

Kuwait Telecommunications Company K.S.C.P.



INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2019

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Kuwait Telecommunications Company K.S.C.P. (the “Company”) as at 31 March 2019, and the related interim condensed statement of comprehensive income, interim condensed statement of changes in equity and interim condensed statement of cash flows for the three months period then ended. The management of the Company is responsible for the preparation and presentation of this interim condensed 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 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 financial information is in agreement with the books of account of the 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 Company’s Articles of Association and Memorandum of Incorporation, during the three months period ended 31 March 2019 that might have had a material effect on the business of the Company or on its financial position.



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


29 April 2019
Kuwait

Kuwait Telecommunications Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)

As at 31 March 2019

	<i>Notes</i>	<i>31 March 2019 KD'000</i>	<i>(Audited) 31 December 2018 KD'000</i>	<i>31 March 2018 KD'000</i>
ASSETS				
Non-current assets				
Property and equipment		161,152	150,544	139,838
Current assets				
Inventories		9,189	6,863	7,102
Prepayments and other current assets		1,865	3,955	4,061
Trade and other receivables		36,417	35,756	30,057
Contract assets		40,284	42,527	53,170
Cash and cash equivalents		82,891	65,710	40,802
		170,646	154,811	135,192
TOTAL ASSETS		331,798	305,355	275,030
EQUITY AND LIABILITIES				
Equity				
Share capital		49,937	49,937	49,937
Statutory reserve		18,244	18,244	12,944
Voluntary reserve		18,243	18,243	12,943
Other reserves		(315)	(315)	-
Retained earnings	6	95,531	105,872	77,623
Total equity		181,640	191,981	153,447
Non-current liability				
Employees' end of service benefits		5,312	5,286	4,384
Trade and other payables		5,529	-	-
		10,841	5,286	4,384
Current liabilities				
Islamic financing facilities		-	-	4,482
Trade and other payables	5	139,317	108,088	112,717
		139,317	108,088	117,199
Total liabilities		150,158	113,374	121,583
TOTAL EQUITY AND LIABILITIES		331,798	305,355	275,030


Dr. Mahmoud Ahmad Abdulrahman
Chairman


شركة الاتصالات الكويتية

The attached notes 1 to 11 form part of this interim condensed financial information.

Kuwait Telecommunications Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

For the period ended 31 March 2019

	Notes	Three months ended	
		31 March	
		2019 KD'000	2018 KD'000
Revenue	4	66,611	77,576
Operating expenses		(32,822)	(41,724)
Staff costs		(5,639)	(5,743)
Expected credit losses on trade and other receivables and contract assets		(3,787)	(4,694)
Depreciation and amortization		(9,064)	(6,116)
General and administrative expenses		(5,604)	(9,644)
Finance costs		(83)	(82)
Other income		590	2,584
PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOR SUPPORT TAX ("NLST") AND ZAKAT AND BOARD OF DIRECTORS' (BOD) REMUNERATION		10,202	12,157
KFAS		(85)	(101)
NLST		(318)	(319)
Zakat		(127)	(127)
BOD remuneration		(38)	(38)
NET PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD		9,634	11,572
BASIC AND DILUTED EARNINGS PER SHARE (FILS)	8	19	23

The attached notes 1 to 11 form part of this interim condensed financial information.

Kuwait Telecommunications Company K.S.C.P.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

For the period ended 31 March 2019

	<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 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
Balance at 1 January 2018 (restated)	49,937	12,944	12,943	-	81,032	156,856
Net profit for the period	-	-	-	-	11,572	11,572
Total comprehensive income for the period	-	-	-	-	11,572	11,572
Cash dividends (Note 6)	-	-	-	-	(14,981)	(14,981)
Balance at 31 March 2018	49,937	12,944	12,943	-	77,623	153,447

The attached notes 1 to 11 form part of this interim condensed financial information.

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

For the period ended 31 March 2019

	<i>Three months ended 31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>
OPERATING ACTIVITIES		
Profit before contribution to KFAS, NLST, Zakat and BOD remuneration	10,202	12,157
Non-cash adjustments to reconcile profit for the period to net cash flows:		
Depreciation and amortization	9,064	6,116
Finance costs	83	82
Expected credit loss - trade and other receivables	1,300	320
(Reversal of) expected credit loss - contract assets	(180)	686
Reversal of contract assets	2,667	3,688
Provision for employees' end of service benefits	304	883
Provision for slow moving inventories	15	(302)
Operating profit before working capital changes:	23,455	23,630
Inventories	(2,341)	6,088
Prepayments and other assets	(444)	592
Trade and other receivables	(1,961)	837
Contract assets	(244)	(10,308)
Trade and other payables	7,042	(6,554)
Cash flows from operating activities	25,507	14,285
End of service benefits paid	(278)	(129)
Net cash flows from operating activities	25,229	14,156
INVESTING ACTIVITIES		
Additions to property and equipment	(5,792)	(945)
Net cash flows used in investing activities	(5,792)	(945)
FINANCING ACTIVITIES		
Cash dividends paid	(122)	(24)
Payment of lease obligations	(2,134)	-
Repayments of Islamic financing facilities	-	(4,554)
Finance costs paid	-	(36)
Net cash flows used in financing activities	(2,256)	(4,614)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,181	8,597
Cash and cash equivalents at the beginning of the period	65,710	32,205
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	82,891	40,802
NON-CASH ITEMS		
Transitional adjustment to prepayments and other assets on adoption of IFRS 16 (Adjusted with prepayments and other assets)	2,534	-
Transitional adjustment to trade and other payables on adoption of IFRS 16 (Adjusted with trade and other payables)	11,346	-
Transitional adjustment to property and equipment on adoption of IFRS 16 (Adjusted with additions to property and equipment)	(13,880)	-
TOTAL NON-CASH ITEMS	-	-

The attached notes 1 to 11 form part of this interim condensed financial information.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)

As at and for the period ended 31 March 2019

1 CORPORATION INFORMATION

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 was incorporated are the provision of all cellular mobile telecommunication and calling system services in Kuwait in accordance with the provisions of Islamic Sharia’a and as per the criteria set by Ministry of Communications.

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

This interim condensed financial information was authorized for issue by the Board of Directors of the Company 29 April 2019.

2 BASIS OF PREPARATION

The interim condensed financial information of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 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 2018, except for the changes of the accounting policies as mentioned in Note 3 below on account of adoption of IFRS 16 ‘Leases’.

The Company 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 2019 did not have any material impact on the accounting policies, financial position or performance of the Company.

Operating results for the three months period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the year ending 31 December 2019. 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 financial statements and notes thereto for the year ended 31 December 2018.

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 for the year ended 31 December 2018.

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

As at and for the period ended 31 March 2019

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The Company has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Company, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Company 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 Company recognises a right-of-use asset and a lease liability at the lease commencement date. 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. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the retained earnings as at 1 January 2019. The Company presents right-of-use assets in 'property and equipment' and lease liabilities in 'trade and other payables' in the interim condensed financial information.

The impact on the statement of financial position (increase/ (decrease)) as at 1 January 2019:

	<i>KD 000's</i>
Assets	
Property and equipment	13,880
Prepayments and other current assets	(2,534)
Total assets	11,346
Liabilities	
Trade and other payables	11,346
Total liabilities	11,346

The Company has discounted its future lease obligations using its incremental borrowing rate which is determined at 3.5% at the reporting date.

	<i>Three months ended 31 March 2019 KD 000's</i>
Depreciation expense of right-of-use assets	2,046
Finance cost on lease liabilities	87
Rent expense – Short term leases	19
Total amounts recognised in interim condensed statement of income	2,152

As a result of adoption of IFRS 16, the general and administrative expenses are lower, and depreciation and amortization expenses are higher to the extent of KD 2,046 thousand.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)

As at and for the period ended 31 March 2019

4 REVENUE

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

	<i>Three months ended 31 March</i>	
	<i>2019 KD'000</i>	<i>2018 KD'000</i>
Sources of revenue		
Sale of goods	11,902	22,824
Rendering of services	54,709	54,752
	66,611	77,576
Timing of revenue recognition		
Products transferred at a point in time	11,902	22,824
Products and services transferred over time	54,709	54,752
	66,611	77,576

5 RELATED PARTY BALANCES AND TRANSACTIONS

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

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

	<i>Three months ended 31 March</i>	
	<i>2019 KD'000</i>	<i>2018 KD'000</i>
Transactions		
Management fees	2,331	2,712
Other operating expenses	30	1

Balances with related parties amounting to KD 22,550 thousand as at 31 March 2019 (31 December 2018: KD 21,563 thousand and 31 March 2018: KD 18,387 thousand) are included in trade and other payables in the interim condensed statement of financial position. Balance with related parties are do not carry any profit and are repayable on demand.

6 ANNUAL GENERAL ASSEMBLY

The Annual General Assembly meeting of the shareholders held on 27 March 2019 approved distribution of cash dividends of 40 fils per share (31 December 2017: 30 fils per share) amounting to KD 19,975 thousand (31 December 2017: KD 14,981 thousand). The cash dividend payable has been included in 'trade and other payables' in the interim condensed financial information.

NOTES TO THE INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED)

As at and for the period ended 31 March 2019

7 COMMITMENTS AND CONTINGENCIES

	<i>31 March</i> <i>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>31 March</i> <i>2018</i> <i>KD'000</i>
Capital commitments	21,226	22,761	18,123
Contingent liabilities			
Letters of guarantee	5,848	6,074	5,735

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

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:

	<i>31 March</i> <i>2019</i> <i>KD'000</i>	<i>(Audited)</i> <i>31 December</i> <i>2018</i> <i>KD'000</i>	<i>31 March</i> <i>2018</i> <i>KD'000</i>
Less than one year	-	3,640	4,477
Between one and five years	-	1,523	5
	-	5,163	4,482

8 BASIC AND DILUTED EARNINGS PER SHARE

	<i>Three months ended</i> <i>31 March</i>	
	<i>2019</i>	<i>2018</i>
	<i>KD'000</i>	<i>KD'000</i>
Net profit for the period (KD'000)	9,634	11,572
Weighted average outstanding number of shares	499,366,852	499,366,582
Basic and diluted earnings per share (fils)	19	23

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.

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

As at and for the period ended 31 March 2019

9 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 interim condensed statement of financial position and the interim condensed statement of comprehensive income.

10 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. 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.

11 SUBSEQUENT EVENTS

Subsequent to the period end, the company has signed a definitive sale purchase agreement (SPA) on 9 April 2019 to acquire 100% equity interest in Qualitynet General Trading and Contracting Company W.L.L., a company domiciled in Kuwait. The purchase is subject to conditions precedent agreed between the parties in accordance with the SPA.