

stc

Enriching lives

through  innovation

Annual Report 2021



Kuwait Telecommunications Company (stc)



Amir of the State of Kuwait  
**H.H. Sheikh Nawaf Al-Ahmad  
Al-Jaber Al-Sabah**



Crown Prince of the State of Kuwait  
**H.H. Sheikh Mishal Al-Ahmad  
AL-Jaber Al-Sabah**



Prime Minister of the State of Kuwait  
**H.H. Sheikh Sabah Al-Khaled  
Al-Hamad Al-Sabah**

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# Strategic Report Overview



# Company's key activities in 2021

The onset of the pandemic led to drastic changes in what was considered to be normal. Lockdowns, social distancing, mandatory quarantine, and other safety protocols enforced by governments around the world called for a global shutdown that impacted economies and local communities. People were eager to stay informed with the latest news updates and maintain open communication lines with their loved ones. With the ongoing repercussions and challenges faced due to the COVID-19 crisis, most of the vital sectors worldwide were also affected, impeding the recovery process of corporates' operational and financial performance.

On the other hand, the increased demand on the ICT sector resulted from current global trend towards the use of IT systems and solutions, IoT, cloud computing, big data, storage as well as security services amplified the competition in the telecommunication and ICT industries. Businesses quickly realized the importance of digitization and the path towards digital transformation as they initiated their continuity plans. These significant events highlighted the importance of sustaining a strong telecom infrastructure capable of delivering vast digital solutions that can allow businesses to maintain their operations remotely and cater to their customers' needs.

Since then, telecom services and digital solutions have become a critical component of the gradual road to normalcy with more governments and businesses accelerating the adoption of digital technologies. During Q4-2021, despite the minor economic turbulence caused by the emergence of the Omicron variant, which affected various sectors, these local concerns were short lived given the stable economic and social conditions within Kuwait and the region. The telecom sector continues to play a significant role in enabling the digitization strategies and digital transformations of corporate and government entities, with the introduction of advanced solutions and tools that can accelerate the path towards those objectives.

## January

- Received the latest version of the ISO Certification in Business Continuity (ISO 22301:2019) by TopCertifier due to the diligent approach in implementing protocols and guidelines under its business continuity plan applied across all business-related aspects during the pandemic.

## February

- Offered corporate customers the ultimate solution in cyber security and protections 'Shield' through its specialized business arm **solutions by stc**. The pioneering service ensures the safety of businesses by identifying risks in possible data breaches, 360 degrees' protection, and assessing critical assets to enable a worry-free environment for businesses to thrive digitally.
- solutions by stc** partnered with Huawei to offer the latest cutting-edge productivity tool and office master, IdeaHub. The solution creates an all-scenario smart office ecosystem that builds on the vast capability of the current cloud era to boost operational efficiency for corporate customers.

## March

- Continued to offer 'Always ON' postpaid voice plans, delivering a unique and convenient experience through voice and internet services, as well as a range of added features to meet the diverse needs of customers at competitive prices.

## April

- solutions by stc** partnered with eMushrif to provide its corporate customers with customized transportation management systems, in addition to smart and safety solutions designed for HR systems.

## May

- Completed the commercialization step of implementing 5G Stand Alone (5G SA) successfully, which is the second and most disruptive development of the comprehensive 3GPP 5th generation compliant network. **stc** also successfully accomplished the widest scale of 5G deployment coverage on Sub-3GHz and 2.1GHz amongst other mobile service providers in the MENA region.
- solutions by stc** added Google products, in partnership with iSolutions, following the global market shift towards online and cloud-based solutions that enable digital transformation by digitizing processes and enhancing productivity.

## June

- solutions by stc** provided a wide range of modern solutions and services to build the integrated network infrastructure serving the drive-in vaccination center on the South Island of Jaber Bridge. The initiative was carried out in line with the highest international standards.
- First Telecom Company to comply with the Payment Card Industry (PCI) - Data Security Standard (DSS), receiving its version 3.2.1 certification after complying with technical and operational requirements.



- Launched **stc** Masters, an online gaming hub that features eSports tournaments for gamers. The initiative is part of a long-term partnership with regional SME, Zawaya Gaming, an award winning eSports event-management company that focuses on showcasing the various talents of online gamers through engaging tournaments.
- Participated in the virtual Digital Leadership Summit - MENA, organized by TM Forum, an alliance of over 850 global companies working together to break down technology and cultural barriers between digital service providers, technology suppliers, consultancies, and system integrators.

## July

- **solutions by stc** partnered with General Motors (GM) to provide an in-vehicle connectivity solution to support GM's OnStar service.
- Launched **zeed**, a program that allows all **stc** postpaid customers to add a new device from a wide selection of devices to their current subscription and enjoy flexible installment payments.
- **solutions by stc** partnered with local smart parking solutions provider, 'PASS', to offer a range of cutting-edge parking management solutions.
- **solutions by stc** formed a long-term partnership with Agfa HealthCare to provide advanced cloud-hosted enterprise imaging services to healthcare providers in Kuwait. The partnership aims to leverage the strengths of both companies within their fields to offer customers a wealth of expertise and technological solutions catered to their specific domains.

## August

- **solutions by stc** introduced its all-new business website featuring a new look and feel, as well as innovative features that complement the one-stop-business experience for B2B customers.
- **solutions by stc** joined the Manama Internet Exchange (Manama-IX) platform, the fastest growing internet exchange platform in the region since its inception in 2019. The platform provides a wider reach to international peering partners with added benefits such as enhanced VR and gaming experiences due to improved internet quality with faster response times and latency.
- Launched a raffle draw with a total prize of KD 50,000 for customers subscribing to new commitment plans, renewing their current plans with a new device, or adding a new device to their current plans through **zeed**.
- **solutions by stc** hosted a virtual event to provide the latest updates on Cisco software-defined wide-area network (SD-WAN) and Cisco Meraki solutions after receiving the Premier Certification from Cisco, allowing the Company to offer all solutions under Cisco to its customer base.
- **solutions by stc** launched its new promotion specially tailored to support small and medium sized enterprises (SMEs) with dedicated data access (DDA) and dedicated internet access (DIA) at competitively low prices.

## September

- Participated in the CHRO Table Talk series organized by HR Tech MENA Summit in partnership with Oracle. The purpose of the talk was to discover the various ways and methods HR executives accelerate employee engagement, as well as the role that this caliber plays in setting and sustaining the organization's culture.

## October

- **solutions by stc** formed a new partnership with Datumcon, a Gulf-based artificial intelligence (AI) and data science company, to bring the benefits of AI-enabled video analytics to businesses in Kuwait.
- Opened the doors to its largest and most advanced branch in Kuwait at the Marina Mall. Designed to incorporate state-of-the-art technology with a compelling digitized and smart experience, **stc's** revamped branch falls in line with the Company's digital transformation and corporate strategies.
- **solutions by stc** partnered with Redington, a leading Microsoft partner in the region offering a variety of solutions, while delivering advanced support to assist companies in initiating their digital transformation journeys seamlessly through Microsoft.
- Received the approval from the Communication and Information Technology Regulatory Authority's (CITRA) and has finalized the mobile virtual network operator (MVNO) licensing procedures to launch the Virgin Mobile Kuwait in partnership with Virgin Mobile Middle East and Africa with a 10% ownership of Mobility Telecom Kuwait Limited (BVI).

## November

- **solutions by stc** launched an integrated solution powered by Payzah called 'Tajer' that aims to support organizations, especially SMEs, in setting up their E-commerce platforms.
- **solutions by stc** partnered with local cloud and managed service provider, Virganet. Through the partnership, the two companies launched the first local Desktop as a Service (DaaS) solution targeting B2B customers, as well as various sectors within Kuwait.

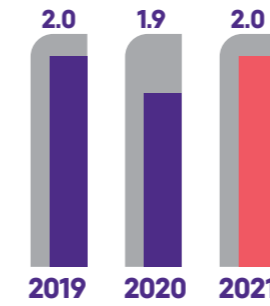
## December

- Won the 'Corporate Governance and Stakeholder Kuwait - 2021' magazine award from Capital Finance International (CFI.co) in recognition of the Company's outstanding achievements.
- Introduced the latest and exclusive 5G Standalone technology dubbed 'FULL 5G' that elevates the 5G experience to a new level, providing better speeds, lower latency, and improved coverage.
- Participated in the third Cybersecurity Education and Research Conference (CERC), providing a key overview on securing critical infrastructure with the zero-trust network model during its session.

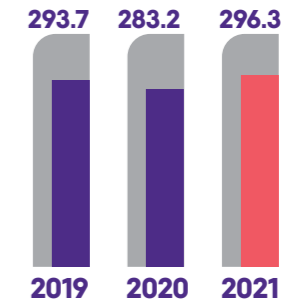
# Key financial indicators



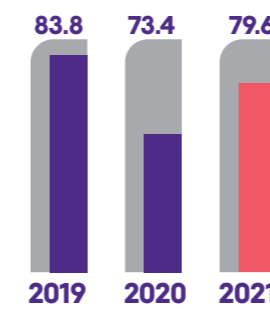
Subscribers (mn)



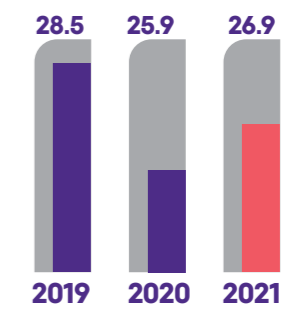
Revenues (KD million/00s)



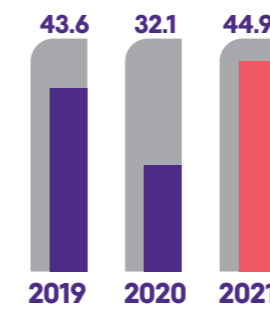
EBITDA (KD million/00s)



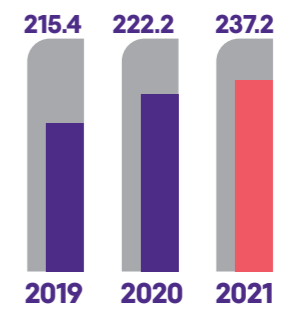
EBITDA margin (%)



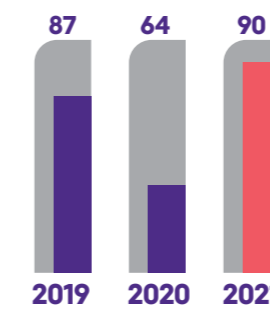
Net Profit (KD million/00s)



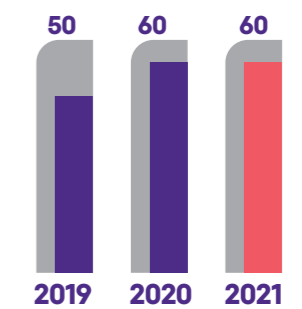
Shareholder's Equity



EPS (fils)\*



Cash Dividends (fils)\*



\*On 2 February 2022, the Board of Directors has recommended distributing cash dividends of 60 fils per share representing 60% of the share's nominal value for the year ended 2021. The Board of Directors has also recommended distributing 100% bonus shares from the issued and paid in capital by issuing 499,366,852 new shares to be distributed as free grants to the shareholders. This recommendation is subject to the approval of the General Assembly of the company.

Read our annual report online, which includes our film and more visual assets. [www.stc.com.kw](http://www.stc.com.kw)

# 2021 at a glance

## Awards of the year

### Best Investor Relations

- **stc** is ranked 1st as the 'Best Leading Corporate for Investor Relations in Kuwait for the year 2021', in addition to its position amongst the top five companies in the Middle East.

### Best Digital Annual Report

- **stc** is ranked 2nd as the best Digital Annual Report amongst mid cap companies in the MENA.

### Arab Media Forum Awards

- **stc** won several awards during the 9th edition of the Kuwait Creativity Award 2021 forum. The awards were presented by the Arab Media Forum in appreciation of **stc**'s unique TVC productions, creative advertising concepts, as well as other initiatives introduced while implementing its effective CSR agenda and digital transformation strategy.

### Capital Finance International-Cfi.co Magazine Award

- **stc** won the 'Corporate Governance and Stakeholder Kuwait - 2021' magazine award from Capital Finance International (CFI.co) in recognition of the Company's outstanding achievements.

### Outstanding Leadership And Growth Award

- **stc** won the 'Outstanding Leadership and Growth' award, from the region's first augmented reality enabled business magazine, in recognition of **stc**'s various achievements and initiatives.

# Operational highlights



**85**  
branches



**2.0**  
million customers



**63%**  
employees are Kuwaiti nationals



**100%**  
**5G coverage**  
of residential and populated areas



**453**  
employees



**13**  
years in operation



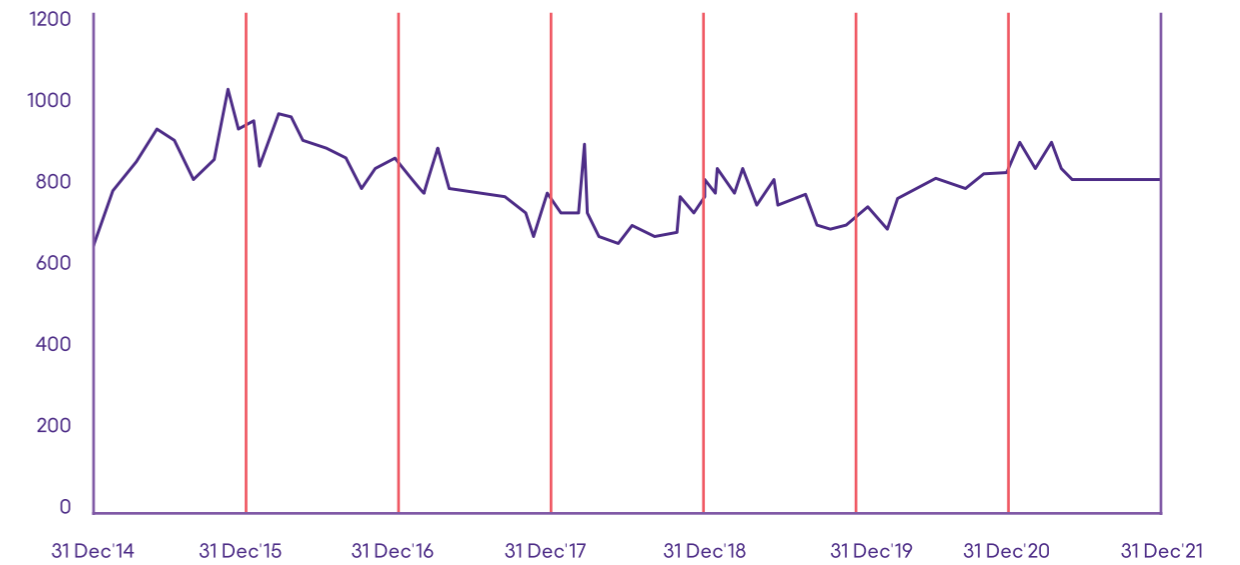
**36%**  
market share



# stc stock performance

## stc stock performance

# 2014-2021



## FY-2021 stock performance and indicators

Closing Price  
(KD)

0.855

High Price  
(KD)

0.970

Low Price  
(KD)

0.822

Volume Traded  
(Mn Shares)

28.08

Value Traded  
(KD Mn)

24.45

Number of Deals

11,463

Share Turnover  
(%)

5.62

FY-2021 Return  
(%)

+0.4

# Company profile

A photograph of a meeting in a modern office. Three people are seated around a wooden conference table. On the left, a man in a dark suit is looking towards the center. In the middle, a man wearing a white thobe and ghutra is looking at a large screen. On the right, a woman in a grey hijab and blazer is also looking at the screen. The screen displays the 'stc' logo in white on a dark purple background. The wall behind the screen is made of light-colored wood chips. There are laptops, a telephone, and a cup on the table. Large windows are visible in the background, showing an outdoor view.

stc



# Kuwait Telecommunications Company (stc)

Kuwait Telecommunications Company (**stc**) is a Kuwaiti shareholding company incorporated pursuant to the Amiri Decree No. 187 on 22 July, 2008, to operate and manage with the third GSM versatile system in Kuwait according to Law No. 2 of 2007.

Kuwait Telecommunications Company (**stc**), a leading brand in the telecommunications industry, was established in December 2008 as a subsidiary of **stc** Group, the world-class digital leader, providing innovative services and platforms, and enabling the digital transformation of the region. With a share capital of KD 50 million, **stc** was listed on Boursa Kuwait in December 2014. In 2019, **stc** fully acquired Qualitynet General Trading and Contracting Company - the leading Internet Service Provider in Kuwait – with the aim to capitalize on the new opportunities in the Kuwaiti Telecom Market.

**stc** always strives to support the vision of His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah for Kuwait 2035, in positioning Kuwait as a major financial and commercial hub in the region. Hence, **stc** is keen on providing its customers, both individuals and enterprises, with a unique pool of products and services that satisfy their aspirations and cater to their needs. **stc** offers numerous opportunities in the fields of telecommunications, entertainment,

information, digital and data transfer services, besides delivering the best customer experience around the clock.

Throughout a decade of excellence in service, transparency and proactivity, in addition to being the fastest-growing and most advanced telecom operator with the largest 5G network in Kuwait, **stc**'s customer base has proudly reached 2.0 million.

## Our new brand

On 19 December 2019, Kuwait Telecommunications Company changed its brand name from 'VIVA' to '**stc**' as a unified brand of the group in KSA, the State of Kuwait and the Kingdom of Bahrain which will contribute in enhancing the brand of **stc** as one of the most expensive and valuable brands in the Middle East.

## Our subsidiary

On 11 November 2019, **stc** announced the launch of the new brand name of its subsidiary 'Qualitynet' to become **solutions by stc** to serve as the company's specialized arm offering one-stop business solutions for the first time ever in Kuwait.

This initiative counts as an additional step in **stc**'s journey to elevate and strengthen the quality of the solutions offered by **stc** through combining the strength of two powerful companies

as well as setting the stage for a transformative and empowering future to achieve the desired goals of both individual and corporate customers

## Our accomplishments

**stc** has succeeded in attracting the private sector investments, driving the economy and repositioning telecom market as one of the most vital and active sectors in the evolution of global technology. **stc** has also extended its services to provide the best wireless coverage in Kuwait, and thus, played a key role in improving the nation's urban infrastructure.

Since 2008, **stc**'s accomplishments have transformed the Kuwaiti telecom market, including changing wireless pricing models and fees. In 2016, **stc** entered the International Telecommunications Union (ITU). In 2018, **stc** became the first network, in the MENA region, to offer its customers the 5G service and to enable enterprises in mobility. **stc** has invested in building the most advanced network, and proudly owns the largest number of sites covered by the 5G service in Kuwait. Additionally, **stc** is currently working on enriching its services, products and solutions offered to its customers, individuals and enterprises, through its collaboration with Qualitynet General Trading and Contracting Company's experienced and competent team. Last but not least, **stc** succeeded in

creating job opportunities and focusing on the Kuwaitization plan, reaching 63% of the company's workforce, by attracting the top talents through partnerships and collaborations in the Kuwaiti market. **stc** is committed to a rich Corporate Social Responsibility 'CSR' program and has launched multiple initiatives for supporting talent in the fields of healthcare, sports, entrepreneurship, education and environment.

# Our vision

Our vision is to be a world-class digital leader, providing innovative services and platforms to our customers and enable the digital transformation in Kuwait. **stc** is keen on presenting its customers with numerous telecommunications opportunities with the goal of boosting existing relationships and providing customers with the best experience around the clock, which will, in turn, earn us their trust.

# Our mission

Our strategy outlines the key pillars to expand **stc**'s topline, create value with greater efficiencies, while preparing the company for the future:

- End-to-end digital experience
- Enhance core performance
- Reinvent customer experience at world class standards
- Leveraging on group synergies

# Our purpose

**stc** aspires to a new digital age transforming our nations and economies.

**stc** creates products and services beyond the traditional telecommunications services to enable the digital pillars of the new digital economy. At **stc**, we combine smart technologies with the most advanced systems to harness the digital capabilities and the full power of technologies to better serve our customers, stakeholders, government entities and the local community as a whole.

We develop digital platforms, solutions and services based on the data science, cloud computing, artificial intelligence and advanced digital analytics driven by the 5G services. By empowering the leading industries, businesses and governmental entities to thrive through providing the most innovative digital services, **stc** focuses on shaping a sustainable future to the local community with a deeper insight and accelerated growth.

# Our values



## Dynamism

Outstanding energy to enhance and enrich our performance. We are agile, collaborative and fresh.



## Devotion

Determined to be a 'customer centric' company for our clients and an inspirational workplace for our employees. We are caring, committed and trustworthy.



## Drive

Moving forward and enabling best possible solutions for our clients and employees. We are proactive, inventive and inquisitive.





# Strategic framework



In a year full of challenges due to COVID-19 pandemic, **stc** has moved forward to implement its new corporate strategy 'AHEAD' with the ambition of propelling the company on its path to market leadership.

AHEAD aims to position **stc** as a digital pioneer by enhancing and building on our current initiatives to enable the digital transformation in Kuwait. **The foundations of AHEAD are customer centricity, technology leadership, capture growth opportunities and leverage on the stc group capabilities.**

Throughout the past couple of years, **stc** has successfully optimized its operations, invested in developing the largest 5G network in Kuwait and enhanced its digital channels to provide its customers with an unrivalled experience. In 2021, **stc** was the first operator in Kuwait to launch the **FULL 5G** (standalone 5G) providing better customer experience in terms of download speed and latency, and providing a broader range of use cases. Our opportunity now is to accelerate our momentum and build on our strengths by looking and moving AHEAD.

## AHEAD leverages on 5 strategic pillars:

### Anticipate consumer needs

Knowing what our customers need before they ask and serving them greatly: **stc** applied this pillar by innovating on its product portfolio to meet new customer needs. In 2021, **stc** revamped its product portfolio and enlarged the range of devices (ZEED) offered to the customers.

### Harness enterprise opportunities

Capturing the potential of the Enterprise market across Sectors by offering integrated communications and IT solutions. The pandemic has propelled the development of new vertical solutions that have been developed in the areas of safety, education and health.

### Excel digital experience

Accelerating the digital life of our customers and the digital transformation in Kuwait leveraged on leading-edge technology: **stc** has revamped its digital platforms to offer new services and experiences.

### Accelerate enabling capabilities

Moving forward with a nimble and digital operating model with a relentless focus on profitability.

### Devote performance culture

Developing **stc** employee's potential and nurturing skills for the future in order to attract top talent to continue leading Kuwait telecom market.

# Our business model

## Our stakeholders

**stc** maintains a strong, transparent and healthy relationship with its stakeholders, that is built on trust and mutual interests.

Company's management endeavors to act in the best interest of **stc**'s stakeholders including investors, employees, suppliers, customers, government entities and the local community through understanding their needs, obtaining their feedback and presenting it in the board meetings. By committing to our purpose, complying with our values, engaging our stakeholders in our daily operations and following a holistic commercial as well as financial strategy, **stc** is better able to keep pace with the latest trends in the industry in order to create value and exceed the stakeholders' expectations. Finally, yet importantly, throughout the critical times of the COVID-19 pandemic crisis, **stc** has managed to keep its stakeholders fully engaged capitalizing on the power of the digital services it offers to obtain their feedback and ensure a prompt response to their queries.

## Investors

A dedicated Investor Relations team is responsible for communicating with **stc**'s existing and potential investors on a regular basis and upon request via various physical and virtual communication channels.

At **stc**, we are open to communicate company's market position, competitive advantages, company strategy as well as financial and operational performance to the investment community. During the COVID-19 pandemic, **stc**'s Investor Relations team ensured the investment community was fully informed with the latest developments as well as corporate responses taken by the company to maintain its viability.

## Employees

**stc** views its employees as one of the main assets of the company through whom the daily operations are executed and profitability is achieved. Since inception, **stc** was always keen on investing in its human resources to upgrade their capabilities based on market demand and industry's megatrends.

**stc**'s management is responsible for keeping all employees engaged in the company's daily operations through setting clearly defined policies and procedures in line with **stc**'s mission, vision, values and purpose. With the regular physical and virtual meetings that **stc**'s executive management conduct with its staff at all levels, employees are encouraged to give their feedback pertaining the critical issues not only in their day-to-day operations, but also concerning the outlook of the relevant department.

Being the key success factor to company's operations during the pandemic, **stc** now prioritizes investing in its people more than ever before. The company's working teams have proved their ability to beat the global challenges faced during the COVID-19 crisis through their continuous efforts and professionalism associated with **stc**'s continuous support while working remotely.

## Suppliers

At **stc**, a specialized team is handling the supplier relationship management through arranging and managing the contractual and procurement processes. Furthermore, each department is responsible to maintain a strong relationship with its suppliers through conducting physical or virtual meetings on a regular basis as and when required.

**stc**'s management is responsible for choosing international and local suppliers in line with industry's best practices, and those who meet the local and regional communities' demand.

## Customers

With a strong customer base of around 2.0 million customers, **stc** is committed to delivering the most advanced products and services to its customers both, individuals and enterprises. Hence, **stc** is keen on maintaining an upward pace with industry's latest trends and technological advances through following its digital transformation strategy and creating strategic partnerships with the leaders in the digital industry. Throughout the pandemic period, **stc** managed to keep up its business operations and serve its customers through adopting a flexible operating model based on a well-developed business continuity plan that guided the working teams to execute their day-to-day operations efficiently and effectively while working remotely.

**stc** leveraged on its strategic partnerships and capitalized on the digital services backed by the 5G technology to offer a wide range of products and services aimed at aiding its customers during critical times where the digital platforms were needed.

## Government entities

**stc** adheres to market regulations through complying with all the rules and regulations issued by the regulatory bodies in the State of Kuwait. **stc** is also committed to providing full disclosures of all material information that would affect the investment community or the telecom industry in Kuwait.

**stc** not only ensures transparency and accountability of all company's activities but is also responsible for abiding by the corporate governance rules and regulations. During COVID-19 crisis, **stc** ensured following the instructions imposed by the Kuwaiti government and its regulatory bodies necessary to avoid outbreaks of the contagious disease.

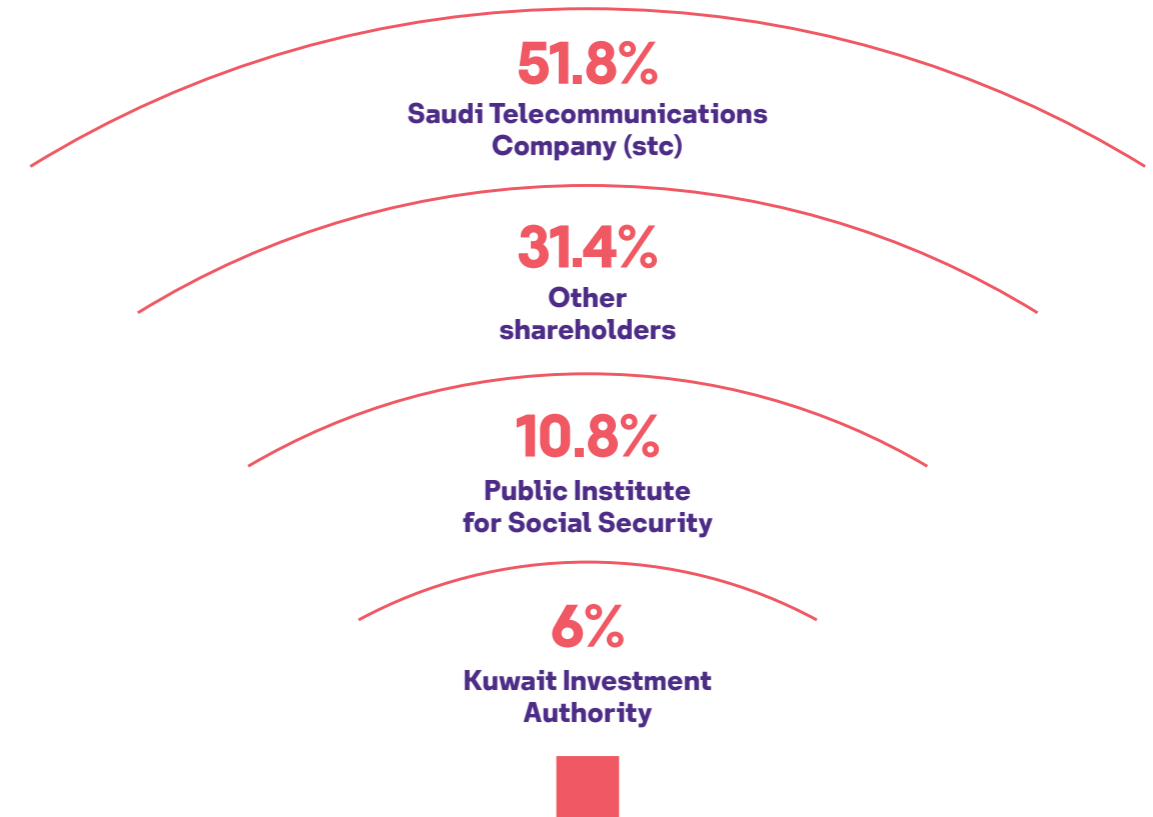
## Local community

**stc** contributes to the local community by launching a number of corporate social responsibility initiatives that serve the Kuwaiti society. Driven by its devotion to serve the Kuwaiti society, **stc** has a specialized team that presents the company in the local media and public events in order to inform company's current and potential stakeholders with **stc**'s latest news, services as well as market position.

Amidst the COVID-19 global economic challenges, **stc** focused on launching awareness campaigns in addition to collaborating with a number of governmental entities in order to assist the local community to combat the pandemic.

## Shareholder information

Number of shares outstanding  
**499.4 Million shares**



Driven by **stc's** strong position in the Telecom market and our commitment to create value to company's shareholders, it is privilege to announce unprecedented distributions of cash dividends 60 fils per share and 100% bonus shares for the year 2021.



# Chairman's statement

Dr. Mahmoud Ahmed Abdulrahman

## Dear shareholders,

I am pleased to present Kuwait Telecommunications Company's (**stc**) Annual Report for the year ended 31 December 2021, which demonstrates **stc's** exceptional performance during the COVID-19 crisis and the recovery period. Despite the fact that the global health has been gradually improving since the onset of 2021 after completing the vaccination process in most of the countries worldwide, many sectors are still struggling to overcome the economic consequences resulted from the crisis. In this regard, it is worth mentioning the crucial role of the return back to the normal life plan adopted by the Kuwaiti government in alleviating the negative impacts on the local society in addition to spreading the sense of security and stability on the individual and corporate levels.

In addition to **stc's** sustainability and business continuity plans that were developed internally to help the company combat the challenges of the COVID-19 crisis, this report also sheds the light on **stc's** refreshed strategy, which has been updated in FY2021 to enable **stc's** viability and maintain its market position throughout the most critical economic conditions. This was combined with the great efforts of **stc's** executive management, dedicated employees and the company's specialized arm (**solutions by stc**) in order to provide the most innovative high quality products, services and solutions aimed at adding value to our customers and achieving good returns.

Accordingly, in adherence to the local regulations and in line with the Kuwaiti government's plan of the gradual return to the normal life in Kuwait, **stc** is proud to

announce its ability to remain viable over the unprecedented periods accompanied with the global uncertain economic conditions. Whereby, **stc** has managed to meet the aspirations of its shareholders, recording a net profit of KD 44.9 million.

## The telecommunications market and socio-economic recovery

The past years had a substantial effect on the telecommunications market in Kuwait, which demonstrated its resilience and flexibility in dealing with the unexpected economic hazards. Throughout FY2021, **stc** has done its utmost to leverage on the societal needs for digitization to expand its IT infrastructure and ensure its operational and financial business continuity. With an attempt to provide the local society with a wide range of cutting-edge technologies that would enable continued business operations, people's connectivity as well as educational and public services functionality, **stc** ensured hiring specialized ICT talents to enhance the team's capabilities and capture business opportunities.

Throughout the tough operating environment, which was forced by the COVID-19 crisis during FY2021, **stc** was keen on leveraging on the 5G network to support its operational and financial performance through providing the most advanced digital products and services beyond the traditional telecommunication services. **stc** also ensured updating its business model to meet the tremendous constant growth in the digital communications services by offering integrated technical solutions as well as



enterprise database solutions that would enable and support the economic and social recovery processes of COVID-19 crisis. This would, in turn, improve **stc's** operational and financial performance with a forward looking to achieve performance excellence in the future periods.

Despite the stiff market competition in the telecom sector, **stc's** business model's integration with that of **solutions by stc** represents a key cornerstone that enabled the company to maintain its strong position in the telecom market as a leader in providing digital solutions. As a result, **stc** has been better able to cope with the rapid developments of the integrated technical solutions and digital tools on a global scale in addition to supporting the Kuwaiti government to implement the necessary recovery steps through delivering the essential digital products and services for the individual, enterprise, public and private sectors.

### Creating shareholders value

At **stc**, we are committed to create shareholders value through investing in our capabilities to achieve the desired growth, efficiency in our business environment, and long-term value proposition. **stc** has extensively relied on its solid corporate strategy, effective business continuity plans and potential growth opportunities to realize long-term growth in sustainable profits and attain good returns that are in the best interests of the company's shareholders. As we believe in the critical role of our working teams on company's operational efficiency and effectiveness, **stc** strives to expand its digital operating framework in the internal working environment aimed at enhancing employees' productivity and increase their motivation towards working in more digitized areas.

All the way through the recovery phase, **stc** embraced innovation, monitored developments and worked hard on developing the optimal business solutions that would alleviate the negative repercussions and facilitate the recovery process for the local community.

**stc's** 2021 outcomes emphasized company's strong financial solvency position and the implementation of its flexible strategy. Whereby, **stc's** strong performance has been obvious in its operational efficiency, financial stability, and product developments, in addition to its distinct and well-established brand in the telecommunications sector.

With the global gradual recovery from COVID-19 crisis across different sectors, **stc** managed to achieve a total revenue of KD 296.3 mn, where EBITDA reached KD 79.6 mn with an EBITDA margin of 27%. As a result, **stc** recorded a net profit of KD 44.9 mn. On the other hand, shareholders' equity increased by 7% at the end of 2021, reaching a book value of 475 fils per share.

**stc's** Board of Directors has recommended distributing cash dividends to respective shareholders of 60 fils representing 60% of the share's nominal value for the year ended 2021. **stc's** Board of Directors has also recommended distributing 100% free bonus shares from the issued and paid in capital by issuing 499,366,852 new shares to be distributed as free grant shares to the shareholders. This recommendation is subject to the approval of the Annual General Assembly.

These results reflect the dedication of **stc's** employees and their sincerity in implementing company's refreshed corporate strategy aimed at empowering **stc** and distinguishing it among its competitors in the telecom and ICT industries. 2021 results, also demonstrate the efficient role and devotion of **stc's** Board of Directors and executive management to improve company's financial and operational efficiency in order to preserve its market position as a leader in the telecom industry.

With an aim to deliver the best quality and increase customer satisfaction, **stc** is committed to the continuous update and implementation of our corporate strategy in addition to keeping the corporate's purpose and values going forward.

### Corporate governance

**stc** is committed to adhere to the corporate governance rules and regulations issued by the Capital Markets Authority in the

State of Kuwait which aims to uphold transparency, protect shareholders value and improve company's operating environment. In conjunction with all the recent changes imposed by the regulatory bodies, **stc** ensured applying all laws and regulations that conform to its values and the professional foundations that guide our work to better serve the interests of our shareholders. The corporate governance report in a later chapter of this report outlines our framework in further details.

### Corporate social responsibility

As a responsible company, **stc** puts the interest of its customers, employees, suppliers, community and environment, all of which have contributed to the company's success since its inception in 2008, above everything else. **stc's** long history of supporting and contributing to our local community, in addition to expanding its commercial activities and market share demonstrate its dedication to continue to develop high-value, innovative, and high-quality products over the long-term. The past two years have witnessed a genuine commitment from **stc** towards not only improving the local community's health but also lowering the environmental impact through participating in and initiating a number of activities that contribute to the healthcare, sports, education, and entrepreneurship sectors. With its unceasing focus on adhering to the Kuwaiti government's rules and regulations, **stc's** corporate social responsibility programs are created in the best way to leave a positive footprint on Kuwait's existing and future generations. Accordingly, **stc** has been working towards reducing the environmental impact on the local society by collaborating with non-profit organizations such as Trahum Volunteer Team for the biggest cleaning up campaign in Kuwait. **stc** has also worked with 'Omnia', one of the largest recycling firms in Kuwait to encourage the internal and external recycling process. Likewise, **stc** is currently implementing the paperless office transformation process within the company premises and its branches to achieve the entire electronic paperless framework at **stc** in the near future.

In FY2021, **stc** found a great opportunity in supporting the Kuwaiti government to fasten the recovery process of COVID-19 pandemic through lending a helping hand to a number of governmental agencies and SMEs, leveraging on its advanced digital services and partnerships with high-tech enterprises.

### Appreciation

On behalf of the Board of Directors, I would like to thank His Highness, the Amir Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, H.H. the Crown Prince Sheikh Meshaal Al Ahmed Al Jaber Al Sabah, H.H. the Prime Minister Sheikh Sabah Al Khalid Al Sabah his distinguished government for their continued support to the telecommunications sector, which puts our precious country on the map of the advanced and developed countries in the field of telecommunications.

I would also like to express my appreciation and gratitude to all **stc** family members for their significant efforts, dedication, and great sacrifices during 2021. Furthermore, I would like to highlight their ongoing enthusiasm and dedication to making **stc** a fascinating successful company during a time when the global economy has been greatly impacted. I would like to thank our loyal customers in particular for their continued trust in **stc**, which motivates us to provide the best services of the highest quality possible. Our heartfelt gratitude to our valued shareholders for their ongoing support and confidence in us.

# Strategic review





Our unique and smart strategy was the main driver of **stc**'s outstanding operational and financial performance supported by the continuous progress and strategic growth in the ICT market and B2B segment.



# Chief Executive Officer statement

Eng. Maziad Alharbi

## Dear shareholders,

2021 was a year full of extraordinary operational and financial achievements for **stc**, in spite of the challenging working environment imposed by the COVID-19 crisis on the Kuwaiti telecommunications market, which in turn demonstrated its resilience and flexibility in addressing economic risks. **stc** has also updated its business model and strategy to meet the continuous and massive growth in the digital communications services. Accordingly, **stc** is committed to provide integrated technical solutions and corporate database solutions that would enable as well as support the economic and social recovery process of the COVID-19 crisis. This would, in turn, enhance **stc**'s operational and financial performance, with the aspiration to achieving an outstanding performance in the coming periods.

The recent amplified trend and global shift towards digital transformation have increased the reliance on digital products and services while maintaining open communication channels across various business sectors worldwide. These significant events have led to a strategic shift in **stc**'s operating model and highlighted the importance of sustaining a strong telecom infrastructure capable of delivering vast digital solutions that enable businesses to maintain their operations remotely and cater to their customers' needs. Since then and with the spread of COVID-19 pandemic, telecom services and digital solutions have become a critical component of the gradual road to normalcy with the initiatives taken by the Kuwaiti government, local society and businesses to adopt the digital technology.

Driven by the enormous need for adopting a digital culture, **stc** found itself at the brim of a rapidly changing world and was quick to realize the necessity of implementing its business continuity plan to continue providing pioneering digital solutions and telecom services to its customers. **stc**'s digital transformation strategy that has been developed and implemented over the past few years was a key success factor that aided the company in its numerous contributions to the local economy and government initiatives adopted throughout and post COVID-19 crisis.

## Recovery strategy

Throughout the COVID-19 pandemic, the strategic steps we took to preserve **stc**'s competitive and empowering working culture were essential in getting us to where we are today. One of the main functions executed by **stc** to maintain its communication and operation lines was implementing our three-level business continuity plan. This was based on adhering to three scenarios that would facilitate controlling the tough operating environment, protect **stc**'s customers and employees through enforcing social distancing and maintain all Company's operations during the lockdown period via remote working.

In response to the gradual return to normal life plan executed by the Kuwaiti government, **stc** was keen to refresh its corporate strategy to cope with the sudden economic and societal changes in addition to expediting the recovery process. In this regard, **stc** have embraced the necessary developments within its own digital transformation journey to instill a performance driven culture that is built on efficiency. Hence, we have

automated all the internal and external processes, which have proven to be resilient during the most difficult times.

**stc** has found an opportunity to enhance its operations, reputation and market position in the recovery period of COVID-19; whereby, it paved the way towards implementing an internal and external transformation aimed at supporting the local society, economy and environment. Shaping **stc**'s recovery process by utilizing the optimization resources consumption, mobility in operations and environmental impact reduction has helped the Company to build a resilient financial and operational recovery. This, in turn, has helped **stc** to exploit the arising business and economic opportunities to best execute its digital transformation strategy, enrich the customer experience and achieve its short, medium and long-term strategic goals.

### The digital future and beyond

The recovery period is witnessing an upward shift towards digitization aimed at immunizing enterprises against future catastrophic events. As a result, digitizing businesses has now become a critical aspect in this digital age, especially after the transition that most companies are experiencing to keep pace with the latest technological innovations. This, in turn, represents a promising future for telecom operators to capitalize on their advanced infrastructure to provide the next generation with a range of sophisticated, finest and latest comprehensive digital services and products that will strengthen the customer experience.

In view of that, **stc** continuously strives to accelerate vertical transformation by constructing advanced Business Support Systems tailored to fulfil a wide range of industry transformations and business model requirements. This reflects our commitment to fulfill the needs of startups, SMEs, and larger enterprises by offering flexible, scalable, guaranteed, and reliable solutions that showcase the strength of our 5G network and ICT integrated solutions. In 2021, **stc** was able to provide a wealth of solutions and services to corporate and individual customers through the use of its 5G network. This was supported by the ease of access and fast speeds the technology possesses, which opens the doors for the company to a

wide range potential opportunities in terms of accessibility, innovation, and expanded network services. Hence, the 5G revolution has redefined the way we connect to the world and has contributed in enhancing the level of services and solutions we can offer our customers.

In line with the digital transformation that shall play a great role in the future of **stc**, the Company has been focused on investing in its digital marketing arena since the onset of COVID-19 pandemic, being one of the most critical aspects of uplifting Company's leadership and distinguishing it from its competitors. Accordingly, **stc** has set up a huge transformation journey to cater customer needs and enrich their experience, which was highlighted in company's Corporate Strategy 'AHEAD'. By leveraging on our experience and expertise, we will continue to set our sights moving forward on meeting the needs of our individual customers in a way that empowers and enriches their lifestyle, while assisting our corporate customers in achieving the diverse objectives under their unique digital transformation strategies.

### Financial performance of 2021

Despite the competition in the Kuwaiti telecom market post the recovery period of COVID-19 crisis, **stc** was able to achieve good financial results that meet the aspirations of the company's shareholders during the current circumstances and intense competition. Whereby, **stc**'s total revenue grew by 4.6% to reach KD 296.3 mn in 2021, compared to KD 283.2 mn last year. This increase is mainly attributed to the services and smart packages that are created to meet most of the individual sector's needs, in addition to the growth in the enterprise sector through the implementation of the digital transformation strategy and providing integrated technical solutions to the private and government sectors. **stc** also ensured pushing its business into new areas of sustainable growth through a series of innovative initiatives aimed at upgrading the operational efficiency and delivering the best in-class services and products that cater to customers' needs and meet their anticipations in light with COVID-19 crisis

and its consequences. This was accompanied with **stc**'s support to business operations through its advanced infrastructure with the best and widest coverage of the 5G network.

These outcomes resulted in the growth of EBITDA by 8.5% in 2021 compared to 2020. Whereby, EBITDA margin reached 27% during the year ended in 2021. As a result, the company's net profit during the FY2021 recorded a growth of 40% to reach KD 44.9 million (earnings per share 90 fils) with a net profit margin of 15%. **stc**'s customer base reached approx. 2.0 million customers at the end of December 2021.

At **stc**, we are working on implementing a balanced cost-efficiency policy to achieve the best results and enhance profitability through adopting effective financial plans to direct our operational and capital expenditures. Whereby, **stc** was able to structure its capital expenditures, especially after the negative impact of the current economic crisis, to ensure liquidity of its cash flows under the current circumstances. **stc**'s financial results throughout FY2021 also reflected its competitiveness and strengthened its position as the second largest telecommunications company in terms of its market share of revenue in the Kuwait telecommunications sector with a market share of approx. 36%.

### Capturing business opportunities

In addition to having several successful milestones that reflected our position as a pioneering telecom and digital solutions provider, this year, **stc** achieved a great achievement embodied in receiving the approval from the Communication and Information Technology Regulatory Authority's (CITRA) to launch the first-of-its-kind mobile virtual network operator (MNVO) license to launch Virgin Mobile Kuwait in partnership with Virgin Mobile Middle East & Africa. The license will permit Virgin Mobile Kuwait to operate using **stc**'s network, with **stc** acting as a Host Facilities Based Provider 'FBP' with Virgin Mobile Kuwait, offering prepaid plans to users, and making it the first virtual telecom service in the country.

### ICT expansion

In alignment with its corporate strategy of expanding its activities to shift from providing traditional telecommunication services to a variety of digital services as well as advanced integrated communications information solutions and advanced technical solutions, **stc** announced signing a binding offer to acquire 100% of the share capital of e-portal Holding Company and its subsidiaries. The acquisition of e-portal, one of the most prominent companies in the ICT field, is aimed at strengthening **stc**'s internal ICT capabilities in line with the recent rapid global developments.

Driven by the key pillars of **stc**'s corporate strategy which focuses on harnessing the Company's expertise to provide the most advanced digital solutions, merging the ICT division of **stc** with e-portal is considered an integral opportunity for both companies to expand their scope of work and share expertise between their teams. This would allow **stc** to exploit the potential growth opportunities arising in the enterprise sector, develop its scope and share the required expertise necessary to support the digital transformation process in the State of Kuwait.

Accordingly, this acquisition will be the corner stone that would support **stc** to provide the necessary infrastructure in order to develop its ICT portfolio backed by our current capabilities. Whereby, **stc** will continue to provide the best services, products and solutions to exceed the expectations and requirements of our enterprise and corporate customers.

### Human capital development

At **stc**, we continue to invest in our people, the cornerstone of our operational excellence and solid financial performance. **stc** ensures taking the necessary steps to develop the capabilities of its employees, empower them and support their determination to do their best at diverse working environments and under different circumstances. Throughout 2021, and in line with Company's corporate strategy, **stc** was committed to offer its employees with a flexible working environment throughout



the recovery period of COVID-19, to maintain their wellbeing, safety and dedication. This was manifested in implementing the structured rotation between employees within each department across all Company's sectors while providing them with the latest training courses for a better progress. Devoting the performance culture across employees reflect **stc**'s keenness to take a proactive position in leading the way to build a robust and effective workforce that would contribute to the future generation. As part of **stc**'s commitment to support the Kuwaiti employment program 'Kuwaitization' aimed at increasing the indigenous participation rate in the private sector, we have placed the Kuwaiti employment replacement program as one of the main pillars of our human resources strategy. Whereby, the Kuwaiti employees at **stc** reached 63% of company's total employees by the end of 2021.

#### **Appreciation and gratitude**

In conclusion, I am pleased to express my gratitude and thank our valued customers for their loyalty and confidence in **stc**, which has enabled us to achieve these results despite the difficult times we faced due to the COVID-19 crisis. Furthermore, I would like to thank the Board of Directors, Executive Management, **stc** family members and partners for their contributions in achieving this remarkable operational performance through their outstanding teamwork. I would also like to shed the light on their contributions to company's success during these difficult and unprecedented times through their cooperation, enthusiasm, dedication and continued support. This, in turn, has paid off with the fact that **stc** is now at the forefront of the most innovative digital communications services providers. Through your support and our productivity in implementing company's new strategy, transformation plan and investment activities, we are confident that **stc** will be able to move forward in achieving its future goals.

# Key milestones

## 2008

- Launches commercially
- **stc** abolishes incoming calls fees and other operators follow
- First Operator in the world to have all IP network

## 2010

- Expands retail network and launches joint promotions with retailers
- **stc** wins Comms MEA Best Telecom Finance Deal

## 2012

- **stc** launches Elite Program for loyal, VIP and high value customers
- **stc** turns into profitability during the fourth year of operation
- **stc** starts deployment of 4G LTE network

## 2014

- Partnership with Real Madrid
- Listing on KSE
- Retained earnings turned to be positive
- Ranked 2nd in terms of revenue and subscriber market share

## 2009

- **stc** introduces high speed Mobile Broadband in Kuwait
- **stc** launches innovative prepaid offerings and acquires 500K customers in one year

## 2011

- First to introduce Apple iPhone
- Strategic partnership with Manchester United
- First to introduce newest HSPA+ (42.2 Mbps) Broadband network

## 2013

- Completes nationwide 4G LTE Coverage and awarded Best LTE deployment in the Middle East
- Numbers portability and **stc** acquires majority of ported numbers between operators

## 2015

- The first in Kuwait to introduce the all-new (VoLTE) technology
- **stc** branches network reached a total of 70 across Kuwait
- First to introduce the LTE Advanced

## 2016

- Best Telecom Co. by Arabian Business
- Member of (ITU)
- Leading Corporate for IR
- Business Innovation in Risk Management

## 2018

- Best Network Development Award at 5G MENA
- **stc** reaps three accolades at ME Call Centre Awards
- Leading Investor Relations in Kuwait 2018 - third in the MEA
- Wins 'Advertising Creativity Award' at Arab Media Forum

## 2020

- **stc** Group was ranked the 1st in the MENA region, by Forbe's 'Global 2000' list
- Ranked 1st as Leading Investor Relations in Kuwait 2020 - Top 5 in the MENA region
- **stc** Rebrands 'Qualitynet' to **solutions by stc**
- **stc** signs an AoA for establishing Connect Arabia W.L.L with Mobility Telecom Kuwait Limited (BVI) which will be the main partner

## 2017

- VIP Customer Service Award
- Won the '2017 Speedtest Award' by Ookla company
- Excellence in Governance Award
- Won the 'Best Operator Network' from telecom world Middle East
- 5G Innovator of the Year Awards

## 2019

- **stc** wins Sharjah Gulf Top 10 Business Award 2018
- Acquisition of Qualitynet
- Launched 5G services in June 2019
- **stc** and Huawei sign MOU to develop 5G services
- Launches the new brand **stc**

## 2021

- **stc** and Virgin Mobile Middle East & Africa led consortium receive MVNO license from CITRA
- **stc** is ranked 1st as the 'Best Leading Corporate for Investor Relations in Kuwait for the year 2021', in addition to its position amongst the top five companies in the Middle East.
- **stc** is ranked 2nd as the 'Best Digital Annual Report' amongst mid cap companies in the MENA
- **stc** signed a binding agreement to fully acquire e-portal Holding Company and its subsidiaries, which specialize in the Information and Communications Technology sector in the State of Kuwait

“ **stc** achieved resilient performance in FY-2021, enabling the sustainable growth through capturing potential business opportunities aimed at supporting the Company’s long term goals.



# Chief Financial Officer statement

Mr. Mohammed Mubarak Al Faran

## Dear shareholders,

**stc** delivered excellent results throughout the FY2021 due to our commitment to continuously provide a wide range of new products and services enabled **stc** to overcome the economic distortions caused by COVID-19 crisis and all the subsequent consequences. With the persistent fear resulted from uncertain economic and health crises as well as increasing demand on digital products and services, **stc** ensured implementing an appropriate pricing system to maintain good levels of profitability margins. This will allow **stc** to obtain a competitive edge and sustain its dominance in the Kuwaiti Telecommunications market.

Driven by **stc**'s commitment to exceed customers' expectations during critical situations as well as harsh economic and market conditions, we strive to invest in our key areas to maintain a high-level cash flows and strong solvency position, optimize our operational performance, better allocate our capital investments and strengthen company's position in the enterprise segment. **stc** has also updated its financial strategy during 2021 in line with its corporate strategy besides taking the necessary actions in order to stand ready for any unprecedented events that would occur in the future, which may have a negative impact on the operational and financial performance of the telecommunications sector.

Throughout the continuous global fear of fluctuating market and economic conditions, many companies are still suffering the repercussions of the COVID-19 crisis. This crisis has been a turning point for many

companies to move more towards digital solutions than ever before, to keep pace with the global trend towards digitization and to prepare for unprecedented events without impeding their operations. In this regard, **stc** has found an opportunity in allocating its investment decisions in providing ultimate innovative B2B solutions, backed by the 5G network, to achieve the highest levels of operational efficiency that would allow the company to realize good financial indicators and meet shareholders' expectations.

With the fierce competition in the telecommunications and ICT sectors that created the need for integrating ICT services in business solutions with the traditional telecommunication services provided for the B2B segment, the telecom sector witnessed a trend towards mergers, acquisitions and/or partnerships between telecom operators as well as digital solutions and ICT services providers, on a global level. Consequently, since the onset of COVID-19 pandemic, **stc** has been exploring and seizing potential opportunities to support its financial performance through adopting a successful business model which has been implemented in our subsidiary **solutions by stc**. This was mainly driven by **stc**'s corporate strategy which focuses on digitization, harnessing business opportunities and enabling the digital transformation in Kuwait. Accordingly, **stc** signed a binding offer to fully acquire the share capital of e-portal, one of the prominent ICT players in Kuwait with a reputable image and solid customer base of the enterprise segment. Additionally, followed by the significant impact on company's financial and operational performance, **stc** strives to uphold on



its cost optimization program to better distribute its capital expenditures and direct its investment decisions towards new areas of sustainable growth.

With an aim to achieve company's 2021 corporate strategy, which has been updated to keep pace with the latest developments in the ICT and Telecommunications market, **stc** has not only considered incorporating the industry's best practices, but it also ensured maintaining the highest level of transparency with the current and potential investors, in addition to applying the corporate governance principles across all company activities. **stc**'s ranking as the 1st Leading Corporate for Investor Relations in Kuwait and amongst the top 5 companies in the Middle East, demonstrates its great efforts in fulfilling the needs of the investment community in an efficient, transparent and timely manner to meet the global best practices in this field.

### Solid financial performance

**stc** witnessed various events impacting **stc**'s operational and financial performance. The increased demand for the traditional communication and digital services enabled **stc** to sustain the revenue growth by leveraging on its 5G network's capabilities and efficiency. Despite the Omicron virus outbreak during the fourth quarter of the FY2021 which forced the government to re-impose additional restrictions and regulations on the local community, **stc** was able to maintain both its strong financial position and performance during 2021 which were reflected in achieving good levels in its revenue, EBITDA, EBITDA margin and net profit.

Throughout the current crisis, **stc** reported excellent consolidated financial results for the year ended 2021. Driven by the high demand on data services and digital platforms especially from the enterprise segment, **stc**'s revenues grew by 4.6% to reach KD 296.3 million at the year ended 31 December 2021. This increase is mainly attributed to the Company's outstanding performance and its flexible strategy. On the

other hand, despite the high marketing and sales costs due to stiff market competition, the exceptional efforts of company's working teams significantly contributed in driving **stc**'s business efficiency which was demonstrated in its good EBITDA results which grew by 8.5% to reach KD 79.6 million in 2021 compared to KD 73.4 million in 2020. Whereby, **stc**'s EBITDA margin reached 27% in 2021 compared to 26% in the previous year. Thus, the net income reached KD 44.9 million (earnings per share 90 fils) in 2021 compared to KD 32.1 million (earnings per share 64 fils) in 2020, as the financial impact of litigation had a significant impact on this growth in 2021.

Driven by the extensive demand on digital and ICT services, **stc** was keen on maintaining a well-developed and upgraded 5G infrastructure to provide better products and services for its customers. Whereby, company's total capex spending reached KD 274 million over the year, representing 9% of **stc**'s total revenue in 2021, compared to KD 26.2 million representing 9% of **stc**'s total revenues in 2020. On the other hand, **stc**'s total assets reached KD 393.8 million. In addition, company's total shareholders' equity grew by 7% reaching KD 237.2 million, with a book value of 475 Kuwaiti fils per share. It is worth highlighting that one of **stc**'s competitive advantage is having a strong solvency position among its peers in the MENA region, where the debt to equity ratio reached 0.02x by the end of 2021, which is considered low compared to the industry average.

### Financial strategy

Since inception, **stc** has been always keen on directing its financial resources by all means that would cater customers' needs, exceed their expectations and create value to its shareholders. Therefore, **stc** ensures investing in its human capital, being the infrastructure of company's operations and outstanding performance. **stc** has also invested heavily in its strategic business units and internal capabilities to provide a wide range of products and services while maintaining its cost optimization framework

to increase Company's efficiency. In this regard, **stc** is currently keen on enhancing its IT infrastructure further by hiring the top expertise in the ICT sector besides harnessing the business, professional, service delivery and project management capabilities in order to develop new business models that will aid the company to enhance, produce and provide comprehensive enterprise database solutions.

Driven by the outstanding performance of **solutions by stc** - Company's specialized arm in providing digital solutions to the enterprise sector - **stc** was determined to refresh its financial strategy and align it with the overall corporate strategy around smart investments in potential market opportunities. This is aimed at expanding **stc**'s operations and elevating its performance in the ICT sector following the current excessive demand on IT systems and solutions, IoT, cloud computing, big data, storage as well as security services which amplified the competition in the telecommunication and ICT industries.

For that reason, the acquisition of e-portal would enable **stc** to provide the most advanced integrated technical solutions in addition to serving the latest corporate and individual needs for the digital tools. Besides the operational outlook of expanding its presence in the Kuwaiti Market, this is likely to positively impact **stc**'s financial performance and market share through providing innovative, scalable and diversified technological and IT communications solutions to support the global growing demand for the ICT services. **stc** is delighted to own a specialized arm in providing ICT digital solutions under the umbrella of four well-established subsidiaries. Proudly stated, this is considered the first step taken towards achieving **stc**'s main objective of leading the ICT market in Kuwait.

### Moving forward

**stc** is committed to provide its valued customers with the best in-class products and services. We seek to harness potential

opportunities to offer a large basket of ICT products and services to the enterprise sector. In the current worldwide stressful economic conditions, **stc** will continue to expand its products offerings to support its enterprise arms and deliver a better value to its customers and shareholders. In line with our AHEAD strategy and driven by our healthy cash position at the FY2021 of KD 65.2 million, hunting similar strategic potential value-creating digital opportunities in the near future represents an integral part of our outlook and daily operations. With an aim to sustain our leadership position in the Kuwaiti telecom market and align the recent M&A activities with our organizational structure, **stc** will hold onto investing in its human capital, internal processed and the latest technological advances as means of lifting up company's efficiency and strengthening its core activities.

Throughout the pandemic, **stc**'s proved its resiliency which was reflected by its efficient supply chain and inventory management processes. From a future perspective, **stc** looks forwards to maintain a healthy cash flow position while investing in the digital platforms, creating strategic partnerships with digital providers and spending on its R&D function to provide the best-in-class services to its customers, individuals and enterprises.

# Market review

In our constantly evolving economies, **stc** strives to keep moving forwards in line with the new and transformational technologies that are shaping people's life, global communication, and corporate activities. Hence, for **stc** to maintain its market position as a leader in the telecommunication, IT and ICT industries, it became necessary or even mandatory to acclimate, adapt, and seize the most recent technological digital advances that shall influence the areas in which our customers operate. A recent research by IDC (International Data Corporation) indicates the forecasted global annual spending on technologies and services to hit about \$2.3 trillion.

Since inception and following the COVID-19's impact on the global economy, **stc** has always been proactive to identify the key trends influencing its operations. Accordingly, this section of the annual report gives an insight into the latest market and technological developments that have thrived over the last few years and became a global inevitability post the COVID-19 crisis.

## Industry trends



### Remote working

The past two years witnessed a global shift towards remote working throughout the full and partial lockdown in the corporate, business, educational and industrial trends since the onset of COVID-19 crisis. The increasing demand on the digital and online platforms opened the door for telecom and ICT operators to realize new streams of revenue capitalizing on the fixed high-speed broadband and mobile networks. With the use of efficient technologies, online cloud computing, digital security and digital solutions became an integral part of not only the individuals' and

corporates' daily operations but also the business continuity planning. This has opened the door for many industries to obtain the benefits of cost optimization, such as rent, utilities, building maintenance, cleaning, and equipment.



### Intense competition

With the global direction for digitization and ICT services, Kuwait telecom market is currently facing a significant stiff competition that led telecom operators to capture business opportunities in deploying new as well as more advanced

connectivity technologies and solutions that create more value in the enterprise, governmental and consumer sectors.



### Digital transformation and the digital ecosystem

A new era of transformation has begun where corporates and governments are more focused than ever before on adopting sophisticated technologies and new business strategies with the aim of maintaining their competitive position in a world that is always evolving rapidly. Accordingly, COVID-19 crisis has accelerated the need for telecom operators and ICT services providers to integrate the ESG and climate factors into their corporate strategy. This hurdle represented a wake-up call for the telecom and ICT providers to find the most effective plans and corporate strategies that insure business continuity with a main focus on digitization, high-tech advances, energy reduction and carbon emissions that would contribute to the public health, preservice of natural resources, alleviation of the environmental impacts and value adding services.



### Virtual reality (VR)

Virtual reality has gone above and beyond entertainment to the extent of being included in the healthcare, tourism, education, institutions industries. In this regard, employees can use virtual reality when executing their tasks to experience life-like circumstances that improves business

operations. On the contrary, the technology is still in its early stages of development as many organizations around the globe are hesitant to completely commit to the virtual reality technology due to various concerns related to costs, accessibility, and safety.



### Economic uncertainty

With the current economic instability post the COVID-19 crisis, different sectors around the globe has been doing their utmost to enhance their operating margins through focusing on digitization and adhering to the digitalization process. As a result, telecom operators leveraged on their digital platforms and communication channels to serve the consumer, private and public sector with the very best possible efficiency.



### ICT integration

In the recent years, mobile operators have been shifting from providing solely traditional telecom products and services into offering a wide range of end-to-end hardware as well as software integrated solutions to the B2B and B2C sectors. Where the demand for Data, Cloud, IoT and Cyber security services is steadily growing, Telecom operators found new opportunities arising from extending their services to include ICT solutions and enhance their ICT infrastructure to obtain an easier access to data in addition to enriching customer satisfaction.

# Technology trends



## Internet of things (IoT)

The internet of things markets are witnessing an upward trend in the consumer and enterprise sectors. The artificial intelligence (AI) employed in the IoT to collect and share data would increase the corporate efficiency, raise the level of automation and help to deliver better customer service. The global direction towards the use of IoT technology and AI-based solutions is attributed to their potential of being applied in almost all the daily operations leading to an operational cost reduction. Not to mention that these technologies are developing in complexity and intelligence in every way especially when combined with digitization.

Following are examples of the innovative IoT applications in various domains:

- **Consumer**  
IoT and connected devices are increasingly finding their way into consumer applications such as smart watches, home automation, connected health, connected transportations and other wearable devices.
- **Manufacturing**  
IoT opens up a completely new world of possibilities for the manufacturing industry with the ability to integrate seamlessly with various devices and processes in the industry domain.
- **Transport and Logistics**  
IoT applications touch a variety of aspects of this rapidly expanding

business like vehicle tracking, driver information system, navigation, safety and roadside support,... etc.

- **Healthcare**  
IoT offers a wide range of medical and healthcare applications as it enables hospitals and medical institutions to run more efficiently. It also simplifies the way in which patients can receive better treatment. Hence, the IoT has been recently integrated with a variety of medical devices, resulting in a higher quality and more effective medical services.



## Cloud technology

The benefits of adopting cloud technology go far beyond the ease of accessing data and the flexibility of connecting to the business anytime and anywhere. The following represent the key areas where cloud technology and data storage play a vital role in the success of major telecom and ICT solutions providers:

- **Diminished IT costs**
  - Cost of managing and maintaining IT systems
  - Reduce the need of purchasing expensive systems and equipment.
  - Reduce operating costs (cost of system upgrades, eliminate wages for additional staff and reduce energy consumption costs).

- **Business continuity and disaster recovery:**
  - Having the data stored in a secure and safe location helps organizations to manage businesses more effectively in case of power failure, natural disaster, security issues or other crises. Cloud technology also enables consumers and enterprises to leverage on the shared hardware through the use of fast as well as secure connectivity with lower latency.
- **Participation efficiency and increased collaboration**
  - Communication and shared services is executed with the use of modern and faster methods instead of the old and traditional methods.
- Additional benefits including, but not limited to, automatically access updates, scalability and loss prevention.



## Connectivity and digitalization

The telecom sector is witnessing drastic changes in terms of enhancing the digital services and business solutions for the consumer and enterprise sectors; embodied with creating partnerships with mobile virtual network operators (MVNO's). Digitization has become an essential part of our daily activities and business operations where it has been taking into many shapes to reach digital payments throughout the use of IoT, Cloud solutions and connected devices. On the other hand, MVNO's are designed to cater customers' needs via customized plans designed for the consumer and enterprise sectors with lower than usual prices.

# 5G

## 5G network

Telecom operators are heavily relying on 5G networks to build their infrastructure with the purpose of supporting their services to handle the accelerating demand on more connected devices, higher speed and data usage, Cloud solutions as well as ICT and IoT services. This would also enable telecom operators to better execute their business continuity plans to survive and reach effectiveness and efficiency in terms of operations, resiliency, agility as well as performance throughout the most critical economic and operational conditions.



## Cyber security

With the increased reliance on connectivity and the new technologies here comes a need for stronger and more dependable cyber security that allows high-tech operators to open up for new growth opportunities. Thereafter, the growing demand on digitization, Cloud services and IoT creates a vital need for Cyber security to provide consumers with solutions in cyber security and protection 'Shield' services.



# Risk assessment and mitigation

## Risk management

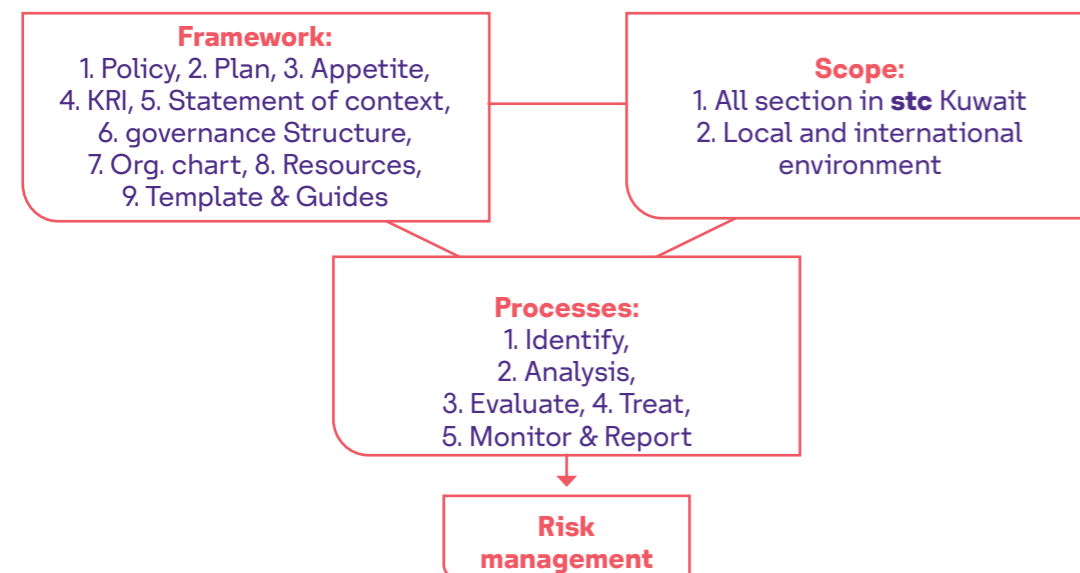
### Overview

Effective and efficient Risk Management framework is an important enabler to the achievement of **stc**'s strategic objectives. The Risk Management System in **stc** follows a systematic and disciplined approach in order to provide clear responsibility and accountability structures for effective Risk Management and Business Continuity. The 'Risk Category' covers seven (7) major areas: Customer Experience & Services Quality, Financial, Governance, Regulatory & Compliance, Health & Safety, Human Resources, Network Reliability, and Reputation & Community.

The Board Risk Management Committee (BRMC) oversees **stc**'s Risk Management Framework, reviews the key risks (existing and potential), and their respective mitigation strategies to ensure risk management effectiveness. The BRMC holds quarterly meetings to review the management of these risks and effectiveness of mitigation strategies and controls, and actively identify the positive business opportunities in relation to these risks.

### Framework

**stc**'s Risk Management Framework has been benchmarked with leading international standards and guidelines such as ISO 31000 and COSO. The diagram below shows the Risk Management Scope, its respective 'Framework' and supporting 'Process' which outlines how the risks are treated within the company:



# Viability statement

With the ongoing challenges of COVID-19 crisis on various industries around the globe, **stc** ensures continuous assessment of its prospects, financial and operational outlook through performing a yearly strategic planning driven by the results of company's corporate strategy. Accordingly, continuous evaluation, monitoring and review for **stc**'s strategic business plan, yearly budget and planning process lies on the responsibility of the company's executive management and SBU's heads.

The assessment process aids the management in defining the required strategic changes throughout the planning phase to maintain **stc**'s operational alignment with the fluctuating market conditions and the fast-paced changes in industry trends. In this regard and in collaboration with the risk management department, **stc** has adopted different tools and mechanisms for identifying the principal risks that might hamper company's operations or impede any arising opportunities. The complete risk management process and holistic strategic planning act as a platform that enables **stc**'s executive management to assess company's viability in line with all the encountered risks and uncertainties reflected in the business environment.

Accordingly, in pursuit of increasing company's transparency over risky factors and insuring its sustainability as well as ability to remain viable in times of catastrophic events, **stc**'s executive management was keen to accompany the implementation of the strategic planning and budgeting processes with well-defined risk models that apply potential risks to company's business plan and financial forecasts. The tested risk models encountered the principal risks that would threaten **stc**'s business model, future performance and solvency.

Following are the key factors behind **stc**'s

success in executing its operational and strategic frameworks, which enabled the company to sustain its strong market position and achieve good results during the difficult economic conditions of COVID-19 crisis:

- Experienced, well-established and efficient management
- The dedication, professionalism and sincerity of its working teams
- Strong, dynamic and efficient operating model
- Strong reputation with established market products
- **stc**'s capitalization on the 5G products and services
- The diversification in its stream of revenues
- ISP acquisition - **stc**'s specialized arm for the B2B products and services
- **stc**'s continuous investment in the ICT field
- A strong cost optimization program
- Market segmentation
- Strong financial position
- Sustainable CAPEX and reduced OPEX
- Solid cash balance

With an aim to present **stc**'s sustainable liquidity and strong operations, it is worth shedding the light on conducting the following practices on a periodic basis:

- Periodic liquidity assessment to better serve **stc**'s customers, stakeholders and shareholders
- Risk Models covering scenario analysis that examine the identified risk principals on **stc**'s current operating environment
- Scenario analysis, business plans, and strategic framework reflect the future impacts as well as on-going challenges of COVID-19 crisis on the telecom industry, market conditions, **stc**'s operations and working environment
- Mitigation plans in line with **stc**'s strategic framework and business plan to keep its liquidity within a threshold level in addition to enhancing its operational efficiency for the coming periods.

## stc response to COVID-19

As COVID-19 started to dominate the public health in early 2020 and struck most countries around the world, causing enormous challenges to the health systems, governments and corporates were eager to adopt unprecedented measures that would prevent the pandemic spread, financial markets collapsibility or business operations halt. This has entailed a widespread shutdown among all sectors due to the danger of social interactions that would spread the virus expeditiously. Consequently, in response to the global appeal, **stc's** executive management continued to support the holistic role of the internal Committee which was created early 2020 to monitor company's operations throughout the critical times of COVID-19 crisis. Up until this moment, the Committee was responsible for reviewing and evaluating **stc's** Business Continuity Plan to ensure its effectiveness all the way through the ongoing political, societal and economical changes. The crisis management and infection control procedures developed by the Committee have not only helped **stc** to resume its

operations during the lockdown periods but also played a significant role in the financial performance recovery during 2021.

In addition to its compliance with the international best practices with regards to the preventive precautionary measures and procedures, **stc** was at the forefront of the companies who led a hand to the Kuwaiti government and contributed to mitigating the negative impacts of COVID-19 crisis, by fully adhering with the government's instructions and applying ample health precautions among all its employees and customers.

Accordingly, **stc** ensured adopting the following measures within company premises and across all the branches:

- Continuous distribution of facemasks, gloves and sanitizers at the company premises and across the branches
- Sanitizing all the facilities
- Distributing awareness leaflets in every floor and company elevators

- Sending out instructive emails to all employees pertaining to the health and safety precautions.
- Utilizing on the thermal cameras in the company entrance to detect infections

In 2021, the pandemic gradually begun to break down after the emergence of antiviral vaccines, whereby, **stc** played a significant role in the vaccination campaign launched by the Ministry of health. During the course of vaccinating the population in Kuwait, **solutions by stc** (**stc's** specialized arm) provided full internet coverage services in Sheikh Jaber Al-Ahmad Al-Sabah Bridge, as a contribution and support for the MOC and their employees.

In addition, and in cooperation with the Ministry of Health, **stc** has organized a huge vaccination campaign consists of two phases were held in the company's headquarter and the Ministry of Health vaccination locations, as **stc** has proudly

succeeded to vaccinate around 1,000 of the company's employees and their families.

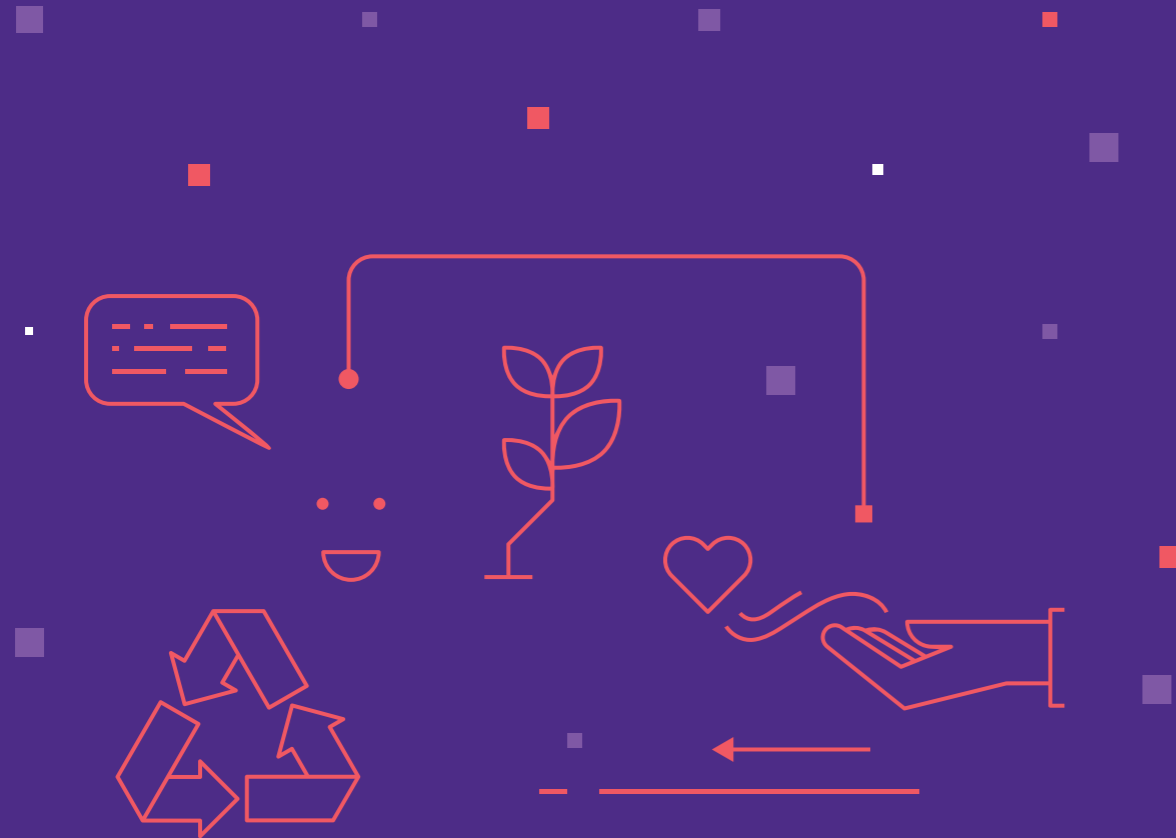
With an attempt to abide by the Kuwaiti government's plan of the gradual return to normal life in Kuwait, in June 2021, **stc** has begun to implement its 'return to work' plan that was prepared in advanced after the flexible working hours plan was implemented since the third quarter of 2020. The 'return to work' plan consists of five phases.

With the aim of implementing the above mentioned 'return to work' plan, **stc** was keen to keep its employees engaged in the day-to-day business activities especially after the successful and well-planned working remotely arrangement that took place throughout the pandemic. Accordingly, the Company was not in rush to increase the number of employees in the working place and has adopted the structured rotation between employees within each department across all company sectors. As a result, **stc** was able to maintain its business operations with the same high quality of services provided to customers while building on company's strategic framework and harnessing the technological advancements to recover from the adverse impacts of COVID-19 on the telecom sector in Kuwait. The flexible working environment and well-defined human resources plans are set to ensure the safety of all **stc's** employees, being the company's most important priority.





# Corporate social responsibility



## stc ramped its CSR initiatives in 2021 to create a positive impact in the community

In 2021 **stc** scaled its CSR program to diversely contribute towards various causes, including the key areas of health, education, entrepreneurship, and the environment.

Looking back on the year, through its will to spread a positive impact in the community, **stc** successfully facilitated, managed, sponsored, and participated in various initiatives that aimed to support and empower the Kuwaiti society. These initiatives were carried out in collaboration with the Kuwaiti Government, established enterprises, SMEs, specialized service providers, and members of the community to effectively implement cause-related concepts in line with **stc**'s social responsibility framework.



## stc CSR campaigns and initiatives 2021



### Sanitizer stands

**stc** took a step forward to place sanitizer stands in the Ministry of Interior, Central Blood Bank as well as **stc** headquarters and branches to ensure the safety of everyone during the peak of the COVID-19 crisis.



### stc what's up

**stc** kicked off this initiative which consists of a series of social media episodes focusing on different topics showcased by social media influencers; whereby, they have each elaborated on their field of expertise, with an aim to educate and entertain the public.

### Subiyya cleanup

**stc** participated in the largest desert cleanup in Kuwait in collaboration with Tarahom voluntary team, as part of preserving the environment initiative.



### Cycling community

**stc** participated in the Cycling Community series of events that took place for four weeks in cooperation with Extreme sports. The aim was to raise awareness of the importance of maintaining health and physical fitness among all ages. As part of the engagement activities, different challenges among participants were planned to encourage exercise, competitions were organized for guests who visited **stc**'s booth, and gifts and beverages were distributed to everyone.



### Mother's day campaign

On the occasion of Mother's Day, a full campaign under #my\_mom\_is\_special was created to express the role of the mother in our lives.

### weyak

An initiative, which focuses on enabling the digital transformation journey and supporting small, medium enterprises and local start-ups. The aim is to provide business exposure to their services to help lift them up after falling during the challenges faced in the market due to the pandemic.



### Ramadan

To raise awareness on the importance of acting today for a better tomorrow, **stc** kicked off #today\_we\_can campaign utilizing various media platforms to spread its message in hopes of reaching the largest number of followers. The concept behind this initiative focused on giving back to the community and empowering the Kuwaiti society.

### Tabeeby

**stc** collaborates with Tabeeby App to educate people and increase health awareness of the diseases' risks. This initiative also serves to showcase what the medical world has reached via a large pool of specialized doctors who provide medical advice in order to promote a healthy lifestyle in the community.





## Omniya

**stc** sponsors the 2021 Omniya plastic recycling project internally in its headquarters and externally to engage the public, as an initiative to preserve the environment and start the change.



## Vaccination drive

**stc** invited Ministry of Health to its headquarters to provide employees and their families the first and second dose of the COVID-19 vaccine.



## International day for blood donation

**stc** held an event to encourage employees, citizens and residents to donate. In addition, **stc** also published awareness and encouragement videos on **stc's** social media.



## Honoring top performing high school students

**stc** honored the top performing high school students who received the highest achievements in the Arts and Science curriculums. **stc** strongly believes in the importance of driving and encouraging the local youth and highlighting their hard work and the dedication they have placed to spread a positive impact in the community.

## Safe Education

In cooperation with the ministries of the state of Kuwait, **stc** sponsored the national campaign for 'Safe Education' on the occasion of returning to school after the pandemic. The sponsorship included a visit to schools and presenting gifts to students.



## Taking care of Kuwait's children by celebrating all abilities

On the occasion of Kuwait's national holidays, **stc** organized a special event for students with learning difficulties, in the Beauty of Colors studio where they shared their talents via drawing and coloring. **stc** also hosted an event at 312 café, a cafe with special need employees where free coffee was distributed for **stc** customers.



## Breast cancer awareness campaign

**stc** posted and created awareness videos throughout the month to raise awareness on this health issue. In collaboration with Alia International Hospital, **stc** hosted a section at its headquarters to educate staff on methods to self-examine. A sports event was also held at REBEL gym for **stc** female employees to promote health and safety. Furthermore, awareness gifts were also distributed to **stc** female customers in the main **stc** branches.



## Kuwait Football Association

While supporting exercise and sports to promote a healthy lifestyle, **stc** enters its 8th year in sponsoring the Kuwait Football Association and participates in the activities of the H.H. the Crown Prince Cup and H.H. Amir Cup.

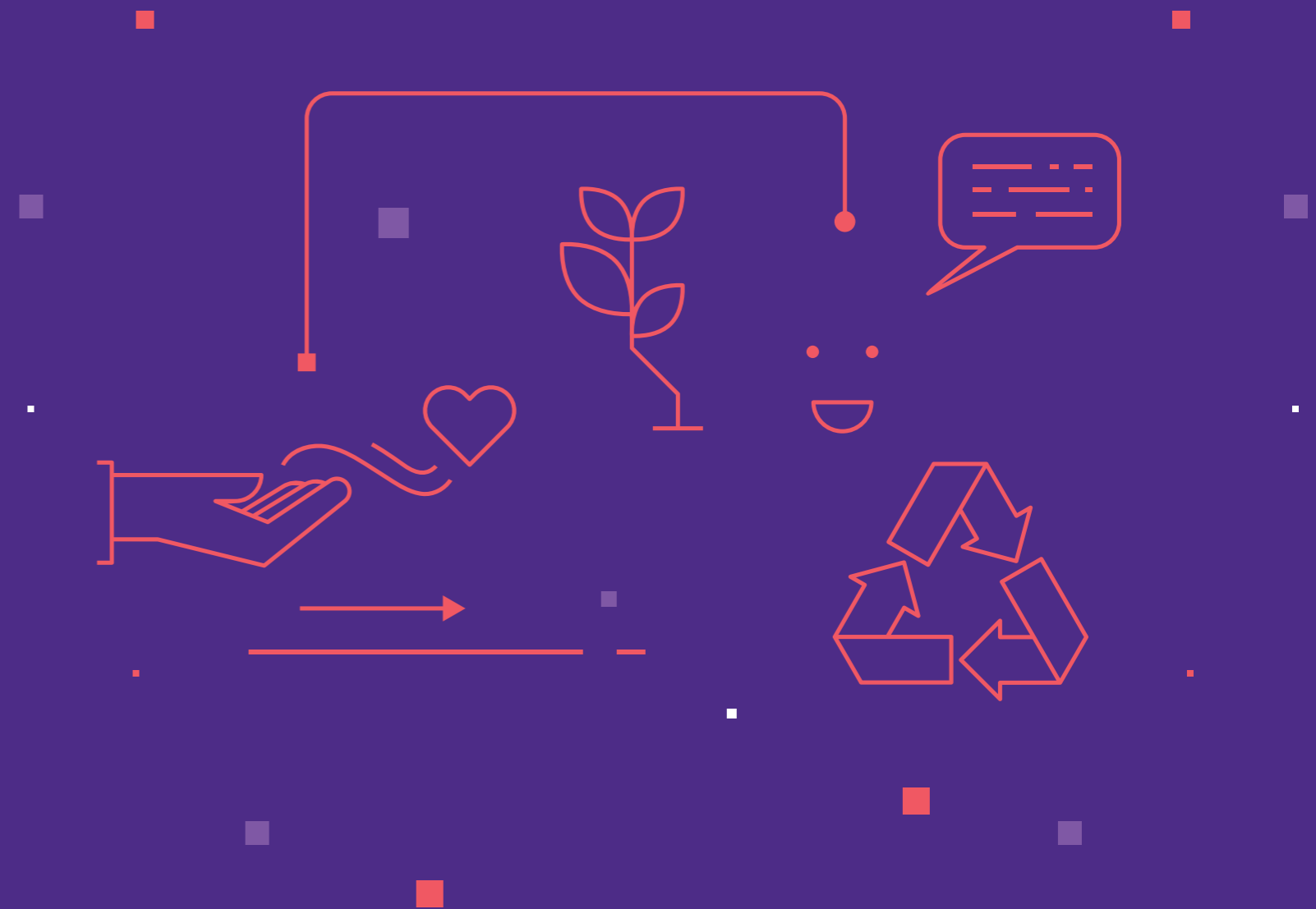


### Movember awareness campaign

**stc** posted and created awareness videos throughout the month to raise awareness on this health issue. In collaboration with fitness lifestyle trainer Ali Hussain, owner of Troop Gym, **stc** supported to create awareness via social media content to promote men's health. Hussain also joined **stc**'s staff event to motivate **stc** employees to join the gym by giving them discounts and free memberships.

### Promoting healthy lifestyle

We at **stc** believe that physical activity and body awareness are essential attributes in maintaining a well-balanced and healthy lifestyle that lead to higher productivity levels. **stc** continues to set an example for the younger generation by sponsoring major sports events taking place in the country, where **stc** was the main sponsor this year of the 'Battle of the East', the 'BeInspired Obstacle Run', Kuwait Triathlon Club duathlon race and Kuwait Triathlon club triathlon race. By participating in such events, **stc** continues to support and empower the Kuwaiti society by embracing an active culture through various platforms.





# Governance report





## Shari'a report

### The Sharia Report of Kuwait Telecommunications Company (stc) Fatwa and Shariah Supervisory Board

For the period from 01/01/2021 to 31/12/2021

To: the Shareholders of Kuwait Telecommunications Company (stc),

Peace, mercy and blessing of Allah be upon you.

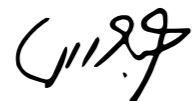
According to the contract signed with us we at Fatwa and Shariah Supervisory Board in Al Mashora and Al Raya have audited and supervised the principles adopted and the contracts related to the transactions concluded by the Company during the period from 01/01/2021 to 31/12/2021. We have carried out the necessary supervision to give our opinion on whether or not the Company has complied with the Islamic Shariah rules and principles as well as the Fatwas, decisions and guidelines made by us.

However, our liability is limited to the expression of independent opinion on the extent of the company compliance with same based on our audit.

Our supervision included examining the contracts and procedures used by the Company on the basis of examining each type of operations.

In our opinion, the contracts, operations and transactions concluded or used by the Company during the period from 01/01/2021 to 31/12/2021 and which have been reviewed by us, were in compliance with the provisions and principles of the Islamic Shariah.

**Prof/ Abdul Aziz K. Al-Qassar**  
Chairman of the Sharia Committee



**Dr. Esam Alenezi**  
Sharia Committee Member



**Dr. Ali Ibrahim Al- Rashed**  
Sharia Committee Member



## Corporate Governance report

### 1. Introduction

The Governance Framework in Kuwait Telecommunications Company (**stc**) reflects the level of innovation, efficiency and ability to achieve the company's vision related to enabling digital transformation in the State of Kuwait and protecting the rights of stakeholders. The main objective of implementing the Governance Framework is to enhance investors confidence, ensure the achievement of the company's vision and strategy and provide a wide range of innovative services and platforms in line with the highest ethical and corporate standards, in addition to enhancing the level of trust that the company has built over the years.

The company's Board of Directors and the Executive Management seek to optimize the implementation of the governance framework due to the Board's confidence in what will bring several benefits to the company, including but not limited the strengthening shareholders' rights and maximizing the stakeholder's rights in addition to the ability to face crises, as the company is always aware of the latest Governance developments to reflect that continuous improvement by reviewing the governance practices applied in the company periodically and ensuring that the company is fully prepared to face any challenges that may arise from time to time, in addition to creating corporate values for shareholders, stakeholders and employees.

The company continues towards further growth and progress by strengthening the principle of transparency, integrity and positive communication with all stakeholders in order to reach the highest levels of awareness and perception of the governance requirements and imbedding the governance framework within the company's culture. The Board of Directors affirms its constant keenness to keep abreast of the latest developments in communication and disclosure

channels for shareholders, investors and stakeholders to be in constant contact with the company's developments in all impartiality, transparency and a fair image.

The standards and commitment that **stc** constantly demonstrates, reflects its ability to provide the highest levels of transparency to stakeholders and meet the requirements of regulatory authorities. From this standpoint, Kuwait Telecom Company (**stc**) has formulated its culture of promoting integrity in a strong framework that is applicable at all levels, which reinforces its basic rules for achieving sustainable success, and this, in turn, supported to promote a fully supportive corporate culture that meets the needs, aspirations and hopes of stakeholders.

As we mentioned earlier, the company is constantly seeking to cultivate a governance culture as a basic principle in the company through the best standards application in the field of governance and adherence to the instructions and guidelines of the Capital Markets Authority and other regulatory authorities in the State of Kuwait. Promoting a culture of professional behavior and ethical values within the company is one of the main pillars to enhance the company's leadership position and distinguish the company's identity from others. Therefore, the company established three clear basic ethical principles in line with the company's values, which are dedication, vitality and daring. The company is aware of the importance of following professional standards and ethical values in all transactions, and disclosure and transparency of information in an accurate and timely manner, which contributes to the development of the company's business and enhances the confidence of shareholders, investors and all stakeholders.

Among the several awards received by Kuwait Telecommunications Company

(**stc**), the company won the Corporate 'Governance & Stakeholders Protection' Award from the Capital Finance International magazine CFI.co which located in UK after exceeding the standards imposed by the institution and the comprehensive and integrated review process. This award was recognized based on the company's outstanding achievements, corporate culture, and integrity standards.

## Rule (1): Building a balanced structure of the board of directors

### 2. Structure of the Board of Directors

The Board of Directors role in the company represents the point of balance that serves to achieve shareholder's objectives and follow-up with company's Executive Management. The Board of Directors seek to achieve company's strategic goals by ensuring that the Executive Management are perfectly performing its assigned roles. Whereas the Board of Directors resolutions greatly affect the company's performance and safety of the financial position therefore, the company should ensure the Board of Directors formation is a balanced & qualified with a variety of experiences to have a positive impact on the company and its performance in addition to enhancing its financial position and market share. Therefore, the company has been always keen on ensuring that the majority of the board members are non-executive members, including an independent member. The company was also keen that the Board members come from a diverse background and professional experience in the telecommunications and networks, as well as the accounting and finance fields, this in turn, adds all the expertise needed by the company when discussing the issues presented to the Board of Directors.

The Board of Directors is composed of 7 members. Herein, below is a statement of their classification, qualifications, and experiences:



Name	<b>Dr. Mahmoud Ahmad Abdulrahman</b>
Position	<b>Chairman/ Non-executive</b>
	Dr. Mahmoud Ahmad Abdulrahman is the president of the Board of Directors at the Kuwait Telecommunications Company ( <b>stc</b> ), and has held the post since 2015.
	Dr. Abdulrahman combines large experience in administration, legal affairs and communication sector. He assumed several Academic leadership positions in the Ministry of Higher Education beside his career in legal work in serving many governmental and public entities and was appointed as an arbitrator to settle several disputes. He had served as a board member in Wataniya Mobile Telecommunication Company, Warba Bank, Kuwait Cement Company, and National Offset Company.
Curriculum Vitae	Dr. Abdulrahman joined as teaching staff in the College of Law once he graduated from Kuwait University. In 1995, he was appointed as Legal Affairs Director in Kuwait University for one year. From 1997 to 2005, he served as Head of Legal Office of Kuwait Civil Aviation Directorate. From 2002 to 2004, He served as Assistant Dean of College of Law at Kuwait University. As for now and since 2005, Dr. Abdulrahman serves as Legal Department Director in Kuwait Investment Authority. Dr. Abdulrahman is also a member of the board of directors in Health Assurance Hospitals Company (Dhaman). Moreover, Dr. Abdulrahman has published several legal theses in the Law Magazine and other scientific magazines as well as executed two projects related to consumer protection law as well as the monopoly and merger law, which were submitted in the Kuwait National Assembly.
Representative of	<b>Kuwait Investment Authority</b>





Name	<b>Mr. Ameen Ben Fahad Ben Abdulaziz Al-Shiddi</b>
Position	<b>Vice chairman/ Non-executive</b>
Curriculum Vitae	<p>Mr. Ameen Ben Fahad Al-Shiddi is currently serving as <b>stc</b> Group CFO. He joined <b>stc</b> in 2001 and occupied many significant positions before serving as the Senior President of Finance.</p> <p>He was in charge of all financial activities such as accounting, audit, planning and budgeting. Mr. Ameen also handled all the treasury activities locally and internationally, financial risks, mergers, acquisitions, credit rating and investor relations. He has gained a wide experience with consultancy companies in KSA, in the communications industry and related activities before joining <b>stc</b>.</p> <p>Mr. Ameen received his Bachelors of Science Degree in management from King Saud University in Riyadh and his Master's degree in Accounting from Southwest Missouri State University, USA. He also has CPA from USA and SOCPA from KSA.</p>
Representative of	<b>Saudi Telecom Company (stc)</b>



Name	<b>Eng. Omer Abdullah Al-Nomany</b>
Position	<b>Board member/ Non-executive</b>
Curriculum Vitae	<p>Up until now, Eng. Omer Abdullah Al-Nomany was appointed as the CEO of <b>stc</b> Solutions in 2017, having more than 15 years of experience in executive managerial roles. Eng. Omer has held key managerial positions in <b>stc</b>, and has led strategic initiatives such as the BSS Transformation Program and IT 2020.</p> <p>In 2000, Eng. Omer joined <b>stc</b> as a Manager where he was later assigned as the Head of IT. In 2009, he was appointed as the Vice President of IT where he planned, managed and implemented the strategic vision of the IT delivery arm within <b>stc</b> in alignment with the strategic vision of the rest of the business sectors as well as the strategic vision of Saudi Telecommunications Company's board of directors.</p> <p>After his graduation in 1994, Eng. Omer joined the Saudi Arabian Monetary Agency (SAMA) for 6 years, where he implemented complex critical projects.</p> <p>Eng. Omer holds many scientific and specious certificates from a number of well-known universities and international institutions. He received his BSc in Computer Engineering from the Saudi Arabia's leading engineering and computer science college, King Saud University in Riyadh in 1994. Furthermore, Eng. Omer also holds a PMP, CISM and CISSP.</p>
Representative of	<b>stc Gulf Holding</b>



Name **Mrs. Iman Mohammed Al-Ahmed**

Position **Board member/ Non-executive**

Mrs. Iman Mohammed Al Ahmad serves as a board member of Kuwait Telecommunications Company (**stc**). She began her career in the field of computer and information systems 35 years ago with the Public Institution for Social Security in 1983 as a systems engineer where she has held many positions and is now the Deputy Director General for Information Technology.

Mrs. Iman Mohamed Al-Ahmad has a leading role and a practical experience in preparing the strategic plan for the implementation of internal and external projects related to electronic systems. She also has a practical experience in the contribution to the development of existing technical systems in order to cope with the technological developments in terms of automating all decisions, laws, circulars and legislations related to Social security as well as electronic systems and other systems serving the organization's departments.

Mrs. Iman Al Ahmad is a Board Member at Wafra Real Estate Company representing The Public Institution for Social Security. Mrs. Iman Al Ahmad graduated from Kuwait University in 1983. She holds a Bachelor's degree in Economics and a specialization in Marketing. Mrs. Iman Al Ahmad also participated in various training courses in all fields of technical, commercial and financial in several international training centers.

Curriculum Vitae

Representative of

**The Public Institution for Social Security**



Name **Mr. Faisal Saeed Al-Homali**

Position **Board member/ Non-executive**

Eng. Faisal Said Al-Homali has held broad and diverse leadership positions at the Saudi Telecom Company (**stc**) and its subsidiaries. Eng. Faisal Al-Homali is currently, the Chief Commercial Officer of **stc** and the Chairman of Channels by **stc**, in addition to being a Board member at Kuwait Telecommunications Company (**stc**). He is also the Chairman of several **stc** subsidiaries and the head of the Woman Forum at the Saudi Telecom Company. Eng. Faisal was the Chief Executive Officer of Channels by **stc** which serves as Digital sales and distribution arm for **stc**'s Consumer Business Unit, Enterprise Business Unit, Virgin and Friendi MVNOs, Apple, Samsung and Huawei.

His journey spans for over 24 years, where he held several positions and got promoted through the ranks to become the Chief Commercial Officer of **stc** in 2021. In 2017, Eng. Faisal was appointed as the Chief Executive Officer of Channels by **stc** as well as **stc**'s sales, distribution and e-commerce. During that period, Eng. Faisal succeeded in spreading the culture of digital transformation, e-commerce, and the sharing economy in addition to enhancing the digital delivery processes to a distinguished level, through which, the group was able to maintain an outstanding level of revenue. From 2014 until 2017, Eng. Faisal was the Vice President of the Consumer Department at **stc** Saudi. Prior to 2014, Eng. Faisal led the Saudi Telecom's Mobile Business Unit, the key business driver for at the Saudi Telecom, where he developed its commercial strategies and managed company's sales, marketing, partnerships and alliances development in addition to leading the business operations improvements. Eng. Faisal was also a Board Member of **stc** Bahrain from 2014 until 2019.

Curriculum Vitae

Representative of

Eng. Faisal Al-Homali holds a Master Degree in Business Administration from Prince Sultan University. He also holds a Bachelor of Science in Chemical Engineering from King Saud University as well as a Diploma in Sales and Marketing from Riyadh Chamber of Commerce.

**stc Gulf Holding 3**



Name

**Mr. Abdulaziz Abdullah Al-Ghamdi**

Position

**Board member/ Non-executive**

Currently, Mr. Abdulaziz Abdullah Al-Ghamdi is the General Manager of Operations of the Investments Operations sector in **stc**. He was also appointed as a Board Member in Kuwait Telecommunications Company (**stc**) in 2019 representing the **stc** Gulf Holding 1.

Mr. Abdulaziz has an International experience in the Strategic Business interventions and in building PMO teams. His experience has extended to include the on boarding activities for the subsidiary and green field post acquisition/ merger such as the Telecom Towers Company. Mr. Abdulaziz is also a board member in a number of companies including Maxis Brand- the largest Telecom Company in Malaysia. In 2015, Mr. Abdulaziz joined the Investment Operations Section where he was appointed as the Investment Operations Director of subsidiaries Governance and was responsible for the corporate Governance as well as the critical HR matters of 15 subsidiaries. Mr. Abdulaziz has 12 years of experience in Human Resource Management, Governance and subsidiaries Operations. In 2007, he joined **stc** as a Human Resource Professional where he was later assigned as the Team Leader of HR. In 2009, Mr. Abdulaziz was appointed as an Organizational Development Expert where he developed and maintained **stc**'s organizational structure and operating model based on company's business strategy. In 2012, he became the Human Capital Strategies Section's

Manager formulating human Capital Strategies based on analytical tools to examine the internal and external. In 2013, Mr. Abdulaziz was appointed as the Human Resources Strategies, Procedure & Systems Director.

Mr. Abdulaziz has a Master's Degree in Human Resources Management from University of Westminster in London, UK in 2012. In Addition, he holds a Bachelor in Computer Information Systems from King Saud University, Riyadh in 2006.

Curriculum Vitae

Representative of

**stc Gulf Holding 1**

Name

**Mr. Salah Ahmad Meshari Al-Fouzan**

Position

**Board member/ Independent**

Mr. Salah Ahmad Meshari Al-Fouzan serves as board member of Kuwait Telecommunications Company (**stc**) since 2016.

Mr. Salah began his career in the communication and investment sectors 18 years ago. In 1997, he started his career with Mobile Telecommunication Co. before moving to the business development career in 2002, where he held several leading positions.

In 2005, he was appointed as the Executive Director of the Mergers and Acquisitions Department. In 2008, he served as the Chief Business Development Officer where supervised and executed the selling and purchasing transactions of more than USD 20 billion including purchasing Celtel International Co., which was operating in several African countries, V-Mobile in Nigeria and Mobitel in Sudan.

Curriculum Vitae

He was also responsible for the expanding activities through the acquisition of new licenses in Bahrain, Iraq and KSA. Furthermore, he supervised listing the companies in KSA and Zambia stock exchange markets. In 2010, he worked on the deal to sell Zain Africa to Indian flagship Bharti for USD 10.7 billion. In addition, he prepared numerous anonymous studies on a number of acquisition deals, financing arrangements and bank negotiations.

Mr. Salah was a board member in many companies and committees, including Kuwait Airways and the technical committee of Communication Regulatory Authority in Kuwait. Currently, he is an independent BoD member in Ekuity Investment Holding Company in Egypt.

In 2009, Global Telecom Business (GTB) selected him among the top 100 Most Influential Personalities in Communications.

Mr. Salah graduated from Gannon University, Pennsylvania, with a Bachelor's Degree in Electrical Engineering and a Diploma in Business Administration from Bradford University, UK.



The Board of Directors held (9) meetings in 2021, and the following table shows the number of meetings, their dates and the number of members' attendance, each separately

Name	1/ 03/02/2021	2/ 17/03/2021	3/ 28/04/2021	4/ 30/05/2021	5/ 20/06/2021	6/ 01/08/2021	7/ 28/10/2021	8/ 17/11/2021	9/ 16/12/2021	% of Attendance & Absence	Absence%
<b>Dr. Mahmoud Ahmad Abdulrahman</b> (Chairman of the Board of Directors)	✓	-	✓	✓	✓	✓	✓	-	✓	77.78%	22.22%
<b>Mr. Ameen Ben Fahad Al-Shiddi</b> (Vice Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%	-
<b>Mrs. Iman Mohammed Al-Ahmed</b> (Board Member)	✓	✓	✓	-	✓	✓	✓	✓	✓	88.89%	11.11%
<b>Mr. Abdulaziz Abdullah AlGhamdi</b> (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%	-
<b>Mr. Omer Abdullah Al Nomany</b> (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%	-
<b>Eng. Faisal Saeed Al Homali</b> (Board Member)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%	-
<b>Mr. Salah Ahmad Meshari Al-Fouzan</b> (Board Member - Independent)	✓	✓	✓	✓	✓	✓	✓	✓	✓	100%	-

### Mr. Ahmed Meshari Al Faris

#### Board secretary

Mr. Ahmed Al-Faris is the Board of Directors Secretary. He was appointed during the Board of Directors meeting dated December 24, 2018.

Mr. Ahmed Al-Faris obtained a Master's degree in Business Administration (MBA) from Maastricht School of Management - The Netherlands in 2009 and a Bachelor's Degree in Accounting from Kuwait University in 2000. He has extensive banking experience through his work at the Central Bank of Kuwait and in the Islamic banking field at Kuwait Finance House from 2002 until 2014, then he joined Kuwait Telecom Company (**stc**) from 2014 until 2017 to work as Director of the Regulatory Compliance Department, after which he held the position Deputy Undersecretary of the Ministry of Commerce and Industry for Corporate Affairs and Commercial Licenses from 2017 until 2018.

Mr. Ahmed Al-Faris was also appointed as Board of Directors Member of the Public Authority for Industry for the year 2017-2018 and the Central Bank of Kuwait in 2018, in addition to his membership in advisory boards, such as the Permanent Committee for Improving the Business Environment and Enhancing Competitiveness, the Higher Committee for the Study of Demographic Imbalances in the State of Kuwait, and the Advisory Council College of Administrative Sciences at Kuwait University.

#### Summary of how to implement the registration and coordination requirements in addition to recording and archiving the Board of Directors minutes of meetings:

The Board of Directors Secretary assists the members of the Board on an ongoing basis to ensure that they obtain any required information in accordance with the decision of the Board of Directors or in consultation with the Chairman of the Board of Directors, in addition to assisting the Chairman of the Board of Directors in all matters related to preparing the agenda of the Board's meetings and issuing invitations to members of the Board. The secretary records all the decisions and discussions of the members of the board of directors, records the results of the voting operations that take place in the meetings of the board of directors, and works to preserve the documents of the board of directors.

#### The independent member declaration that it meets the criteria for independence, and a copy of the declaration shall be attached to the report:

The independent member states that his independency is still valid as stated in Article (2-3) of Chapter Three of Book Fifteen (Corporate Governance) of the Executive Regulations of Law No. (7) of 2010 regarding the establishment of the Capital Markets Authority and the regulation of securities activity and their amendments, as well as the independent member has the qualifications, experience and technical skills which are constituent with appropriate company's activity.

## (2) Sound identification of roles and responsibilities

### 3. Duties and responsibilities of the Board of Directors

The company has a Board of Directors list that are fully compatible with the Corporate Governance Rules Requirements, which include defining the duties and responsibilities of the board of directors, including but not limited to:

- Adopting the strategic objectives, plans and general policies of the company.
- Approving the annual estimated budgets and approving the interim and annual financial statements.
- Oversee the company's major capital expenditures, and own and dispose of assets.
- Ensuring the company's commitment to the policies and procedures that ensure the company's respect for the applicable internal regulations and regulations.
- Ensure the accuracy and integrity of the data and information to be disclosed, in accordance with the applicable policies, procedures, and systems of disclosure and transparency.

The company also has job descriptions for the board member, which include a clear definition of the duties and responsibilities of each member of the board of directors, as well as the Authority Matrix, which clarifies the authorities of the Board of Directors, Executive Management and committees.

### 4. Achievements of the Board of Directors

Taking into consideration the Board's responsibilities to achieve the best financial and operational results and to achieve the company's strategic plan to the fullest extent, the Board has achieved in its current session many achievements for the financial year ending on December 31, 2021, which includes the harvest of the company's achievements and successes during this year with its indicators the tangible positive in various financial, marketing and technical fields. The company's achievements and successes during this year include its positive and tangible positive indicators in various financial, marketing and technical fields. In its twelfth year of operation, the company was able to compete vigorously and gain the satisfaction of subscribers by offering promotional offers, competitive prices and new services, in addition to enhancing subscribers' loyalty, which was positively reflected in the level of operational revenues and profitability. The company, which resulted in strengthening the role of the company and developing the telecommunications sector in the State of Kuwait to serve the Kuwaiti society and contribute effectively to strengthening the national economy and achieving rewarding returns for its shareholders.

The Board of Directors has continued to apply the best international standards and the requirements of local regulators in the company's governance system through the work of the Board's committees with the company's executive management.

## 5. Committees of the Board of Directors

The Board of Directors formed its committees, and the instructions and rules of governance issued by the Capital Markets Authority were taken into account when forming these committees. The Board has formed 4 committees emanating from it, which are the Audit Committee, the Risk Management Committee, the Nominations and Remunerations Committee, and the Executive Committee. The following is a statement of those committees:

Committee:	Date of formation:	Committee term:	Number of members:
Audit Committee	29 March 2021	3 years	4
	Name	Position	Classification
	Mr. Ameen Ben Fahad Ben Al-Shiddi	Chairman	Non-executive
Committee members:	Mrs. Iman Mohammed Al-Ahmed	Member	Non-executive
	Eng. Omer Abdullah Al-Nomany	Member	Non-executive
	Mr. Salah Ahmad Al-Fouzan	Member	Independent

#### The Committee performs several duties including:

- Reviewing the periodic financial statements before presenting them to the Board of Directors and expressing an opinion and recommendation on them to the Board of Directors in order to ensure fairness and transparency of financial statements and reports.
- Examine accounting issues and understand their impact on the financial statements.
- Assessing the adequacy and effectiveness of the internal control systems applied within the company and preparing a report that includes the opinion and recommendations of the committee in this regard.
- Appointing an independent external auditor to conduct an examination and evaluation of the internal control systems, with submitting an annual report to the Committee with its opinion and recommendations before presenting the report to the Board of Directors and sending it to the Capital Markets Authority.
- Assessing the efficiency of information security procedures and the internal control system applied in this regard.
- Perform a technical supervision of the Internal Audit Department and review the results of the internal audit reports and regulatory authorities.
- Follow up on the work of the external auditor and discuss any obstacles or difficulties that the external auditor may face. These obstacles include any restrictions on the scope of the independent external auditor's activities or in relation to his obtaining the required information, and any fundamental disputes with management.
- Reviewing the reports submitted by the Sharia Supervisory Board, ensure compliance with the provisions of Islamic Sharia, and submit its recommendations thereon to the Board.
- Ensure company's compliance with laws, policies, regulations as well as directives and regulatory provisions of the Islamic Sharia.

In 2021, the Audit Committee held (6) meetings, and the following is a statement of the committee's meetings:

Statement of meetings						
Name	1/ 26/01/2021	2/ 20/04/2021	3/ 26/07/2021	4/ 16/09/2021	5/ 27/10/2021	6/ 12/12/2021
Mr. Ameen Ben Fahad Al-Shiddi (Vice Chairman)	✓	✓	✓	✓	✓	✓
Mrs. Iman Mohammed Al-Ahmed (Board Member)	✓	✓	✓	✓	✓	✓
Eng. Omer Abdullah Al- Nomany (Board Member)	✓	✓	✓	✓	✓	✓
Mr. Salah Ahmad Al-Fouzan (Board Member)	✓	✓	✓	✓	✓	✓

#### Committee's achievements:

##### The Committee has accomplished many achievements, including:

- Reviewing financial statements (quarterly and annual) before submitting them to the Board of Directors.
- Discussing the annual and quarterly reports of the internal Shari'a audit and the reports of the Shari'a Supervisory Board in the presence of the Shari'a Audit Team and the Sharia Supervisory Board.
- Discussing the reports submitted by the Internal Audit Department regarding the results of the audit work on Company's departments and activities in addition to approving the annual Internal Audit plan.
- Approving the objectives of the Key Performance Indicators (KPIs) of the Internal Audit Department

Committee: Risk Management Committee	Date of formation: 29 March 2021	Committee term: 3 years	Number of members: 4
	Name	Position	Classification
	Mr. Salah Ahmad Al-Fouzan	Chairman	Independent
Committee members:	Mr. Ameen Ben Fahad Al-Shiddi	Member	Non-executive
	Mr. Faisal Saeed Al- Homali	Member	Non-executive
	Mrs. Iman Mohammed Al-Ahmed	Member	Non-executive

#### The Committee performs several duties including:

- Preparing and reviewing the Risk Management strategies and policies, as well as the Risk Appetite before being approved by the Board of Directors. Ensuring the implementation of these strategies and policies, and that they commensurate with the nature and size of the company's activities.
- Ensuring the availability of adequate resources and systems to manage the risks.
- Ensuring that Risk Management personnel have a full understanding of the risks surrounding the company, and increasing employees' awareness of the risk culture.



In 2021, the Risk Management Committee held (4) meetings, detailed as follows:

Statement of meetings				
Name	1/ 28/01/2021	2/ 18/04/2021	3/ 27/07/2021	4/ 20/10/2021
Mr. Salah Ahmad Al-Fouzan	✓	✓	✓	✓
Mr. Ameen Ben Fahad Al-Shiddi	✓	✓	✓	✓
Mr. Faisal Saeed Al-Homali	✓	✓	✓	✓
Mrs. Iman Mohammed Al-Ahmed	✓	✓	✓	✓

**Committee's achievements:**

**The Committee has accomplished many achievements, including**

- Reviewed and approved the amended Key Risk Indicators for all sectors in the company.
- Reviewing and Introducing new Quantitative measures in the Risk Appetite
- Follow up on the company's Business Continuity plans to combat risks related to COVID-19.
- Adopt the Risk Management plan for the year 2022.

Committee: The Nomination and Remuneration Committee	Date of formation: 29 March 2021	Committee term: 3 years	Number of members: 4
	Name	Position	Classification
	Dr. Mahmoud Ahmad Abdulrahman	Chairman	Non-executive
<b>Committee members:</b>	Mr. Ameen Ben Fahad Al-Shiddi	Member	Non-executive
	Mr. Abdulaziz Abdullah Al-Ghamdi	Member	Non-executive
	Mr. Salah Ahmad Al-Fouzan	Member	Independent

**The committee performs several duties including:**

- Recommending the acceptance of the nomination and re-nomination of the Board Members and Executive Management.
- Developing a clear policy for Board Members' and Executive Management's remunerations
- Determining the appropriate skills required for Board of Directors membership and reviewing such requirements on an annual basis.
- Determining the mechanism for evaluating the performance of the board as a whole and the performance of each member of the board and the executive management.

In 2021, the Nomination and Remuneration Committee held (4) meeting, detailed as follows:

Statement of meetings				
Name	1/ 31/01/2021	2/ 16/03/2021	3/ 15/09/2021	4/ 14/12/2021
Dr. Mahmoud Ahmad Abdulrahman	✓	✓	✓	✓
Mr. Amin Ben Fahad Al-Shiddi	✓	✓	✓	✓
Mr. Abdulaziz Abdullah Al-Ghamdi	✓	✓	✓	✓
Mr. Salah Ahmad Al-Fouzan	✓	✓	✓	✓

**Committee's achievements:**

**The committee has accomplished outstanding achievements, including:**

- Development of human resources programs in the company.
- Recommending to the Board of Directors to hold a workshop on the recent trends of the telecommunication companies in Risk Management.
- Adopting the precautionary measures and plans taken by the Human Resources Sector to emerging the COVID-19.
- Launching Board Performance and Effectiveness Assessment Program for the year 2021.

Committee: The Executive Committee	Date of formation: 29 March 2021	Committee term: 3 years	Number of members: 4
	Name	Position	Classification
	Eng. Faisal Saeed Al-Homali	Chairman	Non-executive
<b>Committee members:</b>	Dr. Mahmoud Ahmad Abdulrahman	Member	Non-executive
	Mr. Abdulaziz Abdullah Al-Ghamdi	Member	Non-executive
	Eng. Omer Abdullah Al-Nomany	Member	Non-executive

**The committee performs several tasks including:**

- Discussing the Strategy, Action Plan and Estimated Budget before presenting to the Board of Directors.
- Follow up on the implementation of the strategic plan and performance indicators on a regular basis.
- Reviewing company's performance in general and the performance of all sectors of the company in details, in addition to discussing deviations from the work plan and the estimated budget.

In 2021, the Executive Committee held ( 6 ) meetings, detailed as follows:

Statement of meetings						
Name	1/ 02/02/2021	2/ 27/04/2021	3/ 05/05/2021	4/ 29/07/2021	5/ 25/10/2021	6/ 17/11/2021
Eng. Faisal Saeed Al-Homali	✓	✓	✓	✓	✓	✓
Dr. Mahmoud Ahmad Abdulrahman	✓	✓	✓	✓	✓	✓
Mr. Abdulaziz Abdullah Al-Ghamdi	✓	✓	✓	✓	✓	✓
Eng. Omer Abdullah Al- Nomany	✓	✓	✓	✓	✓	✓

#### Committee's achievements:

The committee has accomplished outstanding achievements, including:

- Reviewing the strategy and work plan for the next three years
- Studying the estimated budget.
- Follow up the operational performance of the company periodically.
- Studying the investment opportunities.

#### Summary of applying all requirements that allow the Board Members to obtain information and data accurately and in a timely manner:

The company's Board of Directors has adopted the procedures guide to ensure that the Board of Directors members obtain information in an accurate and timely manner and in accordance with relevant laws and legislation. The guide defines the mechanism for requesting information and presenting it to the Board of Directors, in addition, the procedures and obligations of the members to maintain the confidentiality of the information that has passed on to them by virtue of their work.

## 6. The Executive Management

The company has a Qualified Executive Management team, and they are as follows:

- Eng. Maziad Alharbi Chief Executive Officer
- Mr. Mohammed Bin Mubarak Al Faran Chief Financial Officer
- Eng. Nasser A. Al-Saadon Chief Strategy Officer
- Mr. Issam Issa Al Asousi Chief Corporate Affairs Officer
- Eng. Amer Issam Atoui Chief Consumer Officer
- Eng. Fahad AbdulRahman Al Ali Chief Technology Officer
- Eng. Ahmad Hamad Al Hammad Chief Human Resources Officer
- Mr. Fouad Al-Awadhi Chief Internal Audit Officer

The company has job descriptions that clearly define the tasks and responsibilities of each position, and the company has an approved Authority Matrix to all sectors within the company. The duties of the executive management include, for example (but are not limited to):

- Implement all the company's internal policies, regulations and systems approved by the Board of Directors.
- Executing the annual strategy and plan approved by the Board of Directors.
- Preparing periodic reports (financial and non-financial) on the progress made in the company's activity in light of the company's strategic plans and objectives, and presenting those reports to the Board of Directors.
- Managing the daily work and running the activity.
- Active participation in building and developing a culture of ethical values within the company.
- Developing an internal control and Risk Management systems, ensuring the effectiveness and adequacy of such systems, and adhering to the risk policy approved by the Board of Directors.



## Executive Management



Name **Eng. Maziad Alharbi**

Position **Chief Executive Officer**

Eng. Maziad Bin Nasser Alharbi was appointed as the Chief Executive Officer of Kuwait Telecommunications Company (**stc**) effective on 2019, where he played a major role in building a distinct strategy that contributed to the company's transformation from a traditional telecommunications service company to the expansion of the business solutions and digitization services through its acquisition to Qualitynet during 2019. He has over 25 years of proven executive management experience across the telecommunication, media and technology industries. In addition to serving as a Board and Committee Member in several companies, Alharbi also held a number of senior executive positions where he acquired a well-versed and diversified leadership, managerial, as well as technical expertise and capabilities in several areas.

### Curriculum Vitae

Prior to joining Kuwait Telecommunications Company (**stc**), Alharbi served as the Chief Executive Officer (CEO) of the Technology Sector at Etihad Etisalat (Mobily) from 2014 to 2019 in addition to being the Chief Corporate Affairs Officer (CCAO) between 2017 and 2019. In his dual leadership positions at Mobily, Alharbi was responsible for overseeing Mobily's internal corporate communications, external marketing communications in addition to coordinating company's decision making processes and enhancing the telecommunications network. He was also responsible for overseeing the technology planning and deployment of the latest technologies to transform the Kingdom to a digital country.

Alharbi started his career path as an Engineer at Saudi Electricity Company in 1995 before joining Lucent Technologies in 1996, Huawei Saudi Arabia in 2006, the Saudi Telecom Company (**stc**) in 2007, where he climbed the ladder from being a Testing and Maintenance Engineer to the position of Vice-President of the Home Business Unit.

Alharbi received his Bachelor's Degree in Electrical Engineering from King Saud University in the Kingdom of Saudi Arabia in 1995.



Name **Mr. Mohammed Mubarak Al Faran**

Position **Chief Financial Officer**

Mr. Mohammed Bin Mubarak Al Faran has been appointed as the Chief Financial Officer (CFO) of Kuwait Telecommunications Company (**stc**) in 2021. Mr. Al Faran has more than 15 years of an extensive experience in the Finance and Audit fields gained from many prestigious companies and governmental institutions. Mr. Al Faran held executive and senior positions in several international audit firms, the Saudi Telecom Company (**stc**) - the parent company of Kuwait Telecommunications Company (**stc**) - in addition to the Saudi Ministry of Finance.

### Curriculum Vitae

Prior to joining **stc** Kuwait, Mr. Al Faran was the Budget Deputy Assistant of Budget Policies and Governance at the Ministry of Finance in KSA, whereby his main responsibility included the governance of the budget preparation and implementation processes as well as ensuring the compliance with all the internal and external budget policies. He started his journey with the Saudi Ministry of Finance as a Budget Deputy Assistant of Performance Reporting in 2019 and managed the process of developing the methodology for preparing the Kingdom's general budget in the Ministry of Finance in KSA as well as managing the governance of financial reporting. He also managed and served as a member in a number of government committees.

Prior to that, Al Faran joined the Saudi Telecom Company (**stc**) as a Financial Reporting Section Manager until 2013, before being appointed as the Financial Policies & Procedures Director from 2013 until 2019, in which he contributed to the leadership of the internal control evaluation project and the development of the accounting policies for the International Financial Reporting Standards transition project.

Al Faran started his career with Deloitte Touch & Co. from 2005 until 2006 in the external audit field before joining Ernst & Young in 2006 until 2011. After almost 7 years of extensive experience in the Audit firms, Mr. Al Faran joined the Internal Audit department at National Water Company in Saudi Arabia until 2012.

Mr. Mohammed Al Faran holds a Master's Degree in Finance from the University of Wollongong, Australia, 2008. He also hold a Bachelor's Degree in Accounting from King Saud University, Riyadh KSA, 2005. Moreover, Al Faran is a Certified Public Accountant (CPA) from USA, since 2011. In addition, he is certified from the Saudi Organization Certificate Public Accounting 'SOCPA' since 2015.



Name **Eng. Nasser A. Al-Saadon**

Position **Chief Strategy Officer**

Eng. Nasser A. Al-Saadon has been appointed as Chief Strategy Officer (CSO) at Kuwait Telecommunications Company (**stc**) in 2020. Eng. Nasser is an executive in the field of corporate strategy with over 24 years of progressive experience in the telecom industry where he handled several positions in various departments at the Saudi Telecom Company (**stc**).

Prior joining Kuwait Telecommunications Company (**stc**), Eng. Nasser was the General Manager for the Business Development and Innovations – Corporate Strategy Department – at the Saudi Telecom Company (**stc**) from 2016 till 2019.

In 2001 Eng. Nasser held the position of a Project Manager at the Saudi Telecom Company (**stc**) - Network Sector from until 2002 before being appointed as a Director for the Network Planning Sector in 2005.

#### Curriculum Vitae

Later in 2008, Eng. Nasser was responsible for the business side developing enterprise services for the Marketing Enterprise BU before being appointed as a General Manager for the Planning & Performance HBU from 2010 to 2011. In 2014, Eng. Nasser was then transferred to the Consumer BU and took on the role of the General Manager Broadband and Bundles where he effectively managed the residential fixed & mobile broadband services till 2015.

Eng. Nasser is a board member of RIYADAH - the National Entrepreneurship Institute - representing **stc**, as well as the Investment Committee of **stc** Venture fund. Eng. Nasser is also an Advisory committee board member of STV fund.

Eng. Nasser received his Master degree in Business Administration (Marketing) from King Saud University in the Kingdom of Saudi Arabia, Riyadh in 2002. Eng. Nasser also holds a Bachelor of Science (Electrical Engineering) from King Fahad University of Petroleum & Minerals (KFUPM), Dhahran, in 1994.



Name **Mr. Issam Al Assoussi**

Position **Chief Corporate Affairs Officer**

Mr. Issam Al Asousi was appointed as the Chief Corporate Affairs Officer of **stc** in 2011.

Mr. Issam Al-Asousi first started his career in the banking sector 22 year ago. He took up his first position in 1980 with the Bank of Kuwait and Middle East (later renamed as Al Ahli United Bank) where he was in charge of the Consumer Division, which includes the provision of services to both customers and those with high purchasing power through Kuwait.

#### Curriculum Vitae

In 2003, Mr. Issam joined Al Dar Investment Company, where he played a key role in driving the institution's investment strategies, including the establishment of a Consumer Finance Company called 'Wared'. Furthermore, in 2008, Mr. Issam moved on to Al Dowalliah Investment Group as the Deputy Managing Director, where he was responsible for defining, implementing, and executing the organization's domestic and international strategies.

Mr. Issam graduated from Kuwait University in 1980 with a Degree in Commerce. After that, he received a one-year training program at Chase Manhattan Bank in Washington in 1981. He also received a diploma in banking from the Kuwait Institute of Banking Studies in 1982.



Name

**Eng. Amer Essam Atoui**

Position

**Chief Consumer Officer**

Eng. Amer Essam Atoui has been appointed as Chief Consumer Officer (CCO) at Kuwait Telecommunications Company (**stc**) in 2021. Eng. Amer Atoui is an analytical executive in the Telecom industry with a record of achievements in the performance turnaround of a number of multi-national telecom companies. Eng. Atoui has an extensive experience in highly competitive telecom markets as he held several leadership positions, leveraging his technical and commercial in-depth knowledge and cost optimization expertise.

Prior to joining Kuwait Telecommunications Company (**stc**), Eng. Amer Atoui was the B2C Managing Director at LAMI Insurance Technologies from 2020 till 2021 where he was responsible for structuring the startup B2C vertical and building its strategy.

He started his career at LibanCell as a Planning Engineer from 1999 until 2003 before being appointed as a Business Development Coordinator from 2003 until 2004. After that, Eng. Atoui held the position of an International Business Development Manager in COMIUM Group from 2004 to 2006.

Later, in 2006, Eng. Amer was appointed as the Chief Executive Officer (CEO) of COMIUM Gambia for nine years where he led the setup of a Greenfield operation, and played a prominent role in implementing aggressive commercial strategies and cost saving initiatives that contributed to his success in achieving excellent financial performance targets.

From 2016 until 2016, he joined Helios Investment Partners as an Advisor to the Orange Kenya Acquisition Project before joining Telkom Kenya (Orange Kenya) as a Managing Director for the Consumer Business Unit from 2016 until 2019, where he led the rebranding, transformation and performance turnaround.

In 2006, Eng. Amer Atoui received his Executive-MBA as a (dual degree) from ESCP (FRANCE) & Ecole Supérieure des Affaires (Lebanon). He also holds a Bachelors of Engineering in Computers and Communications from the American University of Beirut, Lebanon in 1999.

Curriculum Vitae



Name

**Eng. Fahad Abdul Rahman Al Ali**

Position

**Chief Technology Officer**

Eng. Fahad Abdul Rahman Al Ali has been appointed as Chief Technology Officer (CTO) at Kuwait Telecommunications Company (**stc**) in 2019. Eng. Fahad joined **stc** in 2016 as a Network Implementation and Operations Director in the Technology Sector.

He held several executive positions in the telecommunications sector and had a number of achievements across preparing strategies in addition to building and implementing the development of telecommunication networks in several companies inside and outside Kuwait.

Curriculum Vitae

Prior to joining Kuwait Telecommunications Company (**stc**), Eng. Fahad Al Ali has taken over several positions at Zain Telecommunications Company since 2000. He was a Technical Solutions and Planning Director from 2014 to 2016, Network Director from 2010 to 2014, Transmission Department Manager from 2006 to 2010, Transmission Engineer & Team leader from 2000 to 2006 in Kuwait, Bahrain and Iraq Operations.

Eng. Fahad Al Ali holds a Master's Degree, (Executive MBA) in 2013-2014, from Harvard Business School - Boston. He has also received his Bachelor's Degree in Communications & Electronics Engineering from Northumbria University - Newcastle UK in 1999.





Name

**Eng. Ahmad Al Hammad**

Position

**Chief Human Resources Officer**

Eng. Ahmad Al Hammad has been appointed as a Chief Human Resources Officer (CHRO) at Kuwait Telecommunications Company (**stc**) in 2019. Eng. Ahmad Al Hammad joined **stc** in 2019 as the Remunerations and Organization Design Director in the Human Resources Sector.

Prior to joining Kuwait Telecommunications Company (**stc**), Eng. Al Hammad has taken over several positions at KFH and NBK. From 2017 until 2019, he worked in the Human Resources sector of the Kuwait Finance House Group as the Senior Manager of the Performance Management and Rewards Department, in addition to and several positions in the HR, Strategy & Corporate Affairs as well as the Corporate Strategy & PMO business sectors where he managed the HR and business transformation programs.

During his career at KFH, Eng. Al Hammad was responsible for the total rewards philosophy as well as the performance management process and culture across KFH group where he supervised the operations across three countries and several subsidiaries of KFH. Prior to Joining KFH, Eng. Ahmad worked at the National Bank of Kuwait in the IT field as a system architect and infrastructure specialist in the IT-D Platforms Area from 2009 to 2013, and Environmental specialist from 2008 to 2009.

Eng. Ahmad Al Hammad received his BSc. in Computer Engineering from California State University, Chico, USA in 2007 and he received many Certificates from Harvard Business School and George Washington University.

Curriculum Vitae



Name

**Mr. Fouad Al-Awadhi**

Position

**Chief Internal Auditor**

Mr. Fouad Mohammad Al-Awadhi has been appointed as Chief Internal Audit Officer at Kuwait Telecommunications Company (**stc**) in 2020, having experience in both the telecom and the oil & gas industries for more than 30 years.

Prior to joining **stc**, Mr. Fouad was the Head of Risk Management at Ooredoo Kuwait since 2017 after joining the company as Chief Audit Executive in 2010.

Curriculum Vitae

Earlier in his career, Mr. Fouad held various positions in the Internal Audit Departments of Kuwait Petroleum Company and its subsidiaries. He was an Internal Auditor at PIC, KNPC, and KGOC, before being appointed as Chief Internal Auditor at KGOC & OSSC and then being promoted to hold the position of Internal Audit Manager.

Mr. Fouad Mohammad Al-Awadhi received his BSc. in Industrial Engineering from University of Miami, Florida in USA in 1988. He obtained several professional certificates such as Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) and Certification in Control Self-Assessment (CCSA).

### Rule (3): Selecting qualified persons for the membership of the Board of Directors and the executive management

## 7. Nominations and remunerations

The Board of Directors formed the Nominations and Remunerations Committee in accordance with the rules of governance provisions as set out in Article 4.1 of the Fifteenth Book Corporate Governance, where the composition of the committee includes an independent member, In addition, the committee's charter is available, which includes its duties and responsibilities. The committee is concerned with (but not limited to) the following:

- Recommendation to accept the nomination and re-nomination of the Board of Directors and Executive Management Members.
- Developing a clear policy for the remuneration of the Board of Directors and Executive Management.
- Determining the required needs of the appropriate skills for membership of the Board of Directors and reviewing those needs on an annual basis.
- Reviewing of the organizational structure of the company and make recommendations to the Board of Directors regarding any proposed changes to the organizational structure.
- Attracting applications of those willing to occupy Executive positions as needed, studying and reviewing those applications.
- Determining the different segments of remunerations that will be granted to employees, such as fixed bonuses segment, bonuses linked to performance segment, rewards in the form of shares segment, and end of service benefits segment.
- Preparing job descriptions for the Executive and Non-Executive members as well as the Independent Members.
- The committee ensures that the independence of independent member is valid.
- Preparing a governance report on an annual basis that includes the total remuneration granted to members of the Board of Directors, executive management and managers, whether they are amounts, benefits or advantages, whatever their nature and name, provided that this report is presented to the Board of Directors.
- Determining the mechanisms for evaluating the performance of the Board as a whole and evaluating the performance of each member of the Board and Executive Management separately.
- Reviewing the salary schedule and job grades periodically.
- Ensuring that rewards are granted in accordance to the approved policy of remunerations.
- Reviewing company's Human Resource Policies and any amendments to them before submission to the Board of Directors.

In abidance with the highest standards of transparency as stipulated in the leading practices and in the rules of Corporate Governance, the company abided by preparing a

detailed report on all the bonuses granted to the members of the Board of Directors and the Executive Management.

The following table shows the Remuneration and compensations of the Board Members for 2021, noting that the Board of Directors of Kuwait Telecommunication Company (**stc**) is composed of 7 members, including the Chairman:

Remunerations and benefits of Members of Board of Directors							
Total number of members	Remunerations and benefits through the parent company			Remunerations and benefits through the subsidiaries			
	Fixed remuneration and benefits (Kuwaiti Dinar)	Variable remuneration and benefits (Kuwaiti Dinar)		Fixed remuneration and benefits (Kuwaiti Dinar)		Variable remuneration and benefits (Kuwaiti Dinar)	
	Health insurance	Annual remuneration	Committees' remuneration	Health insurance	Monthly salaries total of the year	Annual remuneration	Committees' remuneration
7	-	152,061	202,000	-	-	-	-

\* Details of the segments and types of remuneration and benefits mentioned are examples without limitation.

The following table shows the salaries, benefits, bonuses and incentives of the CEO and four Senior Executives in Kuwait Telecommunication Company (**stc**), including the Chief Financial Officer, for 2021:

Total remunerations and benefits granted to five senior executives who have received the highest remunerations, including the Chief Executive Officer and the Chief Financial Officer

Total executive positions	Remunerations and Benefits through the parent company							Remunerations and Benefits through the subsidiaries						
	Fixed remuneration and benefits (Kuwaiti Dinar)						Variable remuneration and benefits (Kuwaiti Dinar)	Fixed remuneration and benefits (Kuwaiti Dinar)					Variable remuneration and benefits (Kuwaiti Dinar)	
	Monthly salaries (total of the year)	Health insurance	Annual tickets	Housing allowance	Transportations allowance	Children's education allowance	Annual remuneration	Monthly salaries (total of the year)	Health insurance	Annual tickets	Housing allowance	Transportation allowance	Children's education allowance	Annual remuneration
5	413,544	-	8,096	92,932	84,447	30,022	625,485	157,941	-	-	-	8,400	12,940	121,973

\* Details of the segments and types of remuneration and benefits mentioned are examples without limitation.

## Rule (4): Ensuring the integrity of financial reports

### 8. Financial reports and the external auditor

Each of the Board of Directors and the Executive Management submit a written undertaking confirming the safety and integrity of the prepared financial reports. The Board of Directors has also formed the Audit Committee in accordance with the rules of governance as stipulated in Article 5-6 of the fifteenth book (Corporate Governance), of the Executive Regulations of the Capital Markets Authority. Details of the composition and achievements of the committee were presented above.

#### Financial reporting and external auditor:

The company issues a set of financial reports on a regular basis including:

- Interim financial statements.
- Profits announcements.
- Annual reports.

With regard to the External Auditor, the Audit Committee:

- Reviewing the proposed scope, methodology and work plan of the proposed external auditor, including the coordination of external audit efforts with internal audit.
- Monitoring the performance of the external auditor to ensure that the services provided for the company are not provided other than required by the external auditing profession.
- Recommending to the Board of Directors the appointment and re-appointment of the external auditor or a proposal to change him, propose his fees and review his letter of appointment, provided that he is one of the auditors registered in the special register with the Capital Markets Authority, so that he meets all the conditions stipulated in the requirements of the Authority's decision regarding the system for registering auditors.
- Verifying the independence of the External Auditor on a periodic basis before his appointment or reappointment, and verifies that the External Auditor does not perform any additional tasks not involved within the external Auditor's Duties, that may affect his independence as required by the auditing profession.
- Discusses any obstacles or difficulties encountered by the external auditor. These constraints include any limitation on the scope of the activities of the independent external auditor or his access to the information required, and any substantial differences may arise with the management.

## Rule (5): Development of sound risk management systems and internal controls

### 9. Internal control systems and risk management

Risk Management is responsible for implementing the risk strategy and policy as well as preparing periodic reports on the nature of the risks to which the company is exposed and submitting them to the Risk Committee for approval in order to present them to the Board of Directors. Risk Management employees have the independence and experience to perform their role through establishing adequate and appropriate internal controls for the company's activity and the nature of its business. Company's management is independent by direct subordination to the Board's risk Committee, in accordance with the approved risk management organizational structure and in compliance with the requirements of governance rules.

#### Summary of the internal control systems:

- Approved policies and procedures covering all key activities and processes of the company.
- A comprehensive and detailed Organizational Structure approved by the Board of Directors covering all the sectors and departments within the company.
- Approved job descriptions covering all the company's employees.
- Regulations approved by the Board of Directors covering all board committees, according to the rules of Corporate Governance.
- Policies approved by the Board of Directors covering all the requirements under the rules of Corporate Governance.
- Financial and administrative authority matrices approved by the Board of Directors, to determine all the powers of various parties and covers all key processes.
- Integrated mechanism that cover all major operations.
- Oversight from several independent parties, including internal parties (Internal Audit, Quality Control, and Compliance) and external parties (External Audit, And the ISO Audit Team, Sharia'a Audit).

#### Internal audit:

The company has an effective internal audit department with independent technical and administrative autonomy through its direct reporting line to the Board Audit Committee. The Internal Audit Department performs several tasks, including:

- Carrying out an assessment of the risks facing the company with the aim of preparing an audit plan based on risks and presenting the plan to the Audit Committee for approval.
- Implementing the audit reviews covering all company's operations and activities according to the audit plan approved by the Audit Committee in order to assess the effectiveness and efficiency of controls.



- Conducting quarterly follow up to check whether the Executive Management has taken the corrective actions agreed upon in the internal audit reports.
- Reporting all the audit findings with the Audit Committee in the presence of Executive Management's representatives.
- Carrying out any other special tasks assigned by the Audit Committee.

## Rule (6): Promote code of conducts and ethics

### 10. Rules of code of conducts and ethics

#### Summary of the professional and ethical behavior standards:

The company, represented by the Board of Directors, the Executive Management and all employees, believes that the professional and ethical behavior is one of the most important tributaries of the company's success in achieving its goals. Based on this belief, the board of directors has adopted a policy to define the professional and ethical behavior standards within the company, as well as the responsibilities of each of the company, the board of directors and the management Executive and staff. The policy also stipulates that the responsibility to report if an incorrect or unsafe matter is observed, rests with everyone without exception.

The policy also addressed other important aspects, such as the relationship with commercial partners, the integrity of financial statements, information security and environmental health and safety. All the Board of Directors Members, executive management and employees should abide by it in all their work tasks, regardless of the place and conditions of work.

#### A summary of the policies and mechanisms on reducing cases of conflict of interest:

The company has a conflict of interest policy that aims to ensure that appropriate procedures are in place to effectively detect and address conflicts of fundamental interest, in addition to ensuring that the Board of Directors deals with existing, potential and expected conflict of interest cases and that all decisions are taken in the interests of the company. This policy is an integral part of the company's full commitment to integrity and justice in dealing with stakeholders. This policy also clarifies the basis for dealing and managing cases of conflict of interest, the concept of conflict of interest, and the parties whose interests conflict with the company's interest, in addition to the role of the Board of Directors and the Executive Management. And the Department of Compliance, Internal Audit, and the Company's General Assembly regarding conflict of interest. The policy also reviewed the procedures for dealing with cases of conflict of interest and the disclosure mechanism.

The report issued by the company's auditors indicated a statement on the balances and transactions with related parties, as the parties are considered related parties when the party has the ability, directly or indirectly through one or more intermediaries, to control the other party or the possibility of influencing it in a way Great when making financial and operating decisions.

Related parties principally include major shareholders of the Company, members of the Board of Directors, members of senior management and companies over which they can

exercise significant influence. In addition to the above, the Company has also entered into some other transactions related to the normal course of business with the Parent Company, which are included in operating expenses. The balance due to the Parent Company is disclosed as on the statement of financial position date on December 31, 2021. The following are the significant transactions with the Parent Company that are included in the statement of profit or loss and comprehensive income:

	2021	2020
	Thousand Kuwaiti Dinars	Thousand Kuwaiti Dinars
Management Fees	10,385	9,931
Revenues	13,716	10,575
Other Operational Expenses	3,202	1,864

## Rule (7): Disclosure and transparency accurately and in a timely manner

### 11. Disclosure and transparency

#### A summary of the application of the screening as well as the accurate and transparent disclosure mechanism that determine the aspects, areas and characteristics of disclosure:

Commitment to the principle of transparency in work is one of the main keys to encourage shareholder confidence. Therefore, the company is committed to a policy of disclosure and transparency by following all laws, regulations, and instructions related to disclosure issued by various supervisory authorities in a timely manner, believing in the importance of transparency in enhancing the confidence of shareholders and stakeholders and maintaining the company's reputation in Labor market.

In compliance with the regulations and laws regulating the process of disclosure and transparency issued by the concerned supervisory authorities, the company shall disclose accurate and appropriate financial statements, profit reports, audit reports and other information accurately, transparently and clearly, as well as the material information related to the company, while adhering to maintaining its strict confidentiality and taking the necessary measures to ensure that that Dealing with documents and data related to that information remains regulated to a minimum, in addition to providing more effective communication tools with all stakeholders and stakeholders for the purpose of providing comprehensive reports, which in turn is consistent with one of the company's objectives, which is commitment to the transparency policy.

The company's management confirms that all data provided in this regard are accurate, correct and not misleading. Also, all the company's annual financial reports are in compliance with International Accounting Standards for Financial Reporting and its requirements.

The company, through the Department of Compliance and Governance, maintains a special record that includes all the company's disclosures with the Kuwait Stock

Exchange and the Capital Markets Authority during the previous five years. The disclosures are also available on the company's official website on the Internet, in compliance with the requirements of the Kuwait Capital Markets Authority.

**A brief on the application of the requirements of the register of disclosures made by the Board Members and Executive Management:**

The company has a special record for the disclosures made by the Board of Directors Members and Executive Management, provided that this record is available for perusal by all the company's shareholders. The company also confirms that company's shareholders have the right to see this record without any fee or charge, with its commitment to update the data of this register periodically to reflect the real situation of the related parties.

**A brief statement about the requirements of the formation of a unit for organizing investors' Affairs:**

The company has established the Investor Relations Department, and this department is responsible for the process of communicating with current and potential shareholders in addition to providing the necessary data, information and financial reports. The Investor Relations Department has an appropriate independence reporting line, in a way that allows it to provide data, information and reports in a timely and accurate manner through the recognized means of disclosure, including the company's website.

**A statement of how to develop the information technology's infrastructure and to rely heavily on it in disclosures:**

The company follows a policy of accreditation and expansion in the use of information technology to communicate with shareholders, investors and stakeholders, through the establishment of a section dedicated to corporate governance on its website. The corporate governance page displays all the updated information and data that helps shareholders, current and potential investors to exercise their rights and assess the performance of the company. In addition, there is an investor relations page that is also available on the company's website and the investor relations mobile application.

## Rule (8): Shareholders' and stakeholders' right

### 12. Protecting shareholders' equity

**Summary of the application of the requirements for identification and protection of public rights of shareholders, to ensure justice and equality among all shareholders:**

The company is committed, through the Investor Relations Department, to its responsibility towards the shareholders in adopting the highest standards of transparency and fair treatment in the process of communicating with them. The company believes that the proper application of Corporate Governance enhances the value for its shareholders and provide appropriate guidelines for each of the Board of Directors, and its committees, and Executive Management to carry out their duties in order to serve the interests of the company and its shareholders. Therefore, the company seeks to achieve the highest levels of transparency, accountability and effective management through adopting, and following-up the execution of strategies, objectives and policies aimed at compliance with its regulatory and ethical responsibilities.

It is worth noting that we have activated and strengthened the channels of communication with investors and financial analysts, after listing the company's shares in Boursa Kuwait. The company is also committed to transparency and providing financial information about the company through different communication channels, according to the best professional practices in disclosure and transparency. In addition, the company was keen to communicate with local and foreign investors as well as financial analysts in order to meet with them and answer their queries. The company also participated in conferences held for investors to enhance communication with all categories of shareholders and the financial community.

In addition, the website and the Investor Relations mobile app. provide a range of information about the company's stock, financial data and reports on the company's performance. The company has also adopted a special policy to protect shareholders' rights.

Furthermore, the company guarantees to all shareholders the right to access all information and relevant disclosures through publishing it on the website and the annual reports available to all shareholders, in addition to enabling them to obtain all information pertaining to the Board Members, their qualifications, their stock ownership in the company, their chairmanship or membership in the boards of other companies, as well as the information on company's executives. It is also available to all stakeholders to obtain all relevant information.

**Summary on the establishment of a special registry to be kept with the clearing agency, as part of the requirements of ongoing follow-up for data of shareholders:**

The company has, since its inception, created a special registry to be kept with the clearing agency to keep a record of shareholders names and the number of shares owned by each one of them. This register is updated on a daily basis, and any changes to the data recorded in the shareholder register are also modified according to the data received by the company or clearing agency in this regard. A brief on how to encourage shareholders to participate and vote at the assembly meetings of the company:

- Initially, the company discloses the date of the General Assembly meeting after the date has been determined by the Board of Directors.
- The company directs a public invitation to shareholders to attend and participate in the General Assembly meeting, (whatever type of meeting it might be), including the agenda. The invitation is made through the announcement in, at least, two daily newspapers published in Arabic, twice. The first ad should be published two weeks prior to the General Assembly meeting while the second ad should be published one week prior to the General Assembly meeting. The second ad must be published in the official Newspaper.
- The company also announces the date of its General Assembly meetings through the web page of Boursa Kuwait in addition to the Investor Relations web page on the company's official website.
- The company has recently launched a mobile application for Investor Relations so that respective investors can follow all company news and have access to all financial disclosures, invitations, reports, as well as information related to the performance of the company's share.

## Rule (9): Understanding the role of stakeholders

### 13. Realizing the role of stakeholders

#### A brief on the systems and policies that ensure the protection and recognition of the rights of stakeholders:

The company respects and protects stakeholder's rights in all its internal and external dealing & transactions, as the contributions of stakeholders constitute a critical resource for building the company's competitiveness and enhancing its levels of profitability. In order that the stakeholders' transactions, whether contracts or deals with the company, do not conflict with the interests of the shareholders, the company has taken into consideration the following:

- That none of the stakeholder obtains any advantage by dealings in contracts and transactions that are included in the company's normal activities.
- The company should develop internal policies and regulations that identify a clear mechanism for documenting contracts and deals of different types.

#### The company also adopted a number of policies, including, but not limited to:

- Stakeholder Protections Rights Policy.
- Conflict of Interest Policy.
- Whistleblowing policy.
- Related Parties Policy.

#### About how to encourage stakeholders to participate in the follow-up of the company's various activities:

The company is committed dealing with the Board of Directors Members and stakeholders on the same conditions that the company applies with the different stakeholders without any discrimination or preferential terms, in addition to making sure to review the deals and transactions proposed by the company with related parties and to make appropriate recommendations in this regard to the Board of Directors.

The company is also committed to providing stakeholders with information and data related to their activities on a regular basis in accordance with the contracts concluded with them and in a manner that does not violate the confidentiality of information policy applied within the company. All contracts concluded with stakeholders are included in contractual clauses that guarantee the confidentiality of the information provided to them to perform the tasks assigned to them.

On the other hand, the company is committed to ensuring the rights of stakeholders in accordance with the laws in force in the State of Kuwait that regulate the relationship between the company and its stakeholders, including, for example, the Kuwaiti National Labor Law, the Companies Law and its Executive Regulations, the Commercial Law, and instructions issued by the Authority Financial markets and other regulatory authorities

## Rule (10:) Promote and enhance the performance

### 14. Performance enhancement

#### Summary on the requirements for developing mechanisms that will allow all of the Board Members and Executive Management to, continuously, obtain training programs and courses:

The company is committed to perform a continuous training and qualification, which provides the board of directors members and the executive management with the appropriate understanding and knowledge of all topics related to the company's activities, and makes them aware of the latest developments in the relevant administrative, financial and economic fields, in addition to the ability to strategically plan according to the company's needs and then achieve the company's goals.

#### A brief on the method of evaluating the performance of the Board of Directors as a whole as well as the performance of each member of the Board of Directors and the Executive Management:

The company has developed systems and mechanisms to periodically evaluate the performance of each member of the Board of Directors and the Executive Management. This is achieved through developing a set of performance indicators linked to the extent of achieving the strategic goals of the company, the quality of the Risk Management and the adequacy of the internal control systems. The Board of Directors has also adopted the performance indicators to measure the performance of both the Board of Directors and the Executive Management.

#### A brief on the Board's efforts on (Value Creation) within the employees of the company, through the achievement of strategic objectives and improving performance rates:

The Board of Directors and the Executive Management are keen to create corporate values within the company by following the highest standards of the Code of Professional Conduct, in addition to applying the Employee Guide. This shall enable achieving higher levels of applying work ethics, achieve the strategic goals of the company, and improve performance rates, which in turn contributes effectively to creating institutional values among employees and motivates them for continued work to maintain the financial soundness of the company.



## Rule (11): Focusing on corporate social responsibility

### 15. Corporate social responsibility

#### **A brief of a policy development that ensures a balance between societal and corporate goals:**

Kuwait Telecommunications Company (**stc**) always aspires to be one of Kuwait's leading and dedicated companies to play an active and fundamental role in establishing social responsibility concepts that imply the continued commitment of the business community to act ethically and to contribute to the local community, all in line with Kuwait's 2035 vision.

Kuwait Telecommunications Company (**stc**) seeks an integrated and modern approach in implementing social responsibility activities, with the participation of members of the **stc** family and all community groups, creating a friendly and cooperative atmosphere that helps develop and enhance the State of Kuwait. As a Kuwaiti company, we invest in the symbiotic relationship that focuses on giving back to our customers as well as different segments of society, as we believe that giving is the essence of success.

However, its stance in the local market, was not the only aspect of its focus. Since its establishment more than ten years ago, Kuwait Telecommunications Company (**stc**) has made every effort to highlight and affirm its commitment to society, playing an active role in supporting the Kuwaiti community in its various sectors and categories in the fields of environment, entrepreneurship, health, and education. It also aims to invest in sustainable initiatives that support and benefit the local community, backed by ethical values and principles of governance, neutrality and transparency. Kuwait Telecommunications Company (**stc**) also holds responsibility towards the community, which lies at the top of its priorities.

#### **An overview the programs and mechanisms used to help highlight company's efforts in the field of social work:**

For further details on company's efforts in highlighting its role in activities, programs and mechanisms related to social work, please refer to the CSR report published on the company's website and the annual report for 2021.

# Audit Committee report

## Committee

## Chairman Speech

Peace, Mercy and Blessings of God be upon all of you

Dear shareholders,

On behalf of my colleagues and the Audit Committee members, I would like to congratulate you for what have been achieved by your company during 2021 in spite of the hard conditions witnessed by the world due to the spread of COVID-19. I pray to God to keep you and your loved ones safe and healthy. I am pleased to present to you the annual report of the Audit Committee highlighting the Committee's activities and achievements during 2021.

Being a main pillar of the corporate governance, the Audit Committee consists of members from the Board of Directors with solid experience in finance, accounting and communications sector. The committee is responsible for assisting the Board of Directors to enhance values and principles of corporate governance through implementing its supervisory and regulatory functions. It has ensured effective monitoring of internal controls in processes and compliance to the Corporate Governance principles to ensure continuity and stability of the company while continuously focusing on increasing its efficiency.

The Audit Committee oversees functions of the external and internal auditors to ensure their independence and objectivity in performing their duties. As part of its duties, the committee continues to oversee the financial reporting processes and the internal controls to ensure that the financial statements are prepared fairly in compliance with the applicable accounting policies and the related regulatory rules.

Over the years, the Audit Committee has increased its focus on cyber security control in light of the increasing cyber threats. Due to the new remote work system applied this year, the committee has focused on ensuring robust controls are in place to protect data and keep its privacy, and confidentiality.

The Audit Committee is keen on implementing the company's values including Dynamism, Devotion and Drive to achieve its Vision and Mission.

Thank you and stay safe.

**Mr. Ameen Ben Fahad Ben Abdulaziz Al-Shiddi**  
Audit Committee Chairman

### Objective

To strengthen the culture of compliance within the company by ensuring the accuracy and integrity of the company's financial reports in addition to verifying the efficiency of the internal control systems applied in the company.

### Members

Mr. Amin Ben Fahad Ben Abdulaziz Al-Shiddi	Mrs. Iman Mohammed Al-Ahmed	Eng. Omer Abdullah Al Nomany	Mr. Salah Ahmad Meshari Al- Fouzan
Committee Chairman (Non-Executive) & Board Member (Non-Executive)	Committee Member (Non-Executive) & Board Member (Non-Executive)	Committee Member (Non-Executive) & Board Member (Non-Executive)	Committee Member (Independent) & Board Member (Independent)

### Salient features:

- All non-executives members
- Includes an independent member
- Includes a member with experience and academic qualifications in the field of accounting and finance
- Convened 6 meetings during 2021 in accordance with Governance rules (4) – Meetings

### Roles and responsibilities:

Roles and responsibilities assigned to the committee as per the committee charter and governance requirements are as follows:

	Review financial statements to ensure its soundness and integrity
	To make recommendations to the Board on the appointment of external auditor and monitor their performance
	Study accounting policies and provide recommendations thereon to the Board
	Ensure compliance of regulatory rules, policies and instructions thereupon and review the reports of the regulatory authorities
	Supervise the Internal Audit Department and ensure timely reporting.
	Evaluate the internal control system

### 2021 - Snapshot

<b>Financial statements</b>	<ul style="list-style-type: none"> <li>Reviewed periodic FS (Quarter and Year-end) before being presented to the board.</li> <li>Discussed external auditor's opinion on the FS and insure its independency.</li> <li>Discussed significant changes in IFRS and its impact on the FS.</li> <li>Reviewed the impact of COVID-19 on the financial statements.</li> </ul>
<b>Internal control</b>	<ul style="list-style-type: none"> <li>Reviewed report on ICR by independent external auditor.</li> <li>Discussed the quarterly and annual internal Shari'a audit reports and Shari'a Supervisory Board reports before submitting its recommendation to the board of directors</li> <li>Assigning an independent office to review the internal control system and then send it to CMA.</li> <li>Inforce the whistle blowing policy and insure the compliance of it laws.</li> </ul>
<b>Internal audit</b>	<ul style="list-style-type: none"> <li>Approved the internal audit work charter and the internal audit plan based upon risks.</li> <li>Discussed IA report and the follow-up reports submitted by IA department to handle all notes.</li> <li>Ensuring the independency of the Chief Internal Audit.</li> <li>Discussed and reviewed IAD's objectives and KPIs.</li> <li>Assess the Chief Internal Audit's performance.</li> </ul>
<b>External audit</b>	<ul style="list-style-type: none"> <li>Reviewed scope and objective of external auditor.</li> <li>Reviewed proposals and recommended external auditor to be appointed by the board and General Assembly.</li> <li>Reviewed proposals and recommended the Board to appoint Shari'a Supervisory Board in the company.</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>Followed-up with the management on the periodical report sent to the regulators.</li> <li>Reviewed the compliance reports, which reflect the company's commitment to the regulatory requirements defined by the concerned governmental bodies.</li> <li>Following up with implementing recommendations.</li> </ul>



# Financial statements



# Financial Statements Integrity Declaration

## Board of Directors Fiscal Period Ended on 31<sup>st</sup> December 2021

I, undersigned, certify that we have reviewed the Company's financial statements for the fiscal period ended on 31st December, 2021. Based on information available for us, we acknowledge that the present statements do not contain inaccurate information. No material information is omitted or withheld that could render these financial statements misleading in respect of the coverage period.

Therefore, the enclosed financial statements and other material information contained therein are fairly presented in all significant aspects such as the balance sheet, cash flows and operation outcomes of the reporting period.

In addition, we declare that we are responsible for developing the internal controls procedures of preparing the company's financial statements to reflect integrity and creditability in accordance with the related international financial standards.



**Dr. Mahmoud Ahmad Abdulrahman**  
Chairman of the Board

**Kuwait Telecommunications Company K.S.C.P. and its  
Subsidiary**



**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2021**



**Consolidated Financial Statements**

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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Kuwait Telecommunications Company K.S.C.P. (the "Parent Company") and its subsidiary (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### Basis for Opinion

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

#### Key Audit Matters

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

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



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)

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

#### Key Audit Matters (continued)

##### a) Recognition and measurement of revenue

The Group has recognized operating revenue generated from providing cellular mobile telecommunications and data services amounting to KD 296,314 thousand for the year ended 31 December 2021.

There is an inherent risk around the accuracy of revenue recognised due to the complexity of Information Technology ("IT") environment in which billing, rating and other relevant support systems reside; changing tariff plans and multiple element contracts with customers, which may affect the timing and recognition of revenue. In addition, the revenue recognition under "IFRS 15 – Revenue from Contracts with Customers" ("IFRS 15") requires considerable judgment from management in determining the transaction price of contracts, stand-alone selling prices and their allocation to performance obligations under the contracts with customers.

Further, there are risks associated with registration and subscription of telecommunication services and the difficulty of verifying the existence of such operations, in addition to the materiality of the amounts and volume of transactions involved. Due to the complexities and judgments required in the revenue recognition process, we have considered this as a key audit matter.

Our audit procedures, among others, included assessment and testing of design and implementation of internal control systems related to revenue recognition. These audit procedures were particularly related to subscription fees for telecom and data packages, network usage and billing to customers, with the involvement of our IT specialists to assist us in the assessment of the Group's IT environment.

Further, we have assessed the appropriateness of management's processes and judgments relating to determination of transaction price of contracts, stand-alone selling prices and their allocation to performance obligations under IFRS 15. We have also tested the revenue reconciliation, prepared by the management, between the primary billing systems and the general ledger. Further, we performed substantive analytical procedures that included a detailed comparison of revenue with the previous year and the budgets, as well as, category wise detailed analysis carried out on a monthly basis. We have also assessed the adequacy of the Group's disclosures regarding accounting policies for revenue recognition.

The accounting policy and the related disclosures for revenue recognition are set out in Notes 2.3 and 14 to the consolidated financial statements, respectively.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)**

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

**Key Audit Matters (continued)**

*b) Capitalisation and useful lives of property and equipment*

The Group has property and equipment with carrying value of KD 185,016 thousand as at 31 December 2021, which represents both infrastructure, as well as the assets in relation to network and related equipment. The capital projects often contain a combination of enhancement and maintenance activities that are difficult to separate, and therefore, determining the eligibility of the costs for capitalization depends on the management's judgments and estimates. Further, the timing of capitalisation of these assets, as well as the assessment of useful lives depends significantly on the judgement of the management. Due to this subjectivity and the materiality of the amounts involved, we have considered this as a key audit matter.

Our audit procedures, among others, included evaluating the Group's capitalisation policy for compliance with relevant accounting standards, as well as, testing the key controls in place over the capitalisation of property and equipment. Further, on a sample basis, we have verified the capitalisation of project expenses against the Group's capitalisation policy and the relevant accounting framework.

We have also carried out an assessment of useful lives of property and equipment as compared to the guidelines in the Group's policies and procedures with respect to the assessment of useful lives of property and equipment. We have also assessed the adequacy of the Group's disclosures regarding accounting policies for property and equipment.

The accounting policy and related disclosures for property and equipment are set out in Note 2.3 and 5 to the consolidated financial statements, respectively.

*c) Impairment of goodwill*

The Group has goodwill with a carrying value of KD 3,400 thousand as at 31 December 2021. The impairment tests of goodwill performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgments on part of management, especially in view of the ongoing Covid-19 pandemic. Estimates of future cash flows are based on management's views of variables such as the growth in the telecom sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill as a key audit matter.



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)**

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

**Key Audit Matters (continued)**

*c) Impairment of goodwill (continued)*

As part of our audit procedures, we have obtained management's impairment calculations and tested the reasonableness of key assumptions, including profit forecasts and the selection of growth rates and discount rates. We also involved our valuation specialists and challenged the management to substantiate the assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We tested the integrity of supporting calculations and corroborated certain information with third party sources. We agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were also assessed through comparison of current period performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and the understanding of the reasons for growth profiles used. We further evaluated the management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions.

We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 6 to the consolidated financial statements.

**Other Information included in the Group's 2021 Annual Report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Group's Annual Report after the date of our auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)

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

#### Responsibilities of Management and Those Charged with Governance for the Consolidated

##### Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

##### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)

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

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

- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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





**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 1 of 2016, as amended, and its executive regulation, as amended, and by the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016, as amended, and its executive regulation, as amended, nor of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 7 of 2010 concerning the Capital Markets Authority and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

2 February 2022  
Kuwait

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
As at 31 December 2021

	Notes	2021 KD'000	2020 KD'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	185,016	190,387
Goodwill and intangible assets	6	27,238	25,021
Trade and other receivables	7	15,960	-
		<b>228,214</b>	<b>215,408</b>
<b>Current assets</b>			
Inventories		10,814	9,277
Prepayments and other current assets		7,771	6,997
Trade and other receivables	7	32,420	29,679
Contract assets	8	49,429	37,853
Cash, bank balances and deposits	9	65,154	75,033
		<b>165,588</b>	<b>158,839</b>
<b>TOTAL ASSETS</b>		<b>393,802</b>	<b>374,247</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	10	49,937	49,937
Statutory reserve	10	26,242	26,242
Voluntary reserve	10	26,241	26,241
Other reserves		(766)	(876)
Retained earnings		135,540	120,629
<b>Total equity</b>		<b>237,194</b>	<b>222,173</b>
<b>Non-current liabilities</b>			
Employees' end of service benefits	11	11,217	10,073
Islamic financing facilities	12	2,308	6,923
Trade and other payables	13	4,930	6,076
		<b>18,455</b>	<b>23,072</b>
<b>Current liabilities</b>			
Islamic financing facilities	12	2,692	3,077
Trade and other payables	13	135,461	125,925
		<b>138,153</b>	<b>129,002</b>
<b>Total liabilities</b>		<b>156,608</b>	<b>152,074</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>393,802</b>	<b>374,247</b>

Dr. Mahmoud Ahmad Abdulrahman  
Chairman

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

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

	Notes	2021 KD'000	2020 KD'000
Revenue	14	296,314	283,153
Operating expenses	15	(158,807)	(147,417)
Staff costs		(24,593)	(24,186)
Expected credit losses on trade and other receivables and contract assets	7,8	(7,847)	(14,985)
Depreciation and amortization	5,6	(45,981)	(39,341)
General and administrative expenses	16	(25,997)	(23,447)
Finance costs		(2,987)	(684)
Impairment of goodwill	6	(2,046)	-
Share of results from associate		(50)	-
Other income	17	19,046	905
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST"), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION</b>		<b>47,052</b>	<b>33,998</b>
KFAS	18	(422)	(344)
NLST	18	(1,147)	(1,006)
Zakat	18	(458)	(402)
Board of Directors' remuneration		(152)	(152)
<b>NET PROFIT FOR THE YEAR</b>		<b>44,873</b>	<b>32,094</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (FILS)</b>	19	<b>90</b>	<b>64</b>

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

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 KD'000	2020 KD'000
<b>Net profit for the year</b>		<b>44,873</b>	<b>32,094</b>
<b>Other comprehensive income (loss):</b> <i>Items that will not be reclassified subsequently to the consolidated statement of income:</i>			
Re-measurement income (loss) on employees' end of service benefits	11	86	(324)
<b>Other comprehensive income (loss) for the year</b>		<b>86</b>	<b>(324)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>44,959</b>	<b>31,770</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital KD '000	Statutory reserve KD '000	Voluntary reserve KD '000	Other reserves KD '000	Retained earnings KD '000	Total KD '000
Balance at 1 January 2021	49,937	26,242	26,241	(876)	120,629	222,173
Net profit for the year	-	-	-	86	44,873	44,873
Other comprehensive income for the year	-	-	-	-	-	86
Total comprehensive income for the year	-	-	-	86	44,873	44,959
Share-based payment transaction (Note 10)	-	-	-	24	-	24
Cash dividends (Note 10)	-	-	-	-	(29,962)	(29,962)
<b>Balance at 31 December 2021</b>	<b>49,937</b>	<b>26,242</b>	<b>26,241</b>	<b>(766)</b>	<b>135,540</b>	<b>237,194</b>
Balance at 1 January 2020	49,937	22,842	22,841	(562)	120,303	215,361
Net profit for the year	-	-	-	-	32,094	32,094
Other comprehensive loss for the year	-	-	-	(324)	-	(324)
Total comprehensive income for the year	-	-	-	(324)	32,094	31,770
Transfers to reserves (Note 10)	-	3,400	3,400	-	(6,800)	-
Share-based payment transaction (Note 10)	-	-	-	10	-	10
Cash dividends (Note 10)	-	-	-	-	(24,968)	(24,968)
Balance at 31 December 2020	49,937	26,242	26,241	(876)	120,629	222,173

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

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## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 KD '000	2020 KD '000
<b>OPERATING ACTIVITIES</b>			
Profit before contribution to KFAS, provision for NLST, Zakat and Board of Directors' remuneration		47,052	33,998
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation and amortization	5,6	45,981	39,341
Impairment of goodwill	6	2,046	-
Income from claim against Ministry of Communications	17	(17,927)	-
Finance costs		2,987	684
Expected credit loss - trade and other receivables	7	1,278	5,204
Expected credit loss - contract assets	8	6,569	9,781
Provision for employees' end of service benefits	11	2,138	1,931
Write-offs of property and equipment		(83)	-
Gain on derecognition of leases		(39)	-
Provision for slow moving inventories (reversal of provision)		53	(266)
Operating profit before working capital change:		90,055	90,673
(Increase) decrease in inventories		(1,590)	51
Increase in prepayments and other assets		(774)	(1,628)
(Increase) decrease in trade and other receivables		(4,019)	906
Increase in contract assets		(18,145)	(3,213)
Increase (decrease) in trade and other payables		3,936	(21,267)
Cash flows from operating activities		69,463	65,522
Employees' end of service benefits paid	11	(908)	(447)
Net cash flows from operating activities		68,555	65,075
<b>INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	5	(27,353)	(26,180)
Acquisition of intangible assets	6	(9,937)	-
Proceeds from write-off of property and equipment		178	-
Net movement in Islamic deposits	9	(7,605)	18,505
Net cash flows used in investing activities		(44,717)	(7,675)
<b>FINANCING ACTIVITIES</b>			
Cash dividends paid		(27,170)	(21,498)
Payment of lease obligations	13	(8,979)	(8,613)
Repayments of from Islamic financing facilities	12	(5,000)	(10,000)
Finance costs paid		(173)	(490)
Net cash flows used in financing activities		(41,322)	(40,601)
<b>NET (DECREASE) INCREASE IN CASH, BANK BALANCES AND DEPOSITS</b>			
Cash, banks balances and deposits at the beginning of the year		69,527	52,728
<b>CASH, BANK BALANCES AND DEPOSITS AT THE END OF THE YEAR</b>	9	<b>52,043</b>	<b>69,527</b>
<b>NON-CASH ITEMS</b>			
Adjustment to trade and other payables on adoption of IFRS 16	13	8,199	8,897
Adjustment to property and equipment on adoption of IFRS 16	5	(8,199)	(8,897)
<b>TOTAL NON-CASH ITEMS</b>		<b>-</b>	<b>-</b>

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



Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**1 CORPORATION INFORMATION**

Kuwait Telecommunications Company K.S.C.P. (the “Parent Company”) is a Kuwaiti Shareholding Company incorporated pursuant to Amiri decree No. 187 on 22 July 2008 to operate and manage the third GSM mobile network in Kuwait as per Law No. 2 of 2007. The shares of the Parent Company were listed on Boursa Kuwait on 14 December 2014 and it is a subsidiary of Saudi Telecommunications Company (“STC” or the “Ultimate Parent Company”), which is listed on the Saudi Stock Exchange.

The Parent Company was registered in the commercial register on 9 November 2008 under registration number 329673 and commenced its commercial operations branded as VIVA on 3 December 2008. The Parent Company has changed its brand name on 19 December 2019 from VIVA to stc.

The objectives for which the Parent Company is incorporated are the provision of all cellular mobile telecommunication and calling system services in State of Kuwait in accordance with the provisions of Islamic Shari’a and as per the criteria set by Ministry of Communications. In this regard, the Parent Company shall carry on the following business activities:

- a. Purchase, supply, install, operate and maintain wireless telecommunications devices and equipment (mobile telecommunications, calling system and other wireless services);
- b. Import and export the necessary devices, equipment and tools for the purpose of its objectives;
- c. Purchase or lease telecommunication lines and necessary facilities for providing the services in coordination with and with no overlap or conflict with the services provided by the State;
- d. Buy the manufacturing concessions that are directly related to the services from manufacturers or manufacture the same in State of Kuwait (following the approval of Public Authority for Industry in connection with the manufacturing);
- e. Introduce or manage other services of similar or supplementary nature to the wireless telecommunication services with a view to developing or integrating such services;
- f. Conduct technical research related to the business in order to improve and develop the services in cooperation with the relevant authorities inside State of Kuwait and abroad;
- g. Construct, buy, build and acquire the necessary lands and facilities for achieving the objectives (to the extent permitted by law);
- h. Purchase all necessary materials and machines to carry on its objectives and conduct maintenance for the same using all possible up-to-date techniques; and
- i. Utilize the monetary surpluses available with the Parent Company through investing the same in portfolios managed by specialized companies and entities and authorize the Board of Directors to undertake the same.

On 6 May 2019, the Parent Company acquired 99% of the ownership shares of Qualitynet General Trading & Contracting Company W.L.L. “the subsidiary” (hereinafter, the Parent Company and its subsidiary are referred to as the “Group”). During the previous year, the Subsidiary has changed its brand name from Qualitynet to solutions by stc.

The Parent Company is domiciled in the State of Kuwait and its registered address is Olympia Building, P.O. Box. 181, Salmiya 22002, State of Kuwait.

The consolidated financial statements of the Group were authorized for issue by the Board of Directors of the Parent Company on 2 February 2022. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the Annual General Assembly meeting after issuance.

Details of the subsidiary are given in Note 2.3.

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**2.1 BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements are prepared under the historical cost convention.

The consolidated financial statements have been presented in Kuwaiti Dinars (“KD”), which is also the Parent Company’s functional and presentation currency, and all values are rounded to the nearest KD thousand except when otherwise stated.

**2.2 CHANGES IN ACCOUNTING POLICIES**

The accounting policies applied are consistent with those used in the previous year except for the changes arising from the following:

***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.

**Amendments to IFRS 16 Covid-19-Related Rent Concessions beyond 30 June 2021**

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. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Group.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Basis of consolidation**

The consolidated financial statements comprise the financial statement of the Parent Company and its subsidiary (investee which is controlled by the Parent Company). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements; and
- ▶ The Group’s voting rights and potential voting rights.

The Group re-assesses at each reporting date whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation (continued)**

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the period are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

The details of the subsidiary are as follows: -

Name of subsidiary	Equity interest as at		Principal activities	Country of incorporation
	31 December 2021	31 December 2020		
Qualitynet General Trading and Contracting Company W.L.L. (Solutions by STC.)*	100%	100%	Internet and Data communication Services	Kuwait

The financial statements of the subsidiary are prepared for the same reporting dates as of the Parent Company using consistent accounting policies. All inter-group balances and transactions, including inter-group profits and unrealised profits and losses and dividends are eliminated on consolidation.

**Business combination and goodwill**

Business combinations are accounted for using the acquisition method. 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 administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired process is considered substantive if it is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing outputs and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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 equity is not remeasured and its subsequent settlement is accounted for within equity. 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 statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combination and goodwill (continued)**

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 profit or loss.

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.

**Revenue Recognition**

The Group principally earns revenue from providing cellular mobile telecommunication and data services comprising access charges, airtime usage, messaging, data services, interconnect fees, connection fees and device sales. The services are rendered both on their own in separate identified contracts with customers and together as a bundled package of goods and services. The Group recognizes revenue when it transfers control over a product or services to a customer.

Under IFRS 15, the Group has concluded that performance obligations in contract are typically identified as for devices (mobile handsets and any other equipment) and for services provided to customers (data and voice) and revenue from these performance obligations are recognized either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

The Group determines the stand alone selling prices to be allocated to the performance obligations under the contracts based on observable sale prices. The Group performs an assessment of whether a contract meets the criteria under IFRS 15; and when the criteria is not met, the revenue is recognized when the consideration is received and it is non-refundable based on the contractual terms.

**Telecommunication Services**

Telecommunication services include voice, data and text services. The Group recognizes revenues as and when these services are provided (i.e. actual usage by the customer).

**Bundled packages**

For bundled contracts, the revenue is allocated to the sale of devices and services separately if they are distinct, that is, if a product or service is separately identifiable from other items in the bundled contract and if a customer can benefit from it. The Group recognizes the amount allocated for the sale of the device as revenue when it transfers control of the device and correspondingly creation of contract asset. The Group recognizes the allocated revenue to service as revenue over time when the services are rendered.

**Sale of Devices**

The Group recognizes revenues when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device.

**Contract costs**

Under IFRS 15, incremental cost incurred in acquiring a contract with a customer are deferred and amortized over the life of the related contract. Such deferred costs are classified as an asset in the consolidated statement of financial position.

**Value added services - Principal vs. agent**

The Group provides certain value added services to its customers which are of direct carrier billing in nature. The Group determines whether it will be acting as a principal or an agent on these types of services and accordingly recognizes gross revenue if it is a principal, and net revenue if it is an agent.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue Recognition (continued)****Customer loyalty program**

Credit awards resulting from sale proceeds is deferred until the customer redeems or the obligation in respect of the credit award is fulfilled.

Deferred revenue is released to consolidated statement of income when it is no longer considered probable that the credit awards will be redeemed.

**Contract assets and liabilities**

The Group records a contract asset when the goods and services have been provided to the customer however, the Group's right related to consideration for the performance obligation is conditional on satisfying other performance obligations within the contract. Contract assets primarily relate to the Group's rights to consideration for provision of goods and services in the future.

The Group records a contract liability when the payments have been received from the customer in advance of providing goods and services. The Group accounts for contract assets and liabilities on a contract-by-contract basis, with each contract presented as either a net contract asset or a net contract liability accordingly.

**Current versus 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
- ▶ It is held primarily for the purpose of trading
- ▶ It is due to be settled within twelve months after the reporting period
- Or
- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

**Fair value measurements**

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

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

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

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

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

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fair value measurements (continued)**

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

**Property and equipment****Recognition and measurement**

Property and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software, that is integral to the functionality of the related equipment, is capitalized as part of that equipment.

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

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the consolidated statement of income. Capital work in progress is stated at cost less impairment losses, if any. Depreciation of these assets commences when the assets are ready for their intended use in accordance with the Group's policies.

**Subsequent expenditure**

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

**Depreciation**

Items of property and equipment are depreciated from the date they are ready for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using straight-line basis over their estimated useful lives.

Depreciation is recognized in the consolidated statement of income. The estimated useful lives of significant items of property and equipment are as follows:

Network equipment and infrastructure	5 – 25 years
IT related assets	3 – 8 years
Furniture and fixtures	3 – 6 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The useful lives are reviewed periodically and are reassessed and adjusted, if appropriate, at each reporting date to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment. A change in the estimated useful life of property and equipment is applied at the beginning of the period of change with no retrospective effect.



## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses if any. Cost includes the purchase cost and directly associated costs of being the asset for its intended use.

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised to their residual values over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

The summary of the policies applied to the Group's intangible assets are as follows:

	Telecommunication License	Customer relationships	Software licenses	Others
Useful lives	20 years	7 – 11 years	5 years	1-15 years
Amortisation method used	Straight line	Straight line	Straight line	Straight line
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired

**Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average principle and includes expenditure incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale.

**Financial instruments****Classification and measurement of financial assets and financial liabilities****Financial assets**

Under IFRS 9, the Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cashflow characteristics of the financial assets.

**Business model assessment**

The Group determines its business model at the level that best reflects how it manages financial assets to achieve its business objective. The information considered includes:

- ▶ The stated policies and objectives for the financial assets and the operation of those policies in practice;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial instruments (continued)****Classification and measurement of financial assets and financial liabilities (continued)****Financial assets (continued)****Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)**

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs, as well as, a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

The Group has determined the classification of its financial assets, being contract assets, trade and other receivables and cash, bank balances and deposits and has concluded that these are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for measurement under the amortized cost method.

The subsequent measurement of contract assets and trade receivables will be at undiscounted original invoiced amount less any expected credit losses.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. Any gain or loss upon derecognition is recognized in the consolidated statement of income.

**Financial liabilities**

All financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liability category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective profit method. Financial liabilities comprise of Islamic financing facilities and trade and other payables.

**Impairment****Non-derivative financial assets**

For contract assets and trade and other receivables, the Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the Group's economic environment. The management has considered the segmentations in respect to the trade receivables and contract assets based on demographic factors of the underlying portfolios.

The management considers a financial asset in default when the contractual payments are 120 days past due. However, in certain cases, the management may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. Further, the Group writes off trade receivables when there is relevant information to assess that the customer is in severe financial difficulty and there is no realistic prospect of recovery.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)****Impairment (continued)*****Non-financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets 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 CGUs. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in consolidated statement of income. An impairment loss in respect of goodwill is not reversed. For other assets, 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 amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in the consolidated statement of income.

***Impairment of inventories***

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

**Employee benefits**

Pensions and other social benefits for Kuwaiti employees are covered by the Public Institution for Social Security Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme is charged to the consolidated statement of income in the year to which they relate.

The employees are entitled to an end of service indemnity payable under the Kuwait Labor Law and the Group's by-laws based on the employees' accumulated periods of service and latest entitlements of salaries and allowances. The present value of end of service indemnity payable, which is unfunded, is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date.

**Offsetting of financial instruments**

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 realize the asset and settle the liability simultaneously.

**Finance cost**

Finance costs comprise of expense on Islamic financing facilities, lease liabilities. The expense is recognized on the effective yield method in the consolidated statement of income.

**Provisions**

A provision is recognized 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. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Leases**

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset representing right to use the underlying assets and a lease liabilities to make the lease payments at the lease commencement date.

***Right-of-use assets***

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the period of lease.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section Impairment- *Non-financial assets*.

***Lease Liabilities***

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

***Short-term leases and leases of low-value assets***

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Share-based payment**

The share based payment expense is included as part of employees benefits expense over the period in which the service and the performance obligations are fulfilled (the vesting period), with the corresponding amount recorded under other reserves within equity in accordance with the requirements of the International Financial Reporting Standard 2: "Share Based Payment". The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statement of income for a period represents the movement in cumulative expense recognised as at the beginning and end of that year.

**Contingencies**

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currency transactions**

The consolidated financial statements are presented in Kuwaiti Dinars, which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

## 3 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**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement;
- ▶ That a right to defer must exist at the end of the reporting period;
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practices.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from 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.

**Definition of Accounting Estimates - Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, 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.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*Impairment of inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. This estimation is performed on an individual basis for items of inventory.

*Impairment of property and equipment and intangible assets*

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

*Useful lives of property and equipment and intangible assets*

The Group's management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortisation respectively. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted when the management believes the useful lives differ from previous estimates. The useful lives are reviewed periodically and are reassessed and adjusted, if appropriate, at each reporting date to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of property and equipment. A change in the estimated useful life of property and equipment is applied at the beginning of the period of change with no retrospective effect.

During the year, the Group's management has reassessed its estimates with respect to the useful lives of property and equipment. As a result, the expected useful lives of property and equipment has been amended (Note 5).

*Allowance for expected credit losses of trade and other receivables and contract assets*

The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the Group's economic environment. The management has considered the segmentations in respect to the trade receivables and contract assets based on demographic factors of the underlying portfolios. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular sector, the historical default rates are adjusted.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions.

*Revenue recognition*

The process of recognizing revenue requires the following judgments and estimates:

- ▶ Determining the transaction price of contracts requires estimating the amount or revenue which the Group expects to be entitled to for delivering the performance obligations within a contract; and
- ▶ Determining the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations.



## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

## Estimates and assumptions (continued)

## Revenue recognition (continued)

## i. Determining the transaction price

The transaction price is the amount of consideration that is enforceable and to which the management expects to be entitled in exchange for goods and services promised to the customer. The management determines the transaction price by considering the terms of the contract and business practices that are customary. Discounts, rebates, refunds, credits, price concessions, incentives, penalties, and other similar items are reflected in the transaction price at contract inception.

## ii. Determining stand-alone selling price and the allocation of transaction price

The transaction price is allocated to performance obligations based on the relative stand-alone selling prices of the distinct goods or services in the contract. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, we estimate the stand-alone selling price taking into account the reasonably available information relating to the market conditions, entity-specific factors and class of customer.

In determining the stand-alone selling price, we allocate revenue between performance obligations based on expected minimum enforceable amounts to which the Group is entitled.

## iii. Distinct goods and services

The management makes judgment in determining whether a promise to deliver goods or services is considered distinct. The management accounts for individual products and services separately if they are distinct (i.e. if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it). The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. For items that are not sold separately, the management estimates the stand-alone selling prices using the adjusted market assessment approach.

## 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).



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## 5 PROPERTY AND EQUIPMENT

	Network equipment and infrastructure KD'000	IT related assets KD'000	Furniture and fixtures KD'000	Capital work-in progress KD'000	Right-of-use Sites KD'000	Right-of-use Buildings KD'000	Total KD'000
<b>Cost:</b>							
At 1 January 2021	378,510	41,469	1,344	13,928	14,139	7,462	456,852
Additions	-	-	-	27,353	6,328	1,871	35,552
Transfers	21,204	6,616	3,120	(30,940)	-	-	-
Derecognition	-	-	-	-	(4,379)	(2,138)	(6,517)
Write-offs	(4,120)	(2,299)	(105)	-	-	-	(6,524)
<b>At 31 December 2021</b>	<b>395,594</b>	<b>45,786</b>	<b>4,359</b>	<b>10,341</b>	<b>16,088</b>	<b>7,195</b>	<b>479,363</b>
<b>Depreciation:</b>							
At 1 January 2021	(225,500)	(31,227)	(1,055)	-	(6,301)	(2,382)	(266,465)
Charge for the year	(27,563)	(3,642)	(583)	-	(6,194)	(2,325)	(40,307)
Relating to derecognition	-	-	-	-	4,338	1,658	5,996
Relating to write-offs	4,037	2,296	96	-	-	-	6,429
<b>At 31 December 2021</b>	<b>(249,026)</b>	<b>(32,573)</b>	<b>(1,542)</b>	<b>-</b>	<b>(8,157)</b>	<b>(3,049)</b>	<b>(294,347)</b>
<b>Carrying amount</b>							
At 31 December 2021	<b>146,568</b>	<b>13,213</b>	<b>2,817</b>	<b>10,341</b>	<b>7,931</b>	<b>4,146</b>	<b>185,016</b>

**5 PROPERTY AND EQUIPMENT (continued)**

	Network equipment and infrastructure KD'000	IT related assets KD'000	Furniture and fixtures KD'000	Capital work in progress KD'000	Right-of-use Sites KD'000	Right-of-use Buildings KD'000	Total KD'000
Cost:							
At 1 January 2020	348,097	34,705	4,833	25,323	12,217	5,726	430,901
Additions	-	-	-	26,180	5,757	3,140	35,077
Transfers	30,782	6,764	29	(37,575)	-	-	-
Write-offs	(369)	-	(3,518)	-	(3,835)	(1,404)	(9,126)
At 31 December 2020	378,510	41,469	1,344	13,928	14,139	7,462	456,852
Depreciation:							
At 1 January 2020	(199,403)	(28,083)	(4,421)	-	(4,045)	(1,483)	(237,435)
Charge for the year	(26,466)	(3,144)	(152)	-	(6,091)	(2,303)	(38,156)
Write-offs	369	-	3,518	-	3,835	1,404	9,126
At 31 December 2020	(225,500)	(31,227)	(1,055)	-	(6,301)	(2,382)	(266,465)
Carrying amount At 31 December 2020	153,010	10,242	289	13,928	7,838	5,080	190,387

Capital work in progress comprise of cellular and other equipment. Such assets are not subject to depreciation until the network is tested and is ready for use.

During the year, the Group's management has reassessed its estimates with respect to the useful lives of property and equipment. As a result, the expected useful lives of property and equipment has been amended. The effect of this reassessment is a reduction of total depreciation change by an amount of KD 1,013 thousand (Note 4).

The depreciation and amortisation included in the consolidated statement of income as follows:

	2021 KD'000	2020 KD'000
Depreciation Amortisation (Note 6)	40,307 5,674 45,981	38,156 1,185 39,341

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**6 GOODWILL AND INTANGIBLE ASSETS**

2021	Goodwill KD'000	License KD'000	Customer relationships KD'000	Software license KD'000	Others KD'000	Total KD'000
<b>Cost</b>						
At 1 January	5,446	19,235	1,816	-	6,208	32,705
Additions	-	-	-	4,110	5,827	9,937
<b>At 31 December</b>	<b>5,446</b>	<b>19,235</b>	<b>1,816</b>	<b>4,110</b>	<b>12,035</b>	<b>42,642</b>
<b>Amortization charge &amp; impairment</b>						
At 1 January	-	(1,603)	(272)	-	(5,809)	(7,684)
Charge for the year	-	(962)	(163)	(1,028)	(3,521)	(5,674)
Impairment	(2,046)	-	-	-	-	(2,046)
<b>At 31 December</b>	<b>(2,046)</b>	<b>(2,565)</b>	<b>(435)</b>	<b>(1,028)</b>	<b>(9,330)</b>	<b>(15,404)</b>
<b>Net carrying amount:</b>						
<b>At 31 December</b>	<b>3,400</b>	<b>16,670</b>	<b>1,381</b>	<b>3,082</b>	<b>2,705</b>	<b>27,238</b>
2020	Goodwill KD'000	License KD'000	Customer relationships KD'000	Others KD'000	Total KD'000	
Cost						
At 1 January and 31 December	5,446	19,235	1,816	6,208	32,705	
Amortization charge & impairment						
At 1 January	-	(641)	(109)	(5,749)	(6,499)	
Charge for the year	-	(962)	(163)	(60)	(1,185)	
At 31 December	-	(1,603)	(272)	(5,809)	(7,684)	
Net carrying amount:						
At 31 December	5,446	17,632	1,544	399	25,021	

The intangible assets are having finite life and is amortized on a straight line basis over its useful life.

**Goodwill**

The carrying value of the goodwill amounting to KD 3,400 thousand (31 December 2020: KD 5,446 thousand) pertains to investments in Qualitynet General Trading and Contracting Company W.L.L. ("Qualitynet").

**Impairment testing for goodwill**

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Recoverable amount of goodwill calculated using value-in-use method based on following inputs. The goodwill in respect of Qualitynet is allocated to a single CGU which consists of identifiable net assets. Based on goodwill impairment assessment performed by the management, the recoverable amount of goodwill is lower than the carrying value as at the reporting date. Accordingly, an impairment loss amounting to KD 2,046 thousand is recorded in the consolidated statement of income.

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**6 GOODWILL AND INTANGIBLE ASSETS (continued)****Key assumptions used in value in use calculations and sensitivity to changes in assumptions***Discount rate*

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). A discount rate of 12% (2020: 12%) is used to estimate the recoverable amount of this cash generating unit.

*Terminal growth rate*

Terminal growth rate is based on the long term inflation forecast for the State of Kuwait. A terminal growth rate of 2.5% (2020: 2.3%) is used to estimate the recoverable amount of this cash generating unit.

The Group has also performed a sensitivity analysis by varying these inputs factors by a reasonable margin (1% for discount rate and 0.5% for terminal growth rates).

**7 TRADE AND OTHER RECEIVABLES**

	2021 KD'000	2020 KD'000
Gross trade receivables	44,082	43,220
Allowance for expected credit losses	(12,254)	(14,031)
	<u>31,828</u>	<u>29,189</u>
Other receivables*	16,552	490
	<u>48,380</u>	<u>29,679</u>
<b>Represented by:</b>		
Non-current portion	15,960	-
Current portion	32,420	29,679
	<u>48,380</u>	<u>29,679</u>

\* Other receivables include a claim receivable from Ministry of Communications amounting to KD 15,960 thousand as at 31 December 2021 (31 December 2020: nil) (Note 22). The impact of discounting the balance to fair value has been recognised under finance costs amounting to KD 2,515 thousand.

The movement in the allowance for expected credit losses on trade receivables during the year was as follows:

	2021 KD'000	2020 KD'000
At 1 January	14,031	14,969
Charge for the year	1,278	5,204
Write offs during the year	(3,055)	(6,142)
At 31 December	<u>12,254</u>	<u>14,031</u>

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**8 CONTRACT ASSETS**

Contract assets are initially recognized for revenue earned from rendering of telecom services, sale of devices, and construction contracts unbilled yet. Upon completion of billing cycle, the amounts recognized as contract assets are reclassified to trade receivables.

As at 31 December 2021, the Group has contract assets of KD 49,429 thousand (2020: KD 37,853 thousand) which is net of an allowance for expected credit losses of KD 7,997 thousand (2020: KD 8,370 thousand).

The movement in the allowance for expected credit losses of contract assets during the year was as follows:

	2021 KD'000	2020 KD'000
At 1 January	8,370	5,732
Charge for the year	6,569	9,781
Write offs during the year	(6,942)	(7,143)
At 31 December	<u>7,997</u>	<u>8,370</u>

**9 CASH, BANK BALANCES AND DEPOSITS**

	2021 KD'000	2020 KD'000
Cash at banks	21,638	18,312
Cash in hand	25	16
Islamic deposits	43,491	56,705
Cash, bank balances and deposits as per consolidated statement of financial position	<u>65,154</u>	<u>75,033</u>
Less: Islamic deposits with original maturity exceeding 3 months but less than 12 months	(13,111)	(5,506)
Cash, bank balances and deposits in the consolidated statement of cash flows	<u>52,043</u>	<u>69,527</u>

Islamic deposits are placed with local Islamic financial institutions and carry an effective profit rate of 2.25% (2020: 2.75%) per annum and have an original maturity of less than one year.

**10 EQUITY****Share capital**

The Parent Company's authorized, issued and fully paid up share capital is KD 49,937 thousand (2020: KD 49,937 thousand) comprising of 499,366,852 (2020: KD 499,366,852) shares of 100 fils each and is fully paid in cash.

**Statutory reserve**

In accordance with the Companies Law No. 1 of 2016, as amended and its Executive Regulation, as amended, and the Parent Company's Articles of Association, 10% of the profit before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration for the year is transferred to statutory reserve until the reserve totals 50% of the paid up share capital, after which such transfers can be discontinued by a resolution of the shareholders in the Annual General Assembly meeting upon recommendation by the Board of Directors.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount. The Annual General Assembly of the shareholders held on 29 March 2021 approved to discontinue such annual transfers as the reserve reached 50% of the share capital.



## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



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**10 EQUITY (continued)****Voluntary reserve**

In accordance with the Parent Company's Articles of Association, a percentage of profit before contribution to KFAS, NLST, Zakat and Board of Directors' remuneration for the year, as recommended by the Board of Directors and approved by the shareholders, must be deducted and transferred to a voluntary reserve. Such transfers may be discontinued by a resolution of the shareholders in the Annual General Assembly meeting upon recommendation by the Board of Directors. There are no restrictions on the distribution of this reserve. During the year, the Board of Directors have recommended to discontinue transfers to Voluntary reserve.

**Share Based Payments**

The Group has recognized the value of equity-settled share-based payment reserve as part of employee benefit expense amounting to KD 24 thousand (31 December 2020: KD 10 thousand).

**Recommended cash dividends and Bonus Shares for the year 2021**

The Parent Company's Board of Directors recommended to distribute cash dividends to the shareholders of the Parent Company of 60 fils per share amounting to KD 29,962 thousand for the year ended 31 December 2021 and bonus shares of 100% on the outstanding shares as of 31 December 2021. The recommended cash dividends and bonus shares are only due when its approved by the shareholders' Annual General Assembly meeting, and to be distributed to shareholders after obtaining the necessary approvals from the regulatory authorities.

**Approval of dividends for the year 2020**

The Annual General Assembly meeting of the shareholders held on 29 March 2021 approved distribution of cash dividends of 60 fils per share (31 December 2020: 50 fils per share) amounting to KD 29,962 thousand (31 December 2020: KD 24,968 thousand). The cash dividends were paid on 21 April 2021, to the registered shareholders as of the record date of 12 April 2021.

**11 EMPLOYEES' END OF SERVICE BENEFITS**

The Group provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Labour Law applicable in the State of Kuwait, and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

The plan typically exposes the Group to actuarial risks such as: discount rate, salary risk and withdrawal risk.

Discount rate	A decrease in the discount rate will increase the plan liability.
Salary risk	The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.
Withdrawal risk	Benefits are paid when an employee leaves employment either through resignation or retirement. The rate of withdrawal therefore affects the timing of the payment and consequently the liability at the reporting date.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 31 December 2021. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method. The principal assumptions in determining the end of service provisions are discount rate 3.65% (2020: 3.5%) and expected rate of salary increase in range of 3% to 4% (2020: 3% to 4%).

Movements in the present value of the end of service benefit obligation in the current year were as follows:

	2021 KD'000	2020 KD'000
At 1 January	10,073	8,265
Expenses recognized	2,138	1,931
Re-measurement (gains) losses*	(86)	324
Benefits paid during the year	(908)	(447)
At 31 December	<u>11,217</u>	<u>10,073</u>

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\* Re-measurement (gains) losses is comprised of actuarial changes arising from financial assumption and experience adjustments.

**11 EMPLOYEES' END OF SERVICE BENEFITS (continued)***Sensitivity analysis on the Employee's End of Service benefit:*

The sensitivity analyses below have been determined based on reasonably possible changes of the below mentioned assumptions as at the reporting period, while holding all other assumptions constant.

- ▶ If discount rate is 25 basis point higher (lower), the end of service benefit obligation would decrease by KD 292 thousand (increase by KD 303 thousand).
- ▶ If the expected salary growth increases (decreases) by 25 basis points, the end of service benefit obligation would increase by KD 302 thousand (decrease by KD 293 thousand).


The sensitivity analysis presented above may not be representative of the actual change in the end of service benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

**12 ISLAMIC FINANCING FACILITIES**

The Parent Company has an Islamic financing arrangement amounting to KD 40,000 thousand out of which KD 20,000 was utilized, which is repayable over 3 years starting from April 2020 in equal quarterly installments. As at 31 December 2021, KD 5,000 thousand (31 December 2020: KD 10,000 thousand) is outstanding against these facilities. The amount disclosed on the face of the consolidated statement of financial position is net of finance costs and processing fees paid in advance. Islamic financing facilities are unsecured and carries profit rate of 2.25% (31 December 2020: 2.62% per annum).

**13 TRADE AND OTHER PAYABLES**

	2021 KD'000	2020 KD'000
Trade and other payables*	19,445	22,099
Accruals and provisions	70,703	66,704
Other payables	34,915	32,819
Due to related parties (Note 21)	15,328	10,379
	<u>140,391</u>	<u>132,001</u>
<b>Represented by:</b>		
Current portion	135,461	125,925
Non-current portion	4,930	6,076
	<u>140,391</u>	<u>132,001</u>

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**13 TRADE AND OTHER PAYABLES**

\* Trade and other payables include lease liabilities amounting to KD 9,860 thousand as at 31 December 2021 (31 December 2020: KD 10,906 thousand).

The movement is as follows: -

	2021 KD'000	2020 KD'000
At 1 January	10,906	10,300
Additions	8,199	8,897
Derecognition of leases	(560)	-
Accretion of interest	294	322
Payments	(8,979)	(8,613)
At 31 December	<u>9,860</u>	<u>10,906</u>
Current lease liabilities	4,930	4,830
Non-current lease liabilities	4,930	6,076
	<u>9,860</u>	<u>10,906</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 23.

Included within accruals and provisions are capital expenditure accruals (net of advances) amounting to KD 11,908 thousand (2020: KD 9,935 thousand) representing capital expenditure which have been incurred by the Group, but not yet invoiced by the suppliers.


Due to related parties mainly includes network related charges and management fees with the Ultimate Parent Company.

**14 REVENUE**

The Group has disaggregated the revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This did not result in any impact on the segment reporting given the Group only has one reporting segment accordingly, no reconciliation of the disaggregated revenue to the operating segments has been disclosed in the consolidated financial statements.

The following table disaggregates revenue by major sources and timing of revenue recognition.

	2021 KD'000	2020 KD'000
<b>Sources of revenue</b>		
Sale of goods	75,756	57,327
Rendering of services	220,558	225,826
	<u>296,314</u>	<u>283,153</u>
<b>Timing of revenue recognition</b>		
Products transferred at a point in time	75,756	57,327
Products and services transferred over time	220,558	225,826
	<u>296,314</u>	<u>283,153</u>

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**15 OPERATING EXPENSES**

	2021 KD'000	2020 KD'000
Access charges	55,423	62,174
Roaming & interconnect expenses	13,527	12,754
Cost of inventory consumption	76,392	59,139
Repair & maintenance expenses	13,465	13,350
	<u>158,807</u>	<u>147,417</u>

**16 GENERAL AND ADMINISTRATIVE EXPENSES**

	2021 KD'000	2020 KD'000
Rent and utilities	1,998	2,429
Sales and marketing expenses	9,661	8,401
Consultancy fees	2,037	943
Other administrative expenses	12,301	11,674
	<u>25,997</u>	<u>23,447</u>

**17 OTHER INCOME**

	2021 KD'000	2020 KD'000
Investment income	897	1,224
Foreign exchange losses	(11)	(461)
Income from claim against Ministry of Communications (Note 22)	17,927	-
Others	233	142
	<u>19,046</u>	<u>905</u>

**18 TAXES**

**Kuwait Foundation for Advancement of Sciences ("KFAS")**

Contribution towards KFAS is computed at 1% of taxable profit of the Parent Company after deducting from net profit before taxes the Board of Directors' remuneration, and the amount transferred to statutory reserve.

**Zakat**

Contribution towards Zakat is computed at 1% of the net profit in accordance with the requirements of Law No. 46 of 2006 and charged to the consolidated statement of income.

**National Labour Support Tax ("NLST")**

Contribution towards NLST is computed at 2.5% of the net profit in accordance with the requirements of Law No. 19 of 2006 and recognised in the consolidated statement of income.

**19 BASIC AND DILUTED EARNINGS PER SHARE**

	2021	2020
Net profit for the year (KD'000)	44,873	32,094
Weighted average number of shares	499,366,852	499,366,852
Earnings per share (fils)	90	64

Basic and diluted earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

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**20 INVESTMENT IN AN ASSOCIATE**

Details of associate are as follows:

Name of associate	Country of incorporation	% equity interest as at 31 December		Principal activities
		2021	2020	
Connect Arabia W.L.L.	Kuwait	10%	-	Provision of prepaid telecommunication services

Connect Arabia W.L.L. ("Virgin Mobile Kuwait" or "VMK") was established in 2021 as a mobile virtual network operator. During the year, the Parent Company acquired 10% equity shareholding in VMK. As at 31 December 2021, the carrying value of investment is KD nil (31 December 2020: nil)

**21 RELATED PARTY BALANCES AND TRANSACTIONS**

Parties are considered to be related if one party, directly or indirectly through one or more intermediaries, has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Related parties primarily comprise of major shareholders of the Group, its Directors, key management personnel and entities over which they exercise significant influence.

In addition to the above, the Parent Company also has entered in certain other transactions in the normal course of business with Ultimate Parent Company and these are included in operating expenses. The balance due to Ultimate Parent Company as at the reporting date is disclosed in Note 13.

Significant transactions with the Ultimate Parent Company included in the consolidated statement of income are as follows:

	2021 KD'000	2020 KD'000
Management fees*	10,385	9,931
Revenues	13,716	10,575
Other operating expenses	3,202	1,864

\* Management fees represents fees charged by the Parent Company which is based on certain percentage of revenues.

Balances with related parties amounting to KD 15,328 thousand as at 31 December 2021 (31 December 2020: KD 10,379 thousand) are included in trade and other payables in the consolidated statement of financial position. Balance with related parties do not carry any profit and are repayable on demand.

Key management personnel comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

Key management compensation	2021 KD'000	2020 KD'000
Salaries, allowances and other benefits	2,302	2,162
End of service benefits	68	125
	<u>2,370</u>	<u>2,287</u>

Board of Directors' remuneration for the financial year 2021 is subject to approval of shareholders in the Annual General Assembly. The Annual General Assembly meeting of the shareholders held on 29 March 2021 approved the Board of Directors' remuneration for the financial year 2020.

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**22 COMMITMENTS AND CONTINGENT LIABILITIES**

	2021 KD'000	2020 KD'000
<b>Commitments</b>		
Capital commitments	24,701	24,265
<b>Contingent liabilities</b>		
Letters of guarantee*	9,694	7,443

\* The Group has contingent liabilities in respect of bank guarantee arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

**Contingent asset**

In April 2017, Kuwait's Cassation Court invalidated a portion of the regulatory tariff decree levied on mobile telecommunication companies in Kuwait since 26 July 2011 by Kuwait's Ministry of Communications. Accordingly, the Parent Company had filed a claim for the recovery of the excess amount paid from change in regulation date till date.

The Parent Company had estimated the potential recoverable amount based on the Cassation Court's judgement. The claim was rejected by the Court of First Instance during the year ended 31 December 2019, and accordingly the Parent Company had filed an appeal against the Court of First Instance's primary judgment. On 30th June 2020, the Court of appeal has issued a verdict in favour of the Parent Company obliging the appellant to pay amount of KD 18,292 thousand.

On 4 November 2021, the Court of Cassation rejected the appeal filed by the appellant and issued a final verdict in favour of the Parent Company, obliging the appellant to pay an amount of KD 18,292 thousand. As a result, the Parent Company has recognized an amount of KD 17,927 thousand, netted off with related fees and expenses, which is included under other income (Note 17).

On 29 December 2021, a lawsuit was filed by the appellant against the execution of the judgment passed by the Court of Cassation. On 26th January 2022, a ruling was issued by the Court of Cassation rejecting the lawsuit and to continue the execution of the judgment.

**23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Group has an exposure to the following risks arising from financial instruments:

- ▶ Credit risk
- ▶ Liquidity risk
- ▶ Market risk

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 are given below.

**Risk management framework**

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

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.



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## 23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

**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 from the customers, balances with banks and Islamic deposits.

*Exposure to credit risk*

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

	2021 KD'000	2020 KD'000
Trade and other receivables	48,380	29,679
Contract assets	49,429	37,853
Cash at banks	21,638	18,312
Islamic deposits	43,491	56,705
	<u>162,938</u>	<u>142,549</u>

*Trade and other receivables and contract assets*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Group has established a credit policy under which each new customer is analyzed for creditworthiness before the Group's standard terms and conditions are offered. Credit exposure is controlled by counterparty limits that are annually reviewed and approved by the management. The Group does not have an internal credit rating of counter parties and considers all counter parties with which the Group deals to be having an equivalent credit rating. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group does not require collateral in respect of trade and other receivables.

The Group establishes a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by nationality, 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 forecast of future economic conditions.

The table below provides information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

31 December 2021	<i>Trade receivables</i>							
	<i>Contract assets</i>	<i>Days past due</i>						<i>Total</i>
		<i>Current</i>	<i>1-30 days</i>	<i>30-60 days</i>	<i>61-90 days</i>	<i>&gt;91 days</i>		
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	
Estimated total gross carrying amount at default	57,426	26,189	3,677	1,696	1,204	11,316	101,508	
Estimated credit loss							20,251	
Expected credit loss rate							20%	

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

**Credit risk (continued)***Trade and other receivables and contract assets (continued)*

31 December 2020	<i>Trade receivables</i>						
	<i>Contract assets</i>	<i>Current</i>	<i>Days past due</i>				<i>Total</i>
			<i>1-30 days</i>	<i>30-60 days</i>	<i>61-90 days</i>	<i>&gt;91 days</i>	
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Estimated total gross carrying amount at default	46,223	13,181	3,662	2,247	1,138	22,992	89,443
Estimated credit loss							22,401
Expected credit loss rate							25%

*Cash, bank balances and deposits*

The Group limits its exposure to credit risk by only placing funds with counterparties with appropriate credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 following are the contractual maturities of financial liabilities:

## 31 December 2021

	<i>Carrying amount</i>	<i>Contractual undiscounted cash flows</i>			<i>Total</i>
		<i>1 year or less</i>	<i>1-2 years</i>	<i>More than 2 years</i>	
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Islamic financing facilities	5,000	2,793	2,484	-	5,277
Trade and other payables*	121,595	116,608	3,042	2,468	122,118
	<u>126,595</u>	<u>119,401</u>	<u>5,526</u>	<u>2,468</u>	<u>127,395</u>
<i>Commitments</i>					
Acquisition of property and equipment	24,701	24,701	-	-	24,701
	<u>24,701</u>	<u>24,701</u>	<u>-</u>	<u>-</u>	<u>24,701</u>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Credit risk (continued)

## Liquidity risk (continued)

31 December 2020

	Carrying amount KD'000	Contractual undiscounted cash flows				Total KD'000
		1 year or less KD'000	1-2 Years KD'000	More than 2 years KD'000		
Islamic financing facilities	10,000	3,192	4,968	2,577	10,737	
Trade and other payables*	112,361	106,320	3,825	2,760	112,905	
	<u>122,361</u>	<u>109,512</u>	<u>8,793</u>	<u>5,337</u>	<u>123,642</u>	
<i>Commitments</i>						
Acquisition of property and equipment	24,265	24,265	-	-	24,265	
	<u>24,265</u>	<u>24,265</u>	<u>-</u>	<u>-</u>	<u>24,265</u>	

\*Trade and other payables above exclude deferred revenue and advances from customers.

## Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates and equity prices 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 optimizing the return.

The Group's exposure to market risk arises from:

- ▶ Currency risk
- ▶ Profit rate risk

## Currency risk

Currency risk is a risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to currency risks on trade and other payables, Islamic financing facilities and Islamic deposits that are denominated in a currency other than the KD, which is the functional currency of the Group. The currencies in which these transactions are primarily denominated in US Dollars ("US\$"). The Group's currency risk is managed by monitoring significant foreign currency exposures on a regular basis.

## Exposure to currency risk

The Group's net exposure to foreign currency risk is as follows:

	2021 KD'000	2020 KD'000
US Dollars (short)	13,200	10,344

The following significant exchange rates applied during the year:

	2021		2020	
	Average rate	Reporting date Spot rate	Average rate	Reporting date Spot rate
US\$	0.30288	0.30250	0.30320	0.30325

## Kuwait Telecommunications Company K.S.C.P. and its Subsidiary



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

## 23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Market risk (continued)

## Exposure to currency risk (continued)

## Sensitivity analysis

A strengthening (weakening) of the KD, as indicated below, against US\$ at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and increased (decreased) the equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant.

	2021 KD'000	2020 KD'000
3% movement	396	310

## Profit rate risk

Profit rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

Financial instruments, which potentially subject the Group to profit rate risk, consist principally of cash, bank balances and deposits and Islamic financing facilities.

The Group's Islamic deposits are for a short term period and are set at fixed rates and therefore management believes there is minimal risk of significant losses due to profit rate fluctuations.

The Group's Islamic financing facilities are obtained at a floating rate. The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	Change in interest rates by 50 basis points Effect on profit	
	2021 KD'000	2020 KD'000
Kuwaiti Dinars	25	50

## 24 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash, bank balances and deposits, trade and other receivables and contract assets. Financial liabilities consist of trade and other payables and Islamic financing facilities.

The fair values of the financial assets and liabilities are not significantly different from their carrying value as at the reporting date. For financial assets and financial liabilities that are liquid or having short-term maturity (less than twelve months) it is assumed that the carrying amounts approximate to their fair valuation as these are re-priced immediately upon maturity.

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**25 CAPITAL MANAGEMENT**

The Group'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 Board of Directors monitors the Group performance in relation to its long range business plan and its long-term profitability objectives.

The Group's objectives for managing capital are:

- ▶ To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- ▶ To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 2020.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. The Parent Company includes within net debt, payables under Islamic financing facilities, trade and other payables, less cash, bank balances and deposits.

	<i>2021</i> <i>KD'000</i>	<i>2020</i> <i>KD'000</i>
Islamic financing facilities	<b>5,000</b>	10,000
Trade and other payables	<b>140,391</b>	132,001
Less: Cash, bank balances and deposits.	<b>(65,154)</b>	(75,033)
<b>Net debt</b>	<b>80,237</b>	66,968
<b>Total equity</b>	<b>237,194</b>	222,173
<b>Gearing ratio</b>	<b>34%</b>	30%

**26 OPERATING SEGMENTS**

The Group provides telecommunication services in Kuwait from which it earns revenues and incurs expenses and whose results are regularly reviewed by the Board of Directors of the Group. Accordingly, the Group has only one reportable segment and information relating to the reporting segment is set out in the consolidated statement of financial position and consolidated statement of income.

Kuwait Telecommunications Company K.S.C.P. and its Subsidiary 

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2021

**27 IMPACT OF COVID-19**

Coronavirus pandemic (COVID-19), which began to spread by the beginning of 2020 and witnessed a rise in the number of cases in most countries worldwide, including Kuwait, has negatively impacted most businesses and economics in addition to its impact on the sharp drop in the global oil prices, which in general, tend to affect the economic growth heavily. As at 31 December 2021, the COVID-19 pandemic has continued to cause an unprecedented human and health crisis and the measures necessary to contain the virus have triggered an economic downturn.

Given the persistent volatility, the extent and duration of these trade and economic effects remains uncertain and depends on future developments that currently cannot be quantified accurately. These developments include the rate at which coronavirus is transmitted, the extent and effectiveness of containments, the movement in product prices, demand, and the overall pace of the global economies' movement. Accordingly, the economic and commercial impacts on the Group's operations cannot be reliably assessed until the date of issuance of these consolidated financial statements. In this context the Group has taken into account whether any adjustments or changes in judgments, estimates, and risk management should be necessarily considered as well as recorded in the consolidated financial statements.

Accordingly, the Group continued to develop assumptions, development scenarios, impacts and developments as part of the operational results and cash flows for future reporting periods that may have a substantial impact and material adjustments on the consolidated financial statements. The main assumptions are as follows:

*Impairment of non-financial assets*

The Group has performed a qualitative and quantitative assessment for goodwill in relation to its investment in Qualitynet and compared the actual results for the current year against the budget and industry benchmarks. Based on the assessment performed by the management, the Group has concluded that recoverable value is lower than carrying value and accordingly recognised impairment for the year ended 31 December 2021 (Note 6).

The Group has also considered any impairment indicators or any significant uncertainties impacting its inventories, property and equipment, intangible assets and right-of-use assets especially arising from any change in lease terms and concluded that there is no material impact of COVID-19.

*Expected Credit Losses ("ECL") and impairment of financial assets*

The uncertainties caused by COVID-19 have required the Group to reassess the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 31 December 2021. The Group has updated the relevant forward-looking information such as the forecasted gross domestic product growth rates of the country in which the Group has operations. As a result, the Group has appropriately recorded an allowance for ECL for year ended 31 December 2021 taking into consideration the impact of COVID-19.

**28 OTHER INFORMATION**

On 22 December 2021, the Parent Company has signed a binding agreement to acquire 100% equity shareholding of E-Portal Holding Company K.S.C. (Closed) for a consideration of KD 23,000 thousand. As at the reporting date, the sale purchase agreement has not yet been executed and the Parent Company is in the process of obtaining necessary regulatory approvals.