

Kuwait Telecommunications Company K.S.C.P.



**Interim Condensed Financial Information (Unaudited) and Review Report
for the nine-month period ended
30 September 2017**

Contents

	Page
Report on review of Interim Condensed Financial Information	1
Interim Condensed Statement of Financial Position (unaudited)	2
Interim Condensed Statement of Profit or Loss and Other Comprehensive Income (unaudited)	3
Interim Condensed Statement of Changes in Equity (unaudited)	4
Interim condensed Statement of Cash Flows (unaudited)	5
Notes to the Interim Condensed Financial Information (unaudited)	6 – 9

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION

**The Board of Directors
Kuwait Telecommunications Company K.S.C.P.
State of Kuwait**

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Kuwait Telecommunications Company K.S.C.P. (the "Company") as at 30 September 2017, and the related interim condensed statements of profit or loss and other comprehensive income for the three-month and nine-month periods then ended and the related interim condensed statements of changes in equity and cash flows for the nine-month period then ended ("the interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the 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 financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 - Interim Financial Reporting.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim financial information is in agreement with the accounting records. We further report that to the best of our knowledge and belief, we have not become aware of any material violations of the Companies Law No. 1 of 2016 and its Executive Regulations, as amended, or of the Company's Memorandum of Incorporation and Articles of Association during the nine-month period ended 30 September 2017 that might have had a material effect on the Company's activities or on its financial position.



**Talal Y. Al-Muzaini
License No. 209-A
Deloitte & Touche
Al-Wazzan & Co.**

Interim Condensed Statement of Financial Position (Unaudited) as at 30 September 2017

	Note	KD'000		
		30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Assets				
Property and equipment	3	139,622	137,668	131,645
Intangible assets	4	47,758	47,495	50,534
Non-current assets		187,380	185,163	182,179
Inventories		10,988	4,385	4,503
Prepayments and other current assets		5,604	4,980	4,950
Trade and other receivables		35,614	25,661	26,417
Cash and cash equivalents		53,802	47,203	50,707
Current assets		106,008	82,229	86,577
Total assets		293,388	267,392	268,756
Equity				
Share capital		49,937	49,940	49,940
Statutory reserve		8,712	8,712	4,522
Voluntary reserve		8,711	8,711	4,521
Retained earnings		88,633	65,350	62,969
Total equity		155,993	132,713	121,952
Liabilities				
Employees' end of service benefits		3,554	3,164	2,786
Islamic financing facilities	6	-	11,632	16,220
Non-current liabilities		3,554	14,796	19,006
Islamic financing facilities	6	29,415	35,501	40,647
Trade and other payables	8	104,426	84,382	87,151
Current liabilities		133,841	119,883	127,798
Total liabilities		137,395	134,679	146,804
Total equity and liabilities		293,388	267,392	268,756

The accompanying notes on pages 6 to 9 form an integral part of this interim condensed financial information.


Dr. Mahmoud Ahmad Abdulrahman
Chairman

Interim Condensed Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
For the period from 1 January 2017 to 30 September 2017

	Note	KD'000			
		Three months ended 30 September		Nine months ended 30 September	
		2017	2016	2017	2016
Revenue		71,168	70,650	204,225	210,602
Operating expenses		(39,906)	(37,808)	(110,089)	(111,348)
Depreciation and amortization		(21,916)	(21,850)	(64,010)	(67,835)
Finance costs		(132)	(395)	(698)	(1,255)
Other income/(expense)		62	(468)	313	274
Profit before Board of Directors' remuneration, contribution to Kuwait Foundation for Advancement of Sciences ("KFAS"), National Labor Support Tax ("NLST") and Zakat		9,276	10,129	29,741	30,438
KFAS		(84)	(81)	(265)	(328)
NLST		(294)	(276)	(851)	(739)
Zakat		(125)	(111)	(348)	(324)
Net profit and other comprehensive income for the period		<u>8,773</u>	<u>9,661</u>	<u>28,277</u>	<u>29,047</u>
Basic and diluted earnings per share (fils)	10	<u>18</u>	<u>19</u>	<u>57</u>	<u>58</u>

The accompanying notes on pages 6 to 9 form an integral part of this interim condensed financial information.

Interim Condensed Statement of Changes in Equity (Unaudited)
For the period from 1 January 2017 to 30 September 2017

	KD'000				Total
	Share capital	Statutory reserve	Voluntary reserve	Retained earnings	
Balance at 1 January 2016	49,940	4,522	4,521	33,922	92,905
Net profit and other comprehensive income for the period	-	-	-	29,047	29,047
Balance at 30 September 2016	49,940	4,522	4,521	62,969	121,952
Balance at 1 January 2017	49,940	8,712	8,711	65,350	132,713
Net profit and other comprehensive income for the period	-	-	-	28,277	28,277
Adjustments	(3)	-	-	-	(3)
Cash dividends (Note 5)	-	-	-	(4,994)	(4,994)
Balance at 30 September 2017	49,937	8,712	8,711	88,633	155,993

The accompanying notes on pages 6 to 9 form an integral part of this interim condensed financial information.

Interim Condensed Statement of Cash Flows (Unaudited)
For the period from 1 January 2017 to 30 September 2017

	KD'000	
	Nine months ended	
	30 September	
Note	2017	2016
Cash flows from operating activities		
Profit before contribution to KFAS, NLST and Zakat	29,741	30,438
Adjustments for:		
Depreciation and amortization	64,010	67,835
Finance cost	698	1,255
Provision for doubtful debts	6,062	6,732
Provision for employees end of service benefits	462	399
Provision/(write back)for slow moving inventories	341	(36)
Operating profit before working capital change	101,314	106,623
(Increase)/decrease in inventories	(6,944)	2,651
(Increase)/decrease in prepayments and other assets	(624)	405
Increase in trade and other receivables	(16,015)	(10,236)
Increase/(decrease) in trade and other payables	17,773	(9,247)
Cash from operating activities	95,504	90,196
Payments towards employees' end of service benefits	(72)	(430)
Net cash from operating activities	95,432	89,766
Cash flows from investing activities		
Acquisition of property and equipment	3 (19,683)	(26,992)
Acquisition of intangible assets	4 (46,544)	(47,118)
Net movement in Islamic Murabaha with original maturity period exceeding three months	-	6,070
Net cash used in investing activities	(66,227)	(68,040)
Cash flows from financing activities		
Payments of dividends	(4,137)	-
Repayments of Islamic financing facilities (Net)	(17,718)	(15,504)
Finance costs	(751)	(1,255)
Net cash used in financing activities	(22,606)	(16,759)
Net change in cash and cash equivalents	6,599	4,967
Cash and cash equivalents at the beginning of the period	47,203	45,740
Cash and cash equivalents at the end of the period	53,802	50,707

The accompanying notes on pages 6 to 9 form an integral part of this interim condensed financial information.

Notes to the Interim Condensed Financial Information (Unaudited)
For the period from 1 January 2017 to 30 September 2017

1. Reporting entity

Kuwait Telecommunications Company K.S.C.P. (the "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 Company is primarily engaged in providing cellular mobile telecommunication and data services in Kuwait. The 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 objectives for which the Company is incorporated are the provision of all cellular mobile telecommunication and calling system services in Kuwait in accordance with the provisions of Islamic Sharia and as per the criteria set by Ministry of Communications.

The Company shares are listed on the Boursa Kuwait. It is a subsidiary of Saudi Telecommunications Company ("STC" or "the Parent Company"), which is listed on the Saudi Stock Exchange.

The 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 Annual General Assembly meeting of the shareholders held on 29 March 2017, approved the audited financial statements of the Company as at and for the year ended 31 December 2016.

This interim condensed financial information was authorized for issue by the Board of Directors of the Company on 1 November 2017.

2. Basis of preparation

The interim condensed financial information has been prepared in accordance with International Accounting Standard 34: Interim Financial Reporting. The accounting policies used in the preparation of this interim financial information are consistent with those used in the most recent annual audited financial statements for the year ended 31 December 2016, except for the adoption of the amendments and annual improvements to IFRSs, relevant to the Company, which are effective for annual reporting period starting from 1 January 2017 and did not result in any material impact on the accounting policies, financial position or performance of the Company.

Operating results for the nine-month period ended 30 September 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2017. For further information, refer to the audited financial statements and notes thereto for the year ended 31 December 2016.

The interim condensed financial information does not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2016.

Preparing the interim condensed financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim condensed financial information, significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were principally the same as those that applied to the audited financial statements as at and for the year ended 31 December 2016.

Notes to the Interim Condensed Financial Information (Unaudited)
For the period from 1 January 2017 to 30 September 2017

3. Property and equipment

During the nine-month period ended 30 September 2017, the Company acquired property and equipment with a cost of KD 19,683 thousand (30 September 2016: KD 26,992 thousand) and depreciation charge for the period is KD 17,729 thousand (30 September 2016: KD 20,700 thousand).

4. Intangible assets

Intangible assets mainly include subscriber acquisition costs incurred for acquiring the customers. Subscriber acquisition costs are considered integral to the rendering of telecom services and are amortized over the commitment period of the customer contract. During the nine-month period ended 30 September 2017, the Company incurred additional subscriber acquisition costs amounting to KD 46,506 thousand (30 September 2016: KD 46,677 thousand) and the amortization charge for the period is KD 46,188 thousand (30 September 2016: KD 46,662 thousand).

5. Share capital and reserves

The Annual General Assembly meeting of the shareholders held on 29 March 2017 approved distribution of cash dividends of 10 fils per share (31 December 2015 – nil) amounting to KD 4,994 thousand (31 December 2015 – nil) to be paid to the registered shareholders as of the date of the annual general meeting.

6. Islamic financing facilities

In 2011, the Company secured facilities amounting to KD 51,000 thousand through Islamic financing arrangements repayable over 1-5 years. As at 30 September 2017, KD 9,995 thousand (31 December 2016: KD 14,995 thousand and 30 September 2016: KD 19,995 thousand) is outstanding against these facilities.

In 2013, the Company signed Islamic financing arrangement amounting to KD 76,000 thousand (approximately USD 258,000 thousand) repayable over 3 years starting from September 2015 in equal quarterly installments. As at 30 September 2017, KD 16,295 thousand (31 December 2016: KD 32,785 thousand and 30 September 2016: KD 37,975 thousand) is outstanding against these facilities. The amount disclosed on the face of the condensed statement of financial position is net of finance cost, processing fees paid in advance and foreign currency translation differences.

During the period, the Company has obtained a temporary overdraft facility and KD 3,426 thousand is outstanding as at 30 September 2017.

7. 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 Company, its directors, key management personnel and entities over which they exercise significant influence.

The Company enters in to transactions with the Parent Company. The balance as at the reporting date is disclosed in note 8.

Significant transactions with the Parent Company included in the condensed statement of profit or loss and comprehensive income are as follows:

KD'000	
<u>Three-months ended</u>	<u>Nine-months ended</u>

Notes to the Interim Condensed Financial Information (Unaudited)
For the period from 1 January 2017 to 30 September 2017

	30 September (Unaudited)		30 September (Unaudited)	
	2017	2016	2017	2016
Transactions				
Management fees	2,491	2,473	7,148	7,368
Other operating expenses	65	91	208	349

8. Trade and other payables

	KD'000		
	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Trade payables and other payables	22,744	14,328	17,200
Accruals and provisions	68,269	61,207	61,405
Due to related parties	13,413	8,847	8,546
	<u>104,426</u>	<u>84,382</u>	<u>87,151</u>

Included within accruals and provisions are capital expenditure accruals amounting to KD 19,925 thousand (31 December 2016: KD 23,034 thousand and 30 September 2016: KD 23,312 thousand) representing capital expenditure incurred by the Company, but not yet invoiced by the suppliers.

Due to related parties include the bandwidth arrangement charges amounting KD 2,652 thousand (31 December 2016: KD 2,828 thousand and 30 September 2016: KD 1,883 thousand)

9. Commitments and contingencies

	KD'000		
	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Commitments			
Capital commitments	27,037	16,981	19,024
Contingent liabilities			
Letters of guarantee	5,720	6,217	5,631

Letters of guarantee are those which are issued by the banks on behalf of the Company.

Contingent asset

In April 2017, Kuwait's Cassation Court invalidated a portion of the regulatory tariff levied on Kuwaiti mobile telecommunication companies since 26 July 2011 by Kuwait's Ministry of Communications. Accordingly, the Company has a contingent asset in the form of a claim for the recovery of the excess amount paid from change in regulation date till date. The Company has received the final Cassation Court's judgement and is currently estimating the recoverable amount, which could possibly be material, and is subject to approval of the judicial authorities.

Operating lease commitments as a lessee

Notes to the Interim Condensed Financial Information (Unaudited)
For the period from 1 January 2017 to 30 September 2017

The Company enters into non-cancellable operating lease agreements in the normal course of business, which are principally in respect of property and equipment.

The future minimum operating lease commitments under these non-cancellable operating leases are as follows:

	KD'000		
	30 September 2017 (Unaudited)	31 December 2016 (Audited)	30 September 2016 (Unaudited)
Less than one year	4,964	4,327	5,045
Between one and five years	7	40	45
	<u>4,971</u>	<u>4,367</u>	<u>5,090</u>

10. Basic and diluted earnings per share

	KD'000			
	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2017	2016	2017	2016
Net profit for the period (KD'000)	8,773	9,661	28,277	29,047
Weighted average number of shares	499,366,852	499,400,000	499,366,852	499,400,000
Basic and diluted earnings per share (fils)	18	19	57	58

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

11. Operating segments

The Company 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 Company. Accordingly, the Company has only one reportable segment and information relating to the reporting segment is set out in the condensed statements of financial position and profit or loss and other comprehensive income.

12. Fair values of financial instruments

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, 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. Fair value of such financial instruments are classified under level 3 determined based on discounted cash flow basis, with most significant inputs being the discount rate that reflects the credit risk of counterparties.