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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

Consolidated Financial Statements

Ernst & Young
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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*
ASSETS			
Non-current assets			
Property and equipment	5	**185,016**	190,387
Goodwill and intangible assets	6	**27,238**	25,021
Trade and other receivables	7	**15,960**	-
		228,214	215,408
Current assets			
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
		165,588	158,839
TOTAL ASSETS		**393,802**	374,247
EQUITY AND LIABILITIES			
Equity			
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
Total equity		**237,194**	222,173
Non-current liabilities			
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
		18,455	23,072
Current liabilities			
Islamic financing facilities	12	**2,692**	3,077
Trade and other payables	13	**135,461**	125,925
		138,153	129,002
Total liabilities		**156,608**	152,074
TOTAL EQUITY AND LIABILITIES		**393,802**	374,247

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
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST"), ZAKAT AND BOARD OF DIRECTORS' REMUNERATION		**47,052**	33,998
KFAS	18	**(422)**	(344)
NLST	18	**(1,147)**	(1,006)
Zakat	18	**(458)**	(402)
Board of Directors' remuneration		**(152)**	(152)
NET PROFIT FOR THE YEAR		**44,873**	32,094
BASIC AND DILUTED EARNINGS PER SHARE (FILS)	19	**90**	64

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

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 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	-	-	-	-	44,873	44,873
Other comprehensive income for the year	-	-	-	86	-	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)
Balance at 31 December 2021	**49,937**	**26,242**	**26,241**	**(766)**	**135,540**	**237,194**

	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 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.

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*
OPERATING ACTIVITIES			
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
INVESTING ACTIVITIES			
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)
FINANCING ACTIVITIES			
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)
NET (DECREASE) INCREASE IN CASH, BANK BALANCES AND DEPOSITS		**(17,484)**	16,799
Cash, banks balances and deposits at the beginning of the year		**69,527**	52,728
CASH, BANK BALANCES AND DEPOSITS AT THE END OF THE YEAR	9	**52,043**	69,527
NON-CASH ITEMS			
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)
TOTAL NON-CASH ITEMS		**-**	-

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* ***31 December 2021***	*31 December 2020*	***Principal activities***	***Country of incorporation***
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.

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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.

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 receded 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.

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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.

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.

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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.

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.

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.

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.

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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.

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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-along 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*
Cost:							
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)
At 31 December 2021	**395,594**	**45,786**	**4,359**	**10,341**	**16,088**	**7,195**	**479,363**
Depreciation:							
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
At 31 December 2021	**(249,026)**	**(32,573)**	**(1,542)**	**-**	**(8,157)**	**(3,049)**	**(294,347)**
Carrying amount							
At 31 December 2021	**146,568**	**13,213**	**2,817**	**10,341**	**7,931**	**4,146**	**185,016**

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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	**40,307**	38,156
Amortisation (Note 6)	**5,674**	1,185
	45,981	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***
Cost						
At 1 January	5,446	19,235	1,816	-	6,208	32,705
Additions	-	-	-	4,110	5,827	9,937
At 31 December	**5,446**	**19,235**	**1,816**	**4,110**	**12,035**	**42,642**
Amortization charge & impairment						
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)
At 31 December	**(2,046)**	**(2,565)**	**(435)**	**(1,028)**	**(9,330)**	**(15,404)**
Net carrying amount:						
At 31 December	**3,400**	**16,670**	**1,381**	**3,082**	**2,705**	**27,238**

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)
	31,828	29,189
Other receivables*	**16,552**	490
	48,380	29,679
Represented by:		
Non-current portion	**15,960**	-
Current portion	**32,420**	29,679
	48,380	29,679

* 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	**12,254**	14,031

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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	**7,997**	8,370

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	**65,154**	75,033
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	**52,043**	69,527

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.

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	**11,217**	10,073

* 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
	140,391	132,001
Represented by:		
Current portion	**135,461**	125,925
Non-current portion	**4,930**	6,076
	140,391	132,001

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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	**9,860**	10,906
Current lease liabilities	**4,930**	4,830
Non-current lease liabilities	**4,930**	6,076
	9,860	10,906

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*
Sources of revenue		
Sale of goods	**75,756**	57,327
Rendering of services	**220,558**	225,826
	296,314	283,153
Timing of revenue recognition		
Products transferred at a point in time	**75,756**	57,327
Products and services transferred over time	**220,558**	225,826
	296,314	283,153

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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
	158,807	147,417

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
	25,997	23,447

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
	19,046	905

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.

20 INVESTMENT IN AN ASSOCIATE

Details of associate are as follows:

Name of associate	*Country of incorporation*	*% equity interest as at 31 December* 2021	2020	*Principal activities*
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
	2,370	2,287

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.

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2021 KD'000	*2020 KD'000*
Commitments		
Capital commitments	**24,701**	24,265
Contingent liabilities		
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.

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
	162,938	142,549

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		***Trade receivables***					
			Days past due				
	Contract assets KD'000	***Current KD'000***	***1-30 days KD'000***	***30-60 days KD'000***	***61-90 days KD'000***	***>91 days KD'000***	***Total KD'000***
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%**

23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Trade and other receivables and contract assets (continued)

31 December 2020		*Trade receivables*					
			Days past due				
	Contract assets KD'000	*Current KD'000*	*1-30 days KD'000*	*30-60 days KD'000*	*61-90 days KD'000*	*>91 days KD'000*	*Total KD'000*
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

		Contractual undiscounted cash flows			
	Carrying amount KD'000	***1 year or less KD'000***	***1-2 years KD'000***	***More than 2 years KD'000***	***Total KD'000***
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**
	126,595	**119,401**	**5,526**	**2,468**	**127,395**
Commitments					
Acquisition of property and equipment	**24,701**	**24,701**	**-**	**-**	**24,701**
	24,701	**24,701**	**-**	**-**	**24,701**

23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Liquidity risk (continued)

31 December 2020

		Contractual undiscounted cash flows			
	Carrying amount KD'000	*1 year or less KD'000*	*1-2 Years KD'000*	*More than 2 years KD'000*	*Total 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
	122,361	109,512	8,793	5,337	123,642
Commitments					
Acquisition of property and equipment	24,265	24,265	-	-	24,265
	24,265	24,265	-	-	24,265

**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

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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.

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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.

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

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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.