

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

**stc**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)**

**31 MARCH 2020**



## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT TELECOMMUNICATIONS COMPANY K.S.C.P.**

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Telecommunications Company K.S.C.P. (the “Parent Company”) and its subsidiary (collectively the “Group”) as at 31 March 2020, and the related interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Parent Company is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of accounts of the Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulation, as amended, or the Parent Company’s Articles of Association and Memorandum of Incorporation, during the three months period ended 31 March 2020 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

27 July 2020  
Kuwait

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 31 March 2020

		31 March 2020 KD'000	(Audited) 31 December 2019 KD'000	31 March 2019 KD'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property and equipment		201,535	193,466	161,152
Goodwill and intangible assets	4	25,910	26,206	-
		<u>227,445</u>	<u>219,672</u>	<u>161,152</u>
<b>Current assets</b>				
Inventories		9,225	9,062	9,189
Prepayments and other current assets		4,434	5,369	1,865
Trade and other receivables		42,438	35,789	36,417
Contract assets		43,807	44,421	40,284
Cash and cash equivalents		82,299	76,739	82,891
		<u>182,203</u>	<u>171,380</u>	<u>170,646</u>
<b>TOTAL ASSETS</b>		<u><u>409,648</u></u>	<u><u>391,052</u></u>	<u><u>331,798</u></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital		49,937	49,937	49,937
Statutory reserve		22,842	22,842	18,244
Voluntary reserve		22,841	22,841	18,243
Other reserves		(562)	(562)	(315)
Retained earnings		101,880	120,303	95,531
<b>Total equity</b>		<u>196,938</u>	<u>215,361</u>	<u>181,640</u>
<b>Non-current liabilities</b>				
Employees' end of service benefits		8,667	8,265	5,312
Islamic financing facilities	7	10,385	11,250	-
Trade and other payables		5,713	5,437	5,529
		<u>24,765</u>	<u>24,952</u>	<u>10,841</u>
<b>Current liabilities</b>				
Islamic financing facilities	7	3,365	8,750	-
Trade and other payables	5	184,580	141,989	139,317
		<u>187,945</u>	<u>150,739</u>	<u>139,317</u>
<b>Total liabilities</b>		<u>212,710</u>	<u>175,691</u>	<u>150,158</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>409,648</u></u>	<u><u>391,052</u></u>	<u><u>331,798</u></u>



Dr. Mahmoud Ahmad Abdulrahman  
Chairman



شركة الاتصالات الكويتية

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME (UNAUDITED)**

For the period ended 31 March 2020

	Notes	<i>Three months ended</i>	
		<i>31 March</i>	
		<b>2020</b>	2019
		<b>KD'000</b>	<i>KD'000</i>
Revenue	3	<b>72,162</b>	66,611
Operating expenses		<b>(38,271)</b>	(32,822)
Staff costs		<b>(6,289)</b>	(5,639)
Expected credit losses on trade and other receivables and contract assets		<b>(3,576)</b>	(3,787)
Depreciation and amortization		<b>(9,720)</b>	(9,064)
General and administrative expenses		<b>(6,982)</b>	(5,604)
Finance costs		<b>(239)</b>	(83)
Other (expenses) income		<b>(152)</b>	590
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST") AND ZAKAT AND BOARD OF DIRECTORS' (BOD) REMUNERATION</b>		<b>6,933</b>	10,202
KFAS		<b>(81)</b>	(85)
NLST		<b>(192)</b>	(318)
Zakat		<b>(77)</b>	(127)
BOD remuneration		<b>(38)</b>	(38)
<b>NET PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>6,545</b>	9,634
<b>BASIC AND DILUTED EARNINGS PER SHARE (FILS)</b>	9	<b>13</b>	19

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the period ended 31 March 2020

	<i>Share capital KD'000</i>	<i>Statutory reserve KD'000</i>	<i>Voluntary reserve KD'000</i>	<i>Other reserves KD'000</i>	<i>Retained earnings KD'000</i>	<i>Total KD'000</i>
Balance at 1 January 2020	49,937	22,842	22,841	(562)	120,303	215,361
Net profit for the period	-	-	-	-	6,545	6,545
Total comprehensive income for the period	-	-	-	-	6,545	6,545
Cash dividends (Note 6)	-	-	-	-	(24,968)	(24,968)
<b>Balance at 31 March 2020</b>	<b>49,937</b>	<b>22,842</b>	<b>22,841</b>	<b>(562)</b>	<b>101,880</b>	<b>196,938</b>
Balance at 1 January 2019	49,937	18,244	18,243	(315)	105,872	191,981
Net profit for the period	-	-	-	-	9,634	9,634
Total comprehensive income for the period	-	-	-	-	9,634	9,634
Cash dividends (Note 6)	-	-	-	-	(19,975)	(19,975)
Balance at 31 March 2019	49,937	18,244	18,243	(315)	95,531	181,640

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

For the period ended 31 March 2020

	<i>Three months ended</i> <i>31 March</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before contribution to KFAS, NLST, Zakat and BOD remuneration	<b>6,933</b>	10,202
Non-cash adjustments to reconcile profit for the period to net cash flows:		
Depreciation and amortization	<b>9,720</b>	9,064
Finance costs	<b>239</b>	83
Expected credit loss - trade and other receivables	<b>2,005</b>	1,300
Expected credit loss - contract assets	<b>1,571</b>	2,487
Provision for employees' end of service benefits	<b>695</b>	304
(Reversal of) provision for slow moving inventories	<b>(46)</b>	15
Operating profit before working capital changes:	<b>21,117</b>	23,455
Inventories	<b>(117)</b>	(2,341)
Prepayments and other assets	<b>935</b>	(444)
Trade and other receivables	<b>(8,654)</b>	(1,961)
Contract assets	<b>(957)</b>	(244)
Trade and other payables	<b>17,991</b>	7,042
Cash flows from operating activities	<b>30,315</b>	25,507
End of service benefits paid	<b>(293)</b>	(278)
Net cash flows from operating activities	<b>30,022</b>	25,229
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	<b>(15,645)</b>	(5,792)
Net movement in short term deposits	<b>6,300</b>	-
Net cash flows used in investing activities	<b>(9,345)</b>	(5,792)
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	<b>(127)</b>	(122)
Payment of lease obligations	<b>(2,238)</b>	(2,134)
Repayments of islamic financing facilities	<b>(6,250)</b>	-
Finance costs paid	<b>(202)</b>	-
Net cash flows used in financing activities	<b>(8,817)</b>	(2,256)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>11,860</b>	17,181
Cash and cash equivalents at the beginning of the period	<b>52,728</b>	65,710
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>64,588</b>	82,891
<b>NON-CASH ITEMS</b>		
Adjustment to prepayments and other current assets	-	2,534
Adjustment to trade and other payables on additions to lease liabilities	<b>1,888</b>	11,346
Adjustment to property and equipment on additions to right-of-use assets	<b>(1,888)</b>	(13,880)
<b>TOTAL NON-CASH ITEMS</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents comprise of:</b>		
Cash and balances with banks and financial institutions	<b>82,299</b>	82,891
Less:- short term deposits with an original maturity of more than three months but less than twelve months	<b>(17,711)</b>	-
	<b>64,588</b>	82,891

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)**

As at and for the period ended 31 March 2020

**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 was incorporated are the provision of all cellular mobile telecommunication and calling system services in Kuwait in addition to purchasing, supplying, installing, operating and maintaining wireless telecommunications devices and equipment (mobile telecommunication, calling system and other wireless services). The Parent Company also utilizes the available monetary surpluses through investing the same in portfolios managed by specialized companies and entities in accordance with the provisions of Islamic Sharia’a and as per the criteria set by Ministry of Communications as well as the Communication & Information Technology Regulatory Authority (CITRA).

On 6 May 2019, the Parent Company acquired 100% of the ownership shares of Quality Net General Trading & Contracting Company W.L.L. “the subsidiary” (hereinafter, the Parent Company and its subsidiary are referred to as the “Group”).

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.

This interim condensed consolidated financial information for the period ended 31 March 2020 were authorized for issue by the Board of Directors of the Parent Company on 27 July 2020.

**2 BASIS OF PREPARATION**

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (“IAS”) 34: *Interim Financial Reporting*.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the most recent annual audited consolidated financial statements for the year ended 31 December 2019.

The Group has not early adopted any other standard, interpretation or amendment that has been issued or not yet effective. Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2020 did not have any material impact on the accounting policies, financial position or performance of the Group.

Operating results for the three months period ended 31 March 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended 31 December 2019.

The interim condensed consolidated financial information does not include all the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2019.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**3 REVENUE**

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

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>
<b>Sources of revenue</b>		
Sale of goods	<b>14,688</b>	11,902
Rendering of services	<b>57,474</b>	54,709
	<b>72,162</b>	66,611
<b>Timing of revenue recognition</b>		
Products transferred at a point in time	<b>14,688</b>	11,902
Products and services transferred over time	<b>57,474</b>	54,709
	<b>72,162</b>	66,611

**4 GOODWILL AND INTANGIBLE ASSETS**

	<i>31 March</i>	<i>(Audited)</i>	<i>31 March</i>
	<i>2020</i>	<i>31 December</i>	<i>31 March</i>
	<i>KD'000</i>	<i>2019</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Intangible assets	<b>20,464</b>	20,760	-
Goodwill	<b>5,446</b>	5,446	-
	<b>25,910</b>	26,206	-

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

**Goodwill**

Goodwill is allocated to Group's investment in a subsidiary and is tested for impairment annually and when the circumstances indicated that the carrying value may be impaired.

The recoverable amount has been determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period based on the historical pattern of revenue growth and market share. The discount rate applied to cash flow projections is 11% (31 December 2019 and 31 March 2019: Nil) and cash flows beyond the five-year period have been extrapolated using a 2.8% terminal growth rate (31 December 2019 and 31 March 2019: Nil).

The management has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications of impairment of goodwill as at 31 March 2020.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**5 RELATED PARTY BALANCES AND TRANSACTIONS**

Related parties primarily comprise of major shareholders of the Parent Company, its directors, key management personnel and entities on which they either have control or exercise significant influence.

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

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2020</i>	<i>2019</i>
<b>Transactions</b>	<b><i>KD'000</i></b>	<b><i>KD'000</i></b>
Revenue	<b>2,420</b>	-
Management fees	<b>2,530</b>	<b>2,331</b>
Other operating expenses	<b>269</b>	<b>30</b>

During the previous year, the Parent Company changed its brand from VIVA to stc. The amount pertaining to rebranding cost amounting to KD 1,955 thousand (31 December 2019: KD 219 thousand and 31 March 2019: Nil) is to be borne by the Ultimate Parent Company.

Balances with related parties amounting to KD 17,088 thousand as at 31 March 2020 (31 December 2019: KD 15,749 thousand and 31 March 2019: KD 22,550 thousand) are included in trade and other payables in the interim condensed consolidated statement of financial position. Balance with related parties do not carry any profit and are repayable on demand.

**6 ANNUAL GENERAL ASSEMBLY**

The Annual General Assembly meeting of the shareholders held on 23 March 2020 approved distribution of cash dividends of 50 fils per share (31 December 2018: 40 fils per share) amounting to KD 24,968 thousand (31 December 2018: KD 19,975 thousand). The cash dividend payable has been included in 'trade and other payables' in the interim condensed consolidated statement of financial position.

**7 ISLAMIC FINANCING FACILITIES**

The Parent Company has an Islamic financing arrangement amounting to KD 40,000 thousand. As at 31 March 2020, KD 13,750 thousand (31 December 2019: KD 20,000 thousand and 31 March 2019: KD Nil) is outstanding against these facilities which is repayable over 3 years starting from April 2020 in equal quarterly installments. The Group has repaid the facilities amounting to KD 6,250 thousand on 31 March 2020. The amount disclosed on the face of the interim condensed consolidated statement of financial position is net of finance costs and processing fees paid in advance.

**8 COMMITMENTS AND CONTINGENCIES**

	<i>(Audited)</i>		
	<i>31 March</i>	<i>31 December</i>	<i>31 March</i>
	<i>2020</i>	<i>2019</i>	<i>2019</i>
	<b><i>KD'000</i></b>	<b><i>KD'000</i></b>	<b><i>KD'000</i></b>
Capital commitments	<b>32,177</b>	31,462	21,226
<b>Contingent liabilities</b>			
Letters of guarantee*	<b>7,834</b>	7,733	5,848

\* 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 31 March 2020

**8 COMMITMENTS AND CONTINGENCIES (continued)****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.

Upon the Cassation Court's judgement, the Parent Company had estimated the potential recoverable amount. During the year ended 31 December 2019, the claim was rejected by the Court of First Instance, and accordingly the Parent Company had filed an appeal against the Court of First Instance's primary judgment. Subsequent to the period end, 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. As a result of the judgement, there is no financial impact at the present till the dates of the appeal of discrimination and judgement are executed and satisfied.

**9 BASIC AND DILUTED EARNINGS PER SHARE**

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>
Net profit for the period (KD'000)	<b>6,545</b>	9,634
Weighted average number of shares	<b>499,366,852</b>	499,366,852
Basic and diluted earnings per share (fils)	<b>13</b>	19

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

**10 OPERATING SEGMENTS**

The Group provides telecommunication and data communication 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 interim condensed consolidated statement of financial position and the interim condensed consolidated statement of comprehensive income.

**11 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The fair value measurement assumes 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

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents and trade and other receivables. 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. 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION (UNAUDITED)**

As at and for the period ended 31 March 2020

**12 RISK MANAGEMENT DISCLOSURES – UPDATE ON 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. In the absence of a specific treatment for this virus, it is difficult to predict the period of closure for some businesses, the partial curfews and the suspension of flights that were recommended by the governmental bodies in Kuwait and most of the countries worldwide.

Therefore, it is difficult to predict the consequences of the virus on the continuity of Company's current and future operations. It is also difficult to predict and accurately assess the impacts of this crisis for the three months period ended 31 March 2020. This is highly dependent on several external factors and future developments, which the Company cannot reliably estimate during the current period, as these developments may have an impact on future financial results, cash flows, and financial position.

Due to the associated potential risks, it is also not possible at this time to predict the external factors, including the spread rate of Coronavirus as well as the size and effectiveness of the precautionary measures taken to contain the virus, which might negatively impact our operations, cash flows and financial position.

The management is monitoring and reassessing the risk management objectives and policies based on the current updates on COVID-19. For the period ended 31 March 2020, there are no significant changes to the risk management objectives and policies as compared to the audited consolidated financial statements as at 31 December 2019.

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