile of financial liabilities based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Within one year	1 – 2 years	2 – 5 years	Beyond 5 years	Total
2021					
Term loans	**65,713**	**124,426**	**267,662**	**98,206**	**556,007**
Lease liabilities	**5,569**	**2,322**	**6,743**	**4,415**	**19,049**
Derivative financial liabilities	**193**	**–**	**–**	**–**	**193**
Trade and other payables (excluding advances from customers)	**80,662**	**–**	**–**	**–**	**80,662**
At 31 December 2021	**152,137**	**126,748**	**274,405**	**102,621**	**655,911**
2020					
Term loans	129,357	131,882	–	–	261,239
Lease liabilities	6,244	3,710	6,842	6,618	23,414
Derivative financial liabilities	8,029	1,646	–	–	9,675
Trade and other payables (excluding advances from customers)	82,540	–	–	–	82,540
At 31 December 2020	226,170	137,238	6,842	6,618	376,868

The facility amounts relating to the Group's term loans are disclosed in Note 25.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i) Currency risk

The Group is exposed to currency risk in respect of transactions denominated in currencies other than USD. In respect of transactions denominated in the UAE Dirham ("AED"), the Group is currently not exposed to currency risk as the AED is pegged to USD. For significant transactions denominated in currency other than USD and AED the Group utilises forward exchange contracts to reduce its currency risk exposure.

The Group is also exposed to currency risk in respect of its investment in its Brazilian associate. The Group regularly monitors the movement in exchange rates to assess the sensitivity and impact to its long term business plan.

ii) Interest rate risk

The Group adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps. Short-term deposits earn fixed rates of interest.

36 Financial risk management continued

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of borrowings affected, after the impact of hedge accounting.

The Group's profit before tax for the year is affected through the impact on floating rate borrowings as follows. Amounts shown represent impact on profit if the market risk variables had been different at the end of the reporting period with all other variables held constant and has been computed on the basis of assumptions and indices used and considered by other market participants.

	2021 $ 000	2020 $ 000
Interest expense		
- 25 basis points	**57**	203
+ 25 basis points	**(57)**	(203)

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest benchmarks is being undertaken globally, including the replacement of some London Interbank Offered Rates (LIBOR) with an alternative benchmark rate (referred to as "LIBOR" reform). The Group has exposure to USD LIBOR on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group's main IBOR exposure at 31 December 2021 was indexed to US Dollar LIBOR.

On 5 March 2021, ICE Benchmark Administration (IBA), the Financial Conduct Authority (FCA) and the International Swaps and Derivatives Association (ISDA) announced that representative Libor rates will no longer be available immediately after 31 December 2021 for the 1-week and 2-month US dollar settings, and the remaining US dollar settings immediately after 30 June 2023. Adoption of a replacement benchmark rate, after the discontinuation of USD LIBOR, will have an impact on the Term Facility Agreement (Term loan 5), BPIFAE Facility Agreement (Term loan 6) and Interest Rate Swap (IRS) Agreements. These agreements provide for a mechanism for transition from USD LIBOR to an agreed replacement benchmark.

The carrying amounts of Term loan 5 and Term loan 6 are disclosed in Note 25 while the fair value and notional amounts of the IRS are disclosed in Note 26.

Fair values

The fair value measurements of borrowings and derivative financial instrument are classified as 'Level 2' within the fair valuation hierarchy i.e. wherein fair value is determined using valuation techniques in which significant inputs are based on observable market data.

Derivatives

The fair value of interest rate swaps is based on broker quotes, which are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Derivatives fall into Level 2 of the fair value hierarchy.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date (Level 2 of fair value hierarchy).

The fair values of borrowings and other financial assets and financial liabilities approximate their carrying values.

There were no transfers between Level 1 and Level 2 during 2021 and 2020.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages capital using a gearing ratio, which is net debt divided by equity attributable to Yahsat Owner plus net debt. The Group's policy is to keep the gearing ratio within a range to meet the business needs of the Group. The Group includes within net debt, interest bearing borrowings and cash and short-term deposits. Capital includes share capital, additional paid-in capital, reserves and retained earnings.

	Notes	2021 $ 000	2020 $ 000
Interest bearing borrowings (excluding unamortised transaction costs)	25	549,355	275,513
Less: cash and short-term deposits	23	(400,274)	(224,915)
Net debt		149,081	50,598
Equity attributable to the Shareholders		841,384	896,524
Equity attributable to the Shareholders and net debt		990,465	947,122
Gearing ratio (%)		15%	5%

37 Business combinations and changes in ownership interests
This note provides information on changes to the group structure in the current and previous years and the significant accounting policies followed by the Group.
There were no changes to the group structure in the current year and prior year.

Accounting policies
Business combinations
Business combinations are accounted for using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other operating expenses.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of profit or loss.

37 Business combinations and changes in ownership interests continued

Accounting policies continued

Business combinations continued

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions in IAS 37 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognized less (when appropriate) cumulative amortisation recognized in accordance with the requirements for revenue recognition.

Transfer of entities under common control

Transfers giving rise to transfer of interests in entities that are under the common control of the shareholder are accounted for at the date that transfer occurred, without restatement of prior periods. The assets and liabilities acquired are recognized at the carrying amounts recognized previously in the books of transferor entity. The components of equity of the acquired entities are added to the same components within Group entity. Any cash paid for the acquisition is recognized directly in equity.

Loss of control of subsidiary

When the Group loses control of a subsidiary, the Group

a) derecognises the assets and liabilities of the former subsidiary at the carrying amounts at the date when control is lost
b) recognize the fair value of the consideration received from the event or transaction that resulted in the loss of control and recognise any interest retained in the former subsidiary at its fair value when the control is lost
c) reclassify to profit or loss the amounts recognised in other comprehensive income (OCI), including any cumulative exchange differences previously recognized in OCI, in relation to the subsidiary and
d) recognize any resulting difference as a gain or loss in profit or loss.

The fair value at the date that control is lost in b) above shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or the deemed cost on initial recognition of an investment in an associate or joint venture, if applicable.

Discontinued operation
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
a) Represents a separate major line of business or geographical area of operations
b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
Or
c) Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of comprehensive income. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Acquisition of an associate in a business combination
On acquisition of an associate, the Group undertakes a notional purchase price allocation (PPA), identifying and valuing assets and liabilities of the associate, as if it had acquired a business. These fair value adjustments are not recorded separately, because the investment itself is a single line item. However, the fair values identified form the basis for additional depreciation, amortisation and similar adjustments that are reflected in the investor's share of the results in subsequent years. Adjustments in the notional purchase price allocation include assets not recognised by the associate or joint venture (such as internally developed intangible assets, reserves of natural resources and similar assets). Adjustments might also be made to recognise the fair value of assets carried by the investee at cost (such as property, plant and equipment) and to recognise liabilities at appropriate values.

Where the Group acquires an associate, it might be necessary to use provisional figures to undertake a provisional PPA to report the acquisition at the reporting date. Within one-year from the date of acquisition, the Group finalises the fair values and PPA, and reports in the following reporting period.

On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
a) Goodwill relating to an associate is included in the carrying amount of the investment.
b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the entity's share of the associate's or joint venture's profit or loss after acquisition are made in order to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the entity's share of the associate's profit or loss after acquisition are made for impairment losses such as for goodwill or property, plant and equipment.

38 Comparatives

Capital work in progress amounting to $98.5 million have been reclassified to Property, plant and equipment in the consolidated statement of financial position as of 31 December 2020.
The reclassification was made to conform with the current year's presentation.