

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

stc

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

30 JUNE 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 30 June 2020, and the related interim condensed consolidated statement of comprehensive income for the three month and six month periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six 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 six months period ended 30 June 2020 that might have had a material effect on the business of the Parent Company or on its financial position.



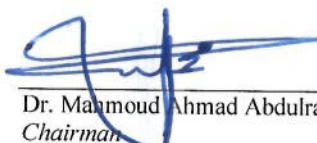
WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

27 July 2020
Kuwait

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2020

		(Audited)	
	Notes	30 June 2020 KD'000	31 December 2019 KD'000
ASSETS			30 June 2019 KD'000
Non-current assets			
Property and equipment		197,212	181,742
Goodwill and intangible assets	4	25,614	26,917
		<u>222,826</u>	<u>208,659</u>
Current assets			
Inventories		8,618	8,831
Prepayments and other current assets		3,264	6,917
Trade and other receivables		43,054	38,504
Contract assets		36,767	41,353
Cash and cash equivalents		89,130	75,890
		<u>180,833</u>	<u>171,495</u>
TOTAL ASSETS		<u>403,659</u>	<u>380,154</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		49,937	49,937
Statutory reserve		22,842	18,244
Voluntary reserve		22,841	18,243
Other reserves		(562)	(315)
Retained earnings		111,225	105,848
Total equity		<u>206,283</u>	<u>191,957</u>
Non-current liabilities			
Employees' end of service benefits		9,065	7,508
Islamic financing facilities	7	9,230	13,750
Trade and other payables		5,151	5,949
		<u>23,446</u>	<u>27,207</u>
Current liabilities			
Islamic financing facilities	7	4,520	6,250
Trade and other payables	5	169,410	154,740
		<u>173,930</u>	<u>160,990</u>
Total liabilities		<u>197,376</u>	<u>188,197</u>
TOTAL EQUITY AND LIABILITIES		<u>403,659</u>	<u>380,154</u>


Dr. Mahmoud Ahmad Abdulrahman
Chairman

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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 30 June 2020

	<i>Notes</i>	<i>Three months ended 30 June</i>		<i>Six months ended 30 June</i>	
		2020 KD'000	2019 KD'000	2020 KD'000	2019 KD'000
Revenue	3	64,226	72,940	136,388	139,551
Operating expenses		(30,581)	(36,882)	(68,852)	(69,704)
Staff costs		(5,956)	(6,167)	(12,245)	(11,806)
Expected credit losses on trade and other receivables and contract assets		(5,105)	(3,254)	(8,681)	(7,041)
Depreciation and amortization		(9,223)	(8,927)	(18,943)	(17,991)
General and administrative expenses		(3,770)	(7,291)	(10,752)	(12,895)
Finance costs		(154)	(167)	(393)	(250)
Other income		477	622	325	1,212
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST"), ZAKAT AND BOARD OF DIRECTORS' (BOD) REMUNERATION		9,914	10,874	16,847	21,076
KFAS		(90)	(101)	(171)	(186)
NLST		(316)	(299)	(508)	(617)
Zakat		(126)	(120)	(203)	(247)
BOD remuneration		(37)	(37)	(75)	(75)
NET PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD		9,345	10,317	15,890	19,951
BASIC AND DILUTED EARNINGS PER SHARE (FILS)	9	19	21	32	40

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 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	-	-	-	-	15,890	15,890
Total comprehensive income for the period	-	-	-	-	15,890	15,890
Cash dividends (Note 6)	-	-	-	-	(24,968)	(24,968)
Balance at 30 June 2020	49,937	22,842	22,841	(562)	111,225	206,283
Balance at 1 January 2019	49,937	18,244	18,243	(315)	105,872	191,981
Net profit for the period	-	-	-	-	19,951	19,951
Total comprehensive income for the period	-	-	-	-	19,951	19,951
Cash dividends (Note 6)	-	-	-	-	(19,975)	(19,975)
Balance at 30 June 2019	49,937	18,244	18,243	(315)	105,848	191,957

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

For the period ended 30 June 2020

	<i>Six months ended</i> <i>30 June</i>	
	2020	2019
	KD'000	KD'000
OPERATING ACTIVITIES		
Profit before contribution to KFAS, NLST, Zakat and BOD remuneration	16,847	21,076
Non-cash adjustments to reconcile profit for the period to net cash flows:		
Depreciation and amortization	18,943	17,991
Finance costs	393	250
Expected credit loss - trade and other receivables	3,427	2,472
Expected credit loss - contract assets	5,254	4,569
Provision for employees' end of service benefits	1,157	656
Write offs of property and equipment	-	372
(Reversal of) provision for slow moving inventories	(68)	16
Operating profit before working capital changes:	45,953	47,402
Inventories	512	(1,764)
Prepayments and other assets	2,105	(5,496)
Trade and other receivables	(10,692)	1,092
Contract assets	2,400	(3,258)
Trade and other payables	22,215	23,592
Cash flows from operating activities	62,493	61,568
End of service benefits paid	(357)	(403)
Net cash flows from operating activities	62,136	61,165
INVESTING ACTIVITIES		
Additions to property and equipment	(18,214)	(31,189)
Net cash flow on business combination	-	(17,716)
Net movement in short term deposits	(14,652)	-
Net cash flows used in investing activities	(32,866)	(48,905)
FINANCING ACTIVITIES		
Cash dividends paid	(19,888)	(16,826)
Payment of lease obligations	(5,111)	(5,010)
(Repayment of) proceeds from islamic financing facilities	(6,250)	20,000
Finance costs paid	(282)	(244)
Net cash flows used in financing activities	(31,531)	(2,080)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,261)	10,180
Cash and cash equivalents at the beginning of the period	52,728	65,710
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	50,467	75,890
NON-CASH ITEMS		
Adjustment to prepayments and other current assets	-	2,534
Adjustment to trade and other payables on additions to lease liabilities	3,922	13,279
Adjustment to property and equipment on additions to right-of-use assets	(3,922)	(15,813)
TOTAL NON-CASH ITEMS	-	-
Cash and cash equivalents comprise of:		
Cash and balances with banks and financial institutions	89,130	75,890
Less:- short term deposits with an original maturity of more than three months but less than twelve months	(38,663)	-
	50,467	75,890

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 30 June 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 30 June 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 six months period ended 30 June 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 30 June 2020

3 REVENUE

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

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Sources of revenue				
Sale of goods	9,090	15,300	23,778	27,202
Rendering of services	55,136	57,640	112,610	112,349
	64,226	72,940	136,388	139,551
Timing of revenue recognition				
Products transferred at a point in time	9,090	15,300	23,778	27,202
Products and services transferred over time	55,136	57,640	112,610	112,349
	64,226	72,940	136,388	139,551

4 GOODWILL AND INTANGIBLE ASSETS

	<i>30 June</i>	<i>(Audited)</i>	<i>30 June</i>
	<i>2020</i>	<i>31 December</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Intangible assets	20,168	20,760	490
Goodwill*	5,446	5,446	26,427
	25,614	26,206	26,917

* Represents provisional values as at 30 June 2019.

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.

Refer to Note 12 for the assessment and conclusion made as a result of COVID-19.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

As at and for the period ended 30 June 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>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	2020	<i>2019</i>	2020	<i>2019</i>
Transactions	KD'000	<i>KD'000</i>	KD'000	<i>KD'000</i>
Revenue	2,489	1,191	4,909	1,191
Management fees	2,254	2,430	4,784	4,761
Other operating expenses	383	30	652	60

During the previous year, the Parent Company changed its brand from VIVA to stc. The amount pertaining to rebranding cost amounting to KD 2,366 thousand (31 December 2019: KD 219 thousand and 30 June 2019: Nil) is to be borne by the Ultimate Parent Company.

Balances with related parties amounting to KD 20,300 thousand as at 30 June 2020 (31 December 2019: KD 15,749 thousand and 30 June 2019: KD 24,700 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).

7 ISLAMIC FINANCING FACILITIES

The Parent Company has an Islamic financing arrangement amounting to KD 40,000 thousand. As at 30 June 2020, KD 13,750 thousand (31 December 2019: KD 20,000 thousand and 30 June 2019: KD 20,000 thousand) 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 as at 30 June 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>		
	30 June	<i>31 December</i>	<i>30 June</i>
	2020	<i>2019</i>	<i>2019</i>
	KD'000	<i>KD'000</i>	<i>KD'000</i>
Capital commitments	25,039	31,462	45,581
Contingent liabilities			
Letters of guarantee*	7,526	7,733	7,314

* 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 30 June 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. 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. As a result of the judgement, there is no financial impact at the present till the date of the appeal of discrimination and judgement are executed and satisfied.

9 BASIC AND DILUTED EARNINGS PER SHARE

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>	<i>KD'000</i>
Net profit for the period (KD'000)	9,345	10,317	15,890	19,951
Weighted average number of shares	499,366,852	499,366,852	499,366,852	499,366,852
Basic and diluted earnings per share (fils)	19	21	32	40

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 30 June 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.

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 financial information. 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 interim financial information are necessary.

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 interim condensed consolidated financial information. The main assumptions are as follows:

Impairment of non-financial assets

The Group has performed a qualitative assessment for goodwill in relation to its investment in Qualitynet, considering the minimal impact of COVID-19 since the entity is operating in the telecommunication sector, and compared the actual results for the six months period ended 30 June 2020 against the budget and industry benchmarks. Based on the assessment, the Group has concluded that no impairment is required to be recognised for the period ended 30 June 2020.

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 30 June 2020. 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 the six months period ended 30 June 2020.

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