

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
Condensed Interim Financial Statements (Un-audited)
For the three months period ended 30 June 2017
together with the
Independent Auditors' Review Report



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To: **The Shareholders'**
Etihad Atheeb Communication Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Introduction

We have reviewed the accompanying 30 June 2017 condensed interim financial statements of *Etihad Atheeb Telecommunication Company* ("the Company"), which comprises:

- the condensed interim statement of financial position as at 30 June 2017;
- the condensed interim statement of comprehensive income for the three-month period ended 30 June 2017;
- the condensed interim statement of changes in equity for the three-month period ended 30 June 2017;
- the condensed interim statement of cash flows for the three-month period ended 30 June 2017; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements 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' that is endorsed in the Kingdom of Saudi Arabia. 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 that are endorsed in the Kingdom of Saudi Arabia, 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 30 June 2017 condensed interim financial statements of Etihad Atheeb Telecommunication Company ("the Company") are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.



We draw attention to Note 2(b) to the accompanying interim financial statements; as at 30 June 2017, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 40.31% of the Company's share capital. We have considered the adequacy of the disclosure made in note 2(b) to the financial statements concerning the Company's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the company's ability to continue as a going concern.

**For KPMG Al Foxan & Partners
Certified Public Accountants**

Khail Ibrahim Al Sedais
License No: 371

Date: 21 Dhul-Qad'ah 1438H
Corresponding to: 13 August 2017

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2017
(Saudi Arabian Riyals)

		<u>Un-audited</u>	<u>Audited</u>	<u>Audited</u>
	<u>Note</u>	<u>30 June 2017</u>	<u>31 March 2017</u>	<u>1 April 2016</u>
ASSETS				
Non-current assets				
Property and equipment	5	279,177,095	331,679,523	372,531,433
Intangibles	6	823,151,415	798,151,667	843,806,750
Total non-current assets		<u>1,102,328,510</u>	<u>1,129,831,190</u>	<u>1,216,338,183</u>
Current assets				
Inventories		8,135,537	8,329,081	5,406,579
Trade receivables	7	140,147,756	123,573,039	78,393,100
Prepayments and other current assets		170,886,613	109,524,838	116,554,011
Cash and cash equivalents	8	46,856,032	102,693,540	137,727,270
Total current assets		<u>366,025,938</u>	<u>344,120,498</u>	<u>338,080,960</u>
TOTAL ASSETS		<u>1,468,354,448</u>	<u>1,473,951,688</u>	<u>1,554,419,143</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	1	630,000,000	1,575,000,000	1,575,000,000
Accumulated losses		(253,979,612)	(1,254,403,543)	(1,129,085,213)
Total equity		<u>376,020,388</u>	<u>320,596,457</u>	<u>445,914,787</u>
Liabilities				
Non-current liabilities				
Tawaroq Islamic Financing	10	62,136,270	69,903,310	100,971,428
Long term accounts payable	11	155,035,930	279,449,394	370,914,268
Defined benefit obligation – employees' benefit		14,096,360	13,386,200	11,933,996
Provision for decommissioning cost	12	2,791,173	2,765,106	2,663,250
Total non-current liabilities		<u>234,059,733</u>	<u>365,504,010</u>	<u>486,482,942</u>
Current liabilities				
Tawaroq Islamic Financing – current portion	10	31,068,114	31,068,118	31,068,118
Accounts payable – short term		510,959,132	548,698,596	397,558,326
Accrued expenses and other current liabilities		180,040,878	152,973,989	153,073,961
Deferred income		133,507,245	52,411,560	37,622,051
Provision for Zakat and tax	18	2,698,958	2,698,958	2,698,958
Total current liabilities		<u>858,274,327</u>	<u>787,851,221</u>	<u>622,021,414</u>
Total liabilities		<u>1,092,334,060</u>	<u>1,153,355,231</u>	<u>1,108,504,356</u>
TOTAL EQUITY AND LIABILITIES		<u>1,468,354,448</u>	<u>1,473,951,688</u>	<u>1,554,419,143</u>

The accompanying notes (1) through (21) on pages (5) to (29) form an integral part of these condensed interim financial statements.

Emad Maali
Chief Executive Officer

Mahmoud Al Abdullah
Acting Chief Financial Officer

Saad Omar Albaiz
Member and Board Secretary

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (Un-audited)
For the three months period ended 30 June 2017
(Saudi Arabian Riyals)

		<u>For the three months period ended</u>	
<u>Note</u>	<u>30 June 2017</u>	<u>30 June 2016</u>	
Revenue, net	136,026,012	89,989,966	
Cost of services	(110,949,008)	(81,145,958)	
Gross profit	25,077,004	8,844,008	
Selling and marketing expenses	(20,258,447)	(17,739,467)	
Depreciation and amortization	(24,701,962)	(38,306,455)	5,6
General and administrative expenses	(31,371,101)	(14,988,353)	
Other income	112,271,569	7,342,851	13
Operating profit / (loss)	61,017,063	(54,847,416)	
Finance costs	(5,593,132)	(3,261,361)	
Net profit / (loss) for the period	55,423,931	(58,108,777)	
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Re-measurement gain on defined benefit obligation	—	—	
Total comprehensive income / (loss) for the period	55,423,931	(58,108,777)	
Earning / (loss) per share:			
Basic and diluted earning / (loss) per share	14 0.88	(0.92)	

The accompanying notes (1) through (21) on pages (5) to (29) form an integral part of these condensed interim financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (Un-audited)
For the three months period ended 30 June 2017
(Saudi Arabian Riyals)

	<u>Note</u>	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 01 April 2017		1,575,000,000	(1,254,403,543)	320,596,457
Reduction of share capital to absorb losses	1	(945,000,000)	945,000,000	--
Net profit for the period		--	55,423,931	55,423,931
Other comprehensive income		--	--	--
Total comprehensive income for the period		--	55,423,931	55,423,931
Balance at 30 June 2017		<u>630,000,000</u>	<u>(253,979,612)</u>	<u>376,020,388</u>

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 01 April 2016	1,575,000,000	(1,129,085,213)	445,914,787
Net loss for the period	--	(58,108,777)	(58,108,777)
Other comprehensive income	--	--	--
Total comprehensive loss for the period	--	(58,108,777)	(58,108,777)
Balance at 30 June 2016	<u>1,575,000,000</u>	<u>(1,187,193,990)</u>	<u>387,806,010</u>

The accompanying notes (1) through (21) on pages (5) to (29) form an integral part of these condensed interim financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
CONDENSED INTERIM STATEMENT OF CASH FLOWS (Un-audited)
For the three months period ended 30 June 2017
(Saudi Arabian Riyals)

		For the three months period ended	
	Note	30 June 2017	30 June 2016
Cash flows from operating activities			
Net profit / (loss) for the period		55,423,931	(58,108,777)
<i>Adjustments to reconcile net loss for the period to net cash used in operating activities</i>			
Depreciation and amortization	5,6	24,701,962	38,306,455
Gain on disposal of property and equipment	13	(97,921,898)	--
Amortization of deferred gain on disposal of property and equipment	13	(1,071,429)	(4,165,664)
Provision for doubtful receivables	7	1,500,786	183,035
Finance costs		5,593,132	3,261,361
Provision for employees' end of service benefits		653,805	712,427
		<u>(11,119,711)</u>	<u>(19,811,163)</u>
<i>Changes in working capital</i>			
Inventories		193,544	(2,651,004)
Trade receivables		(18,075,503)	(4,499,577)
Prepayments and other current assets		(61,361,775)	2,124,188
Accounts payable		63,813,905	19,453,167
Accrued expenses and other current liabilities		26,588,442	3,458,329
Deferred income		(7,832,886)	(2,431,281)
		<u>(7,793,984)</u>	<u>(4,357,341)</u>
Finance costs paid		(938,322)	(1,113,533)
Employees' end of service benefits paid		(60,774)	(942,959)
Net cash used in operating activities		<u>(8,793,080)</u>	<u>(6,413,833)</u>
Cash flows from investing activities			
Addition to property and equipment		(1,282,539)	(1,670,698)
Addition to intangibles		(37,994,845)	--
Proceeds from disposal of property and equipment		--	480
Net cash used in investing activities		<u>(39,277,384)</u>	<u>(1,670,218)</u>
Cash flows from financing activities			
Repayment of Tawaroq Islamic Financing		(7,767,044)	(7,767,034)
Net cash used in financing activities		<u>(7,767,044)</u>	<u>(7,767,034)</u>
Net decrease in cash and cash equivalents		<u>(55,837,508)</u>	<u>(15,851,085)</u>
Cash and cash equivalents at the beginning of the period		102,693,540	137,727,270
Cash and cash equivalents at the end of the period		<u>46,856,032</u>	<u>121,876,185</u>

The accompanying notes (1) through (21) on pages (5) to (29) form an integral part of these condensed interim financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

1. ORGANIZATION AND ACTIVITIES

General information

- a) Etihad Atheeb Telecommunication Company (the "Company"), is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration (No. 1010263273) issued in Riyadh on 30 Safar 1430H (corresponding to 25 February 2009). The registered address of the Company is P.O. Box 25039 Riyadh 11391 Kingdom of Saudi Arabia.

Pursuant to the Ministerial Resolution No.41 dated 18 Safar 1429H (25 February 2008) which was approved by the issuance of Royal Decree No. M/6 dated 19 Safar 1429H (26 February 2008), the Company was granted a fixed-line telecommunication license and the used-frequency spectrum to provide fixed telephone services in the Kingdom of Saudi Arabia for a period of 25 years (starting on 1 April 2009 and ending on 31 March 2034). On 30 Rabi'I 1438H (corresponding to 29 December 2016), the Communications and Information Technology Commission (CITC) has extended the life of the Company's license by 15 years (ending on 31 March 2049) (see note 6.1).

The objective of the Company is to provide various fixed line and wireless services such as voice, data services, broadband internet services, internet telephony services, international gateway, and fixed telephone lines to individuals, homes and businesses. The Company commenced commercial operations from 1 January 2010.

The Company's shareholders, in their extra ordinary general meeting held on 10 April 2017, have resolved to reduce the Company's share capital by SAR 945 million as proposed by the Board of Directors, in their meeting held on 12 February 2017. Accordingly, the Company's share capital has been reduced upon completion of the legal formalities during the current quarter. As at 30 June 2017, the authorized, issued and paid up share capital of the Company is SAR 630 million divided into 63 million shares of SAR 10 each. The founding shareholders of the Company have subscribed and paid for 28.5 million shares and the remaining 34.5 million shares have been subscribed by the general public.

- b) Further to the announcement published on Tadawul's website on 5 June 2014 related to the Indefeasible Rights of Use ("IRU") agreement with Saudi Telecom Company (STC) which was signed on 4 June 2014, STC granted the Company an IRU for 15 years for thirty thousand ports on its fiber optics network (i.e. Fiber To The Home ("FTTH")). The IRU agreement allows both parties to agree upon increasing the ports to reach hundred thousand ports. However, on 30 January 2017, the Company has signed an amendment to the IRU agreement whereby the payment for the ports on STC's fiber optic network has been deferred by an additional one year and accordingly the payment of liability will now commence from September 2017.

The payment for the IRU shall be financed through the Company's internal resources and the prospective resources arising from the sale of this service in addition to external finance if necessary; noting that this agreement is irrevocable by both parties. The ports are to be used to provide broadband internet and fixed telephone services for consumers and small business. The agreement will allow the Company to increase its competitive capability in the telecom sector through expanding and diversifying its services. Consequently, the Company's financial capabilities will be enhanced.

- c) The Company announced on 12 June 2014 that it has executed various marketing agreements with STC amounting to SAR 309 million through which the Company will market business sector services of STC to some of its existing and / or new customers specially to the small and medium sized enterprises for a period of 30 months starting from the date of the agreement. However, on 30 January 2017, the Company has signed an addendum to the agreement whereby STC has extended the marketing agreements with the Company for another term of 24 months and has increased the value the agreements by SAR 96 million.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

1) ORGANIZATION AND ACTIVITIES (CONTINUED)

- d) The Company announced on 8 June 2017, that it has received a notification from CITC dated 12 Ramadan 1438H (corresponding to 7 June 2017) stating that the Company has won frequency spectrum, in the 700 MHz and 1800 MHz bands, in the auction organized and supervised by CITC and will be eligible for these frequencies once regulatory requirements are met. The total consideration payable for these frequencies is SAR 2,065 million of which 30% is required to be paid by the end of 2017 and the remaining amount is payable in 10 equal quarterly installments commencing from 1 January 2018. This additional frequency spectrum will be available from the beginning of 2018 after the Company completes the procedures for granting frequency licenses.

2. BASIS OF PREPARATION

a) *Statement of compliance*

The accompanying condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia. Up to and including the year ended 31 March 2017, the Company prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

For financial periods commencing 1 January 2017, the applicable regulations require the Company to prepare and present financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRS"). As part of this requirement, the Company has prepared these condensed interim financial statements. In preparing these condensed interim financial statements, the Company's opening statement of financial position under IFRS has been prepared as at 1 April 2016, which is the Company's date of transition to IFRS to establish the opening financial position of the Company expected to be presented in the Company's first complete set of IFRS financial statements for the year ending 31 March 2018.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016 the Company needs to apply the cost model to measure the property, plant, equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

As these are the Company's first condensed interim financial statements prepared in accordance with IFRSs, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the previously reported financial position as at 1 April 2016, 30 June 2016 and 31 March 2017; and financial performance and cash flows of the Company for the three months period ended 30 June 2016, and year ended 31 March 2017 is provided in Note 4.

The principal accounting policies used by the management of the Company in preparation of these condensed interim financial statements are disclosed in note 3. These policies have been consistently applied to all periods presented, unless otherwise stated.

b) *Basis of measurement*

These condensed interim financial statements have been prepared on the historical cost basis of accounting except for the defined benefits obligation - employees' end of service benefits which are measured using actuarial techniques.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

2. BASIS OF PREPARATION (CONTINUED)

b) *Basis of measurement (continued)*

As at 30 June 2017, the Company's current liabilities exceeds its current assets by SAR 492 million (31 March 2017: SAR 444 million). Moreover, the Company has accumulated losses amounting to SAR 254 million as of 30 June 2017, which approximate 40.31% of the Company's share capital.

The Company's management believes that it would improve the Company's business on the basis of the agreements described in notes 1(b) and 1(c) and that it will be able to secure the necessary funding to meet its obligations as and when they become due. The Company has certain agreements with its key suppliers and accordingly manages its repayment terms. The Company's cash flow forecast is critically dependent upon the continued deferral and ongoing support of key suppliers. The management is confident that the support from key suppliers in the form of delayed payment terms will continue in to the foreseeable future. Accordingly, the Company's management believes that the going concern is the appropriate basis of preparation for these condensed interim financial statements.

c) *Functional and presentation currency*

These condensed interim financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional currency of the Company. All amounts have been rounded to the nearest SAR, unless otherwise indicated.

d) *Use of estimates and judgments*

The preparation of these condensed interim financial statements in conformity with IFRSs 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 these condensed interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statement is included in the following notes:

- | | |
|--|-----------|
| - Lease: whether an arrangement contains a lease | Note 3(i) |
| - Lease classification | Note 3(i) |

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are as follows:

- | | |
|--|--------------------|
| - Useful lives, residual values and impairment of property and equipment | Note 3(a) and 3(c) |
| - Provision for doubtful receivables | Note 3(d) |
| - Provision for obsolete and slow-moving inventory | Note 3(e) |
| - Defined benefit obligations – employees' benefit | Note 3(g) |
| - Provisions and contingencies | Notes 3(h) |

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these condensed interim financial statements are as follows:

a) *Property and equipment*

Items of property and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

Cost comprises the cost of equipment and materials, including freight and insurance, charges from contractors for installation and building works, direct labor costs, capitalized borrowing costs and an estimate of the costs of dismantling and removing the equipment and restoring the site on which it is located.

If significant parts of an item of property and equipment have different useful lives, then 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 is recognized in profit or loss.

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in profit or loss. The depreciation is charged from the date the asset is available for use until the date of its disposal or de-recognition. Leased assets, if any, are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives of property and equipment are as follows:

Leasehold improvements	lower of lease term or 10
Network infrastructure	4-15
Facilities, support and IT equipment	5

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

b) *Intangibles*

Intangibles acquired separately are measured on initial recognition at cost. Following initial recognition, intangibles are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is calculated to write off the cost of intangibles and is recognized in profit or loss. The amortization is charged from the date the intangible is available for use until the date of its disposal or de-recognition. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Intangibles (continued)*

The Company's intangibles comprise of the following:

Licenses

Acquired telecommunication licenses are initially recorded at cost. Licenses are amortized on a straight line basis over their estimate useful lives from when the related networks are available for use.

Indefeasible rights of use (IRU) – network capacity

IRUs represents the right to use a portion of the capacity of a transmission cable granted for a fixed period. IRUs are recognized at cost as an intangible when the Company has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers. They are amortized on a straight line basis over the life of the contract.

Computer software

Computer software licenses purchased from third parties are initially recorded at cost.

Useful lives

The estimated useful lives of the Company's intangibles are as follows:

License	40
Network capacity	7-15
Software	5-10

c) *Impairment of non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For 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 Cash Generating Unit (CGU).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) *Financial instruments*

(i) Non derivative financial assets

The Company initially recognizes loans and receivables on the date they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies loans and receivables as non-derivative financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade and certain other receivables.

(ii) Non-derivative financial liabilities

The Company initially recognizes all financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: bank borrowing representing Tawaroq Islamic Financing, accounts payables and accrued expenses and other current liabilities.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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.

(iv) Impairment of financial assets

The financial assets are assessed for indicators of impairment at each statement of financial position date. Non derivative financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) *Financial instruments (continued)*

The Company considers evidence of impairment for trade and other receivables at both a specific asset and collective level. All individually significant trade and other receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Trade and other receivables that are not individually significant are collectively assessed for impairment by grouping together trade and other receivables with similar risk characteristics.

The carrying amount of the financial asset is reduced for the loss resulting from the impairment immediately for all the financial assets except for the trade receivables which are reduced through the use of an allowance account. When the trade receivables are considered not to be recoverable, they are written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the profit or loss. Changes in the carrying amount of the allowance account are recognized in the profit or loss account.

e) *Inventories*

Inventories comprise of modems, pre-paid cards, scratch cards and other telecommunication equipment, which are measured at the lower of cost and net realizable value. Cost includes expenditure incurred in acquiring the inventories and other costs 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 costs of completion and the estimated costs necessary to make the sale. Provision is made, where necessary, for obsolete, slow moving and defective inventory items.

f) *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand, cash at banks in current accounts and other short-term liquid investments with original maturities of three months or less, if any, which are available to the Company without any restrictions.

g) *Defined benefit obligation - employees' benefit*

The Company operates an unfunded gratuity scheme for all of its employees in accordance with the requirements of Saudi Labor Law. The Company's obligation in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods on the basis of actuarial valuation.

Re-measurements, comprising of actuarial gains and losses, are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income, in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The Company recognizes the following changes in the defined benefits obligation in the profit and loss account:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Interest expense

On the date of transition, the calculation of defined benefits obligation has been performed by a qualified actuary using the projected unit credit method. Thereafter, actuarial valuation is performed annually.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Provisions

(i) Provision for decommissioning cost

The provision for decommissioning cost arises on construction of networking sites. A corresponding asset is recognized in property and equipment upon initial recognition of the provision. Dismantling costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the statement of comprehensive income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

(ii) General

A provision is recognized if, as a result of a past event, the Company 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost in the profit or loss account.

i) Leases

Determining whether an arrangement contain a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contain a lease, the Company separates payments and other consideration required by the arrangement into lease and those for other elements on the basis of their relative fair value.

Leased assets

Asset held by the Company under lease that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance lease.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Lease payments

Payments made under operating leases are recognized in profit and loss account on a straight line basis over the term of lease. Lease incentive received are recognized as an integral part of the total lease expense, over the term of lease.

j) Revenue recognition

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. Revenue is stated net of trade discounts. The Company recognize revenue for its different operations as follows:

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) *Revenue recognition (continued)*

Revenue is recognized when it is probable that the economic benefits will flow to the Company, revenue can be reliably measured, regardless of when the payment is being made, and when specific criteria is met for each of the Company's activities as described below.

Revenue from rendering of services

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the statement of financial position date or when services are completely performed.

The Company recognizes revenue from its telecom services as follows:

- Service revenue is recognized in the period in which the service is delivered.
- Airtime revenue is recognized on a usage basis. Deferred income related to unused airtime is recognized when utilized by the customer or on a time proportion basis over the validity period. Upon termination of the customer contract, all deferred income for unused airtime is recognized in the statement of income.
- Revenue from data services is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.
- Revenue from sale of WiMAX Customer Premises Equipment ("CPE") and Dongles (i.e. a broadband wireless adapter) are recognized when the WiMAX CPE and Dongles are delivered to subscribers and customers.
- Charges billed in advance are deferred and recognized over the contracted period of service.

k) *Expenses*

Selling and marketing expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of sales and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales, selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

l) *Foreign currency transactions*

Transactions denominated in foreign currencies are translated to the functional currency of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the functional currency of the Company at the exchange rate ruling at that date. Exchange differences arising on translations are recognized in the profit or loss account.

m) *Zakat and income tax*

The Company is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Income Tax (GAZT). The Company's zakat and income tax is charged to the profit or loss account. Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Additional Zakat and income tax liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) *Zakat and income tax (continued)*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The Company has not recognized any deferred tax asset or liability as the timing differences are not material.

n) *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

o) *Standards issued but not yet effective*

The Company has not early adopted the following new or amended standards in preparing these condensed interim financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The standard introduces a new revenue recognition model that recognizes revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments that replaces IAS 39: Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company has started assessment of the potential impact of the adoption of IFRS 9 on its consolidated financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Other amendments

The following new or amended standards are not expected to have a significant impact on the Company's financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).



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4. FIRST TIME ADOPTION OF IFRS

An explanation of the transition from SOCPA to IFRS is set out in the following table.

4.1 Reconciliation of equity as at 1 April 2016

	Balance as per SOCPA	Effect of transition to IFRSs	Balance as per IFRS
ASSETS			
Non-current assets			
Property and equipment (Note 4.6 and 4.7)	396,081,056	(23,549,623)	372,531,433
Intangibles (Note 4.6 and 4.8)	884,896,362	(41,089,612)	843,806,750
Total non-current assets	1,280,977,418	(64,639,235)	1,216,338,183
Current assets			
Inventories	5,406,579	--	5,406,579
Trade receivables	78,393,100	--	78,393,100
Prepayments and other current assets	116,554,011	--	116,554,011
Cash and cash equivalents	137,727,270	--	137,727,270
Total current assets	338,080,960	--	338,080,960
TOTAL ASSETS	1,619,058,378	(64,639,235)	1,554,419,143
EQUITY AND LIABILITIES			
EQUITY			
Share capital	1,575,000,000	--	1,575,000,000
Accumulated losses	(1,095,298,208)	(33,787,005)	(1,129,085,213)
TOTAL EQUITY	479,701,792	(33,787,005)	445,914,787
LIABILITIES			
Non-current liabilities			
Tawaroq Islamic Financing	100,971,428	--	100,971,428
Long term accounts payable (Note 4.8)	306,000,000	64,914,268	370,914,268
Defined benefits obligation – employees' benefit (Note 4.9)	9,214,189	2,719,807	11,933,996
Provision for decommissioning cost (Note 4.7)	--	2,663,250	2,663,250
Total non-current liabilities	416,185,617	70,297,325	486,482,942
Current liabilities			
Tawaroq Islamic Financing – current portion	31,068,118	--	31,068,118
Accounts payable – short term (Note 4.8)	499,558,326	(102,000,000)	397,558,326
Accrued expenses and other liabilities (Note 4.7 and 4.8)	152,223,516	850,445	153,073,961
Deferred income	37,622,051	--	37,622,051
Provision for Zakat and tax	2,698,958	--	2,698,958
Total current liabilities	723,170,969	(101,149,555)	622,021,414
TOTAL LIABILITIES	1,139,356,586	(30,852,230)	1,108,504,356
TOTAL EQUITY AND LIABILITIES	1,619,058,378	(64,639,235)	1,554,419,143

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4. FIRST TIME ADOPTION OF IFRS (CONTINUED)

4.2 Reconciliation of equity as at 31 March 2017

	Balance as per SOCPA	Effect of transition to IFRSs	Balance as per IFRS
<u>ASSETS</u>			
Non-current assets			
Property and equipment (Note 4.6 and 4.7)	329,317,041	2,362,482	331,679,523
Intangibles (Note 4.6 and 4.8)	836,625,048	(38,473,381)	798,151,667
Total non-current assets	1,165,942,089	(36,110,899)	1,129,831,190
Current assets			
Inventories	8,329,081	--	8,329,081
Trade receivables	123,573,039	--	123,573,039
Prepayments and other current assets	109,524,838	--	109,524,838
Cash and cash equivalents	102,693,540	--	102,693,540
Total current assets	344,120,498	--	344,120,498
TOTAL ASSETS	1,510,062,587	(36,110,899)	1,473,951,688
<u>EQUITY AND LIABILITIES</u>			
<u>EQUITY</u>			
Share capital	1,575,000,000	--	1,575,000,000
Accumulated losses	(1,233,920,013)	(20,483,530)	(1,254,403,543)
TOTAL EQUITY	341,079,987	(20,483,530)	320,596,457
<u>LIABILITIES</u>			
Non-current liabilities			
Tawaroq Islamic Financing	69,903,310	--	69,903,310
Long term accounts payable (Note 4.8)	306,000,000	(26,550,606)	279,449,394
Defined benefits obligation – employees' benefit (Note 4.9)	9,860,070	3,526,130	13,386,200
Provision for decommissioning cost (Note 4.7)	--	2,765,106	2,765,106
Total non-current liabilities	385,763,380	(20,259,370)	365,504,010
Current liabilities			
Tawaroq Islamic Financing – current portion	31,068,118	--	31,068,118
Accounts payable – short term (Note 4.8)	548,698,596	--	548,698,596
Accrued expenses and other liabilities (Note 4.7 and 4.8))	148,341,988	4,632,001	152,973,989
Deferred income	52,411,560	--	52,411,560
Provision for Zakat and tax	2,698,958	--	2,698,958
Total current liabilities	783,219,220	4,632,001	787,851,221
TOTAL LIABILITIES	1,168,982,600	(15,627,369)	1,153,355,231
TOTAL EQUITY AND LIABILITIES	1,510,062,587	(36,110,899)	1,473,951,688

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4. FIRST TIME ADOPTION OF IFRS (CONTINUED)

4.3 Reconciliation of equity as at 30 June 2016

	Balance as per SOCPA	Effect of transition to IFRSs	Balance as per IFRS
ASSETS			
Non-current assets			
Property and equipment (Note 4.6 and 4.7)	361,736,323	(14,887,189)	346,849,134
Intangibles (Note 4.6 and 4.8)	873,353,010	(40,500,198)	832,852,812
Total non-current assets	1,235,089,333	(55,387,387)	1,179,701,946
Current assets			
Inventories	8,057,583	--	8,057,583
Trade receivables	82,709,642	--	82,709,642
Prepayments and other current assets	114,429,823	--	114,429,823
Cash and cash equivalents	121,876,185	--	121,876,185
Total current assets	327,073,233	--	327,073,233
TOTAL ASSETS	1,562,162,566	(55,387,387)	1,506,775,179
EQUITY AND LIABILITIES			
EQUITY			
Share capital	1,575,000,000	--	1,575,000,000
Accumulated losses	(1,160,661,775)	(26,532,215)	(1,187,193,990)
TOTAL EQUITY	414,338,225	(26,532,215)	387,806,010
LIABILITIES			
Non-current liabilities			
Tawaroq Islamic Financing	93,204,394	--	93,204,394
Long term accounts payable (Note 4.8)	272,000,000	66,249,627	338,249,627
Defined benefits obligation – employees' benefit (Note 4.9)	8,876,482	2,826,982	11,703,464
Provision for decommissioning cost (Note 4.7)	--	2,688,357	2,688,357
Total non-current liabilities	374,080,876	71,764,966	445,845,842
Current liabilities			
Tawaroq Islamic Financing – current portion	31,068,118	--	31,068,118
Accounts payable – short term (Note 4.8)	553,011,493	(102,000,000)	451,011,493
Accrued expenses and other liabilities (Note 4.7 and 4.8)	155,939,790	1,379,862	157,319,652
Deferred income	31,025,106	--	31,025,106
Provision for Zakat and tax	2,698,958	--	2,698,958
Total current liabilities	773,743,465	(100,620,138)	673,123,327
TOTAL LIABILITIES	1,147,824,341	(28,855,172)	1,118,969,169
TOTAL EQUITY AND LIABILITIES	1,562,162,566	(55,387,387)	1,506,775,179

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4. FIRST TIME ADOPTION OF IFRS (CONTINUED)

4.4 Reconciliation of comprehensive income for the year ended 31 March 2017

	Balance as per SOCPA	Effect of transition to IFRSs	Balance as per IFRS
Revenue, net	421,745,872	--	421,745,872
Cost of services (Note 4.8)	(339,341,470)	(3,781,556)	(343,123,026)
Gross profit	<u>82,404,402</u>	<u>(3,781,556)</u>	<u>78,622,846</u>
Selling and marketing expenses	(76,275,257)	--	(76,275,257)
Depreciation and amortization (Note 4.6, 4.7 and 4.8)	(170,325,058)	28,528,336	(141,796,722)
General and administrative expenses (Note 4.9)	(82,518,487)	(757,558)	(83,276,045)
Other income	114,598,316	--	114,598,316
Operating loss	<u>(132,116,084)</u>	<u>23,989,222</u>	<u>(108,126,862)</u>
Finance cost (Note 4.7 and 4.8)	(6,505,721)	(10,636,982)	(17,142,703)
Net loss for the year	<u>(138,621,805)</u>	<u>13,352,240</u>	<u>(125,269,565)</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Re-measurement gain on defined benefit obligation (Note 4.9)	--	(48,765)	(48,765)
Total comprehensive loss for the year	<u>(138,621,805)</u>	<u>13,303,475</u>	<u>(125,318,330)</u>

4.5 Reconciliation of comprehensive income for the period ended 30 June 2016

	Balance as per SOCPA	Effect of transition to IFRSs	Balance as per IFRS
Revenue, net	89,989,966	--	89,989,966
Cost of services (Note 4.8)	(80,616,541)	(529,417)	(81,145,958)
Gross profit	<u>9,373,425</u>	<u>(529,417)</u>	<u>8,844,008</u>
Selling and marketing expenses	(17,739,467)	--	(17,739,467)
Depreciation and amortization (Note 4.6, 4.7 and 4.8)	(47,558,303)	9,251,848	(38,306,455)
General and administrative expenses (Note 4.9)	(14,881,178)	(107,175)	(14,988,353)
Other income	7,342,851	--	7,342,851
Operating loss	<u>(63,462,672)</u>	<u>8,615,256</u>	<u>(54,847,416)</u>
Finance cost (Note 4.7 and 4.8)	(1,900,895)	(1,360,466)	(3,261,361)
Net loss for the period	<u>(65,363,567)</u>	<u>7,254,790</u>	<u>(58,108,777)</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Re-measurement gain on defined benefit obligation (Note 4.9)	--	--	--
Total comprehensive loss for the period	<u>(65,363,567)</u>	<u>7,254,790</u>	<u>(58,108,777)</u>

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4. FIRST TIME ADOPTION OF IFRS (CONTINUED)

4.6 Pre-operating expenses

Under SOCPA, pre-operating expenses were capitalized as part of property and equipment and intangible assets and were being amortized over a period of 7 years. However, under IFRS, such expenses cannot be capitalized. Accordingly, the carrying value of pre-operating expenses included in property and equipment and intangible assets, as on 1 April 2016, does not meet the definition of an asset under IFRS and has been written off on the date of transition. Accordingly, the depreciation and amortization charged on these pre-operating expenses during the year ended 31 March 2017 has also been reversed.

The impact arising from the change is summarized as follows:

	1 April 2016	30 June 2016	31 March 2017
Statement of comprehensive income			
Depreciation and amortization	--	(9,010,008)	(27,030,016)
Adjustment to comprehensive loss	<u>--</u>	<u>(9,010,008)</u>	<u>(27,030,016)</u>
Statement of financial position			
Property and equipment	(26,212,873)	8,737,626	26,212,873
Intangibles	(817,143)	272,382	817,143
Adjustment to accumulated losses	<u>(27,030,016)</u>	<u>9,010,008</u>	<u>27,030,016</u>

4.7 Provision for decommissioning liability

Under SOCPA, a provision for decommissioning liability was not required. Under IFRS, the cost of property and equipment should also include an initial estimate of the costs required to settle the obligation, when an entity is obliged to dismantle and remove the related equipment and restore the site to its original condition. As on 1 April 2016, the management's best estimate of the decommission liability amounts to SAR 3.7 million and the present value amounts to SAR 2.7 million at a discount rate of 3.759%, which is the pre-tax risk free rate of return. The present value of the said liability is accounted for as a non-current liability.

The impact arising from the change is summarized as follows:

	1 April 2016	30 June 2016	31 March 2017
Statement of comprehensive income			
Depreciation and amortization	--	75,192	300,768
Finance cost – unwinding of discount	--	25,107	101,856
Adjustment to comprehensive loss	<u>--</u>	<u>100,299</u>	<u>402,624</u>
Statement of financial position			
Property and equipment	2,663,250	(75,192)	(300,768)
Other	510,915	--	--
Provision for decommissioning cost	(2,663,250)	(25,107)	(101,856)
Adjustment to accumulated losses	<u>510,915</u>	<u>(100,299)</u>	<u>(402,624)</u>

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4. FIRST TIME ADOPTION OF IFRS (CONTINUED)

4.8 FTTH IRU and related long term liability

Under SOCPA, the long term liability for the FTTH IRU was recorded at its contract value. Under IFRS, long term financial liabilities are required to be recorded at their fair value. Accordingly, the Company has re-measured the value of the intangible and the long term liability at the fair value of the liability on the date of purchase using the market borrowing rate.

The impact arising from the change is summarized as follows:

	1 April 2016	30 June 2016	31 March 2017
Statement of comprehensive income			
Cost of services	--	529,417	3,781,556
Depreciation and amortization	--	(317,032)	(1,799,088)
Finance cost – unwinding of discount	--	1,335,359	10,535,126
Adjustment to comprehensive loss	--	1,547,744	12,517,594
Statement of financial position			
Intangibles	(40,272,469)	317,032	1,799,088
Accounts payable	(64,914,268)	(1,335,359)	91,464,874
Accounts payable – short term	102,000,000	--	(102,000,000)
Other	(1,361,360)	(529,417)	(3,781,556)
Adjustment to accumulated losses	(4,548,097)	(1,547,744)	(12,517,594)

4.9 Defined benefits obligation – employees' benefit

Under SCOPA, the Company recognized the obligation in respect of employees' post-employment benefits on an accrual basis. Under IFRS, the obligation is determined using the projected unit credit method using actuarial valuations techniques.

The impact arising from the change is summarized as follows:

	1 April 2016	30 June 2016	31 March 2017
Statement of comprehensive income			
General and administrative expenses	--	107,175	757,558
Re-measurement gain on defined benefit obligation	--	--	48,765
Adjustment to comprehensive loss	--	107,175	806,323
Statement of financial position			
Defined benefits obligation – employees' benefit	(2,719,807)	(107,175)	(806,323)
Adjustment to accumulated losses	(2,719,807)	(107,175)	(806,323)

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5. PROPERTY AND EQUIPMENT

Cost:	Leasehold improvements	Network infrastructure	Decommissioning Cost	Facilities, support & IT equipment	Capital work in progress	Total
Balance at 1 April 2016	3,670,619	1,107,166,091	2,663,250	31,747,208	470,500	1,145,717,668
Additions during the year	--	41,996,175	--	939,468	11,907,058	54,842,701
Disposals during the year	--	--	--	(65,050)	--	(65,050)
Transfers during the year	--	470,500	--	--	(470,500)	--
Balance at 30 March 2017	3,670,619	1,149,632,766	2,663,250	32,621,626	11,907,058	1,200,495,319
Additions during the period	--	1,154,789	--	127,750	--	1,282,539
Disposals during the period	--	(104,142,944)	--	--	--	(104,142,944)
Transfers during the period	--	1,630,649	--	--	(1,630,649)	--
Balance at 30 June 2017	3,670,619	1,048,275,260	2,663,250	32,749,376	10,276,409	1,097,634,914
Accumulated depreciation:						
Balance at 1 April 2016	3,293,304	744,090,055	--	25,802,876	--	773,186,235
Charge for the year	377,315	93,781,427	300,768	1,196,965	--	95,656,475
Eliminated on disposals	--	--	--	(26,914)	--	(26,914)
Balance at 30 March 2017	3,670,619	837,871,482	300,768	26,972,927	--	868,815,796
Charge for the period	--	11,348,104	75,192	283,569	--	11,706,865
Eliminated on disposals	--	(62,064,842)	--	--	--	(62,064,842)
Balance at 30 June 2017	3,670,619	787,154,744	375,960	27,256,496	--	818,457,819
Net book value:						
At 30 June 2017	--	261,120,516	2,287,290	5,492,880	10,276,409	279,177,095
At 31 March 2017	--	311,761,284	2,362,482	5,648,699	11,907,058	331,679,523
At 1 April 2016	377,315	363,076,036	2,663,250	5,944,332	470,500	372,531,433

5.1

On 30 January 2017, the Company entered into an agreement with STC for the sale of the passive structure of 500 telecommunication towers against total consideration of SAR 230 million. The legal formalities in respect of the transfer of the control and possession of the towers, have been finalized during the period ended 30 June 2017. Accordingly network infrastructure costing SAR 104.1 million and having written down value of SAR 42.1 million has been derecognized in these condensed interim financial statements. Further, out of the total gain of SAR 187.9 million arising from the transaction, an amount of SAR 90 million has been deferred and is included in deferred income in the Statement of Financial Position while the remaining amount of SAR 97.9 million has been recognized in Other Income for the period. Simultaneously, the Company has also signed a Site Sharing agreement with STC for leasing back of 1/3rd of the usable space on each tower sold to STC, for a period of 7 years.

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6. INTANGIBLES

Cost:	License	Network capacity	Network capacity under development	Software	Total
Balance at 1 April 2016	527,904,000	284,243,896	248,448,113	51,679,643	1,112,275,652
Additions during the year	--	--	--	485,164	485,164
Transfers during the year	--	248,448,113	(248,448,113)	--	--
Balance at 31 March 2017	527,904,000	532,692,009	--	52,164,807	1,112,760,816
Additions during the period	--	37,994,845	--	--	37,994,845
Balance at 30 June	527,904,000	570,686,854	--	52,164,807	1,150,755,661
Accumulated amortization:					
Balance at 1 April 2016	147,813,120	79,774,913	--	40,880,869	268,468,902
Charge for the year	17,850,776	25,565,513	--	2,723,958	46,140,247
Balance at 31 March 2017	165,663,896	105,340,426	--	43,604,827	314,609,149
Charge for the period	2,830,002	9,465,912	--	699,183	12,995,097
Balance at 30 June	168,493,898	114,806,338	--	44,304,010	327,604,246
Net book value:					
At 30 June 2017	359,410,102	455,880,516	--	7,860,797	823,151,415
At 31 March 2017	362,240,104	427,351,583	--	8,559,980	798,151,667
At 1 April 2016	380,090,880	204,468,983	248,448,113	10,798,774	843,806,750

6.1 As stated in Note 1, the CITC has extended the life of the Company's license by 15 years. Accordingly, from 1 December 2016, the remaining carrying value of the Company's license is now being amortized over the revised useful life of 32 years (ending 31 March 2049).

6.2 Under the IRU agreement with STC (see note 1b), the Company has acquired ports amounting to SAR 408 million. The related liability is due in 12 equal quarterly installments of SAR 34 million each, commencing from the second quarter of the financial year 2017-18. The intangible and the corresponding liability has been discounted to its present value using the market rate of 3.759 %, which amounted to SAR 367 million at the purchase date.

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7. TRADE RECEIVABLES

	Note	30 June 2017	31 March 2017
Trade receivables	7.1	158,078,938	140,003,435
Provision for doubtful receivables	7.2	(17,931,182)	(16,430,396)
		<u>140,147,756</u>	<u>123,573,039</u>

7.1 Trade receivables include an amount of SAR 19,760,211 due from related parties. (Note 17)

7.2 Movement in provision for doubtful receivables is as follows:

	For the period ended 30 June 2017	For the year ended 31 March 2017
Balance at beginning of the period / year	(16,430,396)	(14,361,117)
Charge for the period / year	(1,500,786)	(2,069,279)
Balance at end of the period / year	<u>(17,931,182)</u>	<u>(16,430,396)</u>

8. CASH AND CASH EQUIVALENTS

This represents cash held in current accounts with banks operating in the Kingdom of Saudi Arabia.

9. STATUTORY RESERVE

In accordance with the Company's bylaws and the previous Saudi Arabian Regulations for Companies, the Company is required set aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. No such transfer is made as the Company is incurring losses.

10. TAWAROQ ISLAMIC FINANCING

This represents Islamic mode of financing obtained from a local bank (the "Bank") utilized to meet operating expenditure requirements of the Company. The Islamic financing involves the sale and purchase of commodities with the Bank as per mutually agreed terms. The Company obtained financing at an average rate of return of Saudi Interbank Offer Rate (SIBOR) plus the bank's commission of 1.75% per annum. The Company is to repay the outstanding balance in 13 equal quarterly installments ending April 2020.

	30 June 2017	31 March 2017
Current portion	31,068,114	31,068,118
Non-current portion	62,136,270	69,903,310
	<u>93,204,384</u>	<u>100,971,428</u>

11. LONG TERM ACCOUNTS PAYABLE

This represents payable to STC in respect of the FTTH IRU agreement as explained in Note 1(b) and Note 6.2. The gross amount payable under the agreement is SAR 408 million payable in 12 equal quarterly installments of SAR 34 million each, commencing from the second quarter of the financial year 2017-18. The amount payable has been discounted to its present value using the effective interest rate of 3.759%.

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12. PROVISION FOR DECOMMISSIONING COST

	<u>30 June 2017</u>	<u>31 March 2017</u>
Balance at the beginning of the period / year	2,765,106	2,663,250
Unwinding of discount for the period / year	26,067	101,856
Balance at the end of the period / year	<u>2,791,173</u>	<u>2,765,106</u>

13. OTHER INCOME

	Note	For the three months period ended <u>30 June 2017</u>	<u>30 June 2016</u>
Gain on disposal of property and equipment	5.1	97,921,898	—
Marketing support income	13.1	12,000,000	3,000,000
Amortization of deferred gain on sale of property and equipment		1,071,429	4,165,664
Others		1,278,242	177,187
		<u>112,271,569</u>	<u>7,342,851</u>

13.1 Marketing support income consists of income from STC from various marketing support services as the Company entered into agreements with STC to market the business sector (see note 1(c)).

14. EARNINGS / (LOSS) PER SHARE

	Note	For the three months period ended <u>30 June 2017</u>	<u>30 June 2016</u>
Net profit / (loss) for the period		55,423,931	(58,108,777)
Weighted average number of shares for the period	14.2	63,000,000	63,000,000
Basic and diluted earnings / (loss) per share		0.88	(0.92)

14.1 Earnings / (loss) per share is computed by dividing earnings / (loss) attributable to the ordinary shareholders of the Company for the period ended 30 June 2017 and 30 June 2016, by the weighted average number of shares outstanding during the period ended 30 June 2017.

14.2 The weighted average number of shares for the periods ended 30 June 2017 and 30 June 2016 have been arrived at by taking the effect of reduction in the share capital from the beginning of the earliest period presented (i.e. 1 April 2016), in order to comply with the requirements of IAS 33.

Number of issued shares on 1 April 2016	157,500,000
Number of shares cancelled	(94,500,000)
Weighted average number of shares on 1 April 2016	<u>63,000,000</u>

15. CONTINGENCIES AND COMMITMENTS

a) Contingencies

Letter of guarantees

The Company's banks have issued letters of guarantees amounting to SAR 50 million as at the reporting date.

Legal cases status

In the normal course of business, the Company became part of legal cases with a few suppliers. Management believes that the cases will be decreed in favor of the Company and accordingly no provision has been recognized.

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15. CONTINGENCIES AND COMMITMENTS (CONTINUED)

b) *Commitments*

The Company has commitments resulting from major agreements which were entered into and not yet executed at the reporting date amounting approximately to SAR 73.3 million pertaining to the various vendors.

c) *Operating leases*

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the period ended 30 June 2017 amounted to SAR 11.0 million (30 June 2016: SAR 10.9 million).

Future rental commitments at 30 June 2017 under these operating leases are as follows:

Twelve months period ending 30 June:

	<u>SAR</u>
2018	39,100,510
2019	15,512,220
2020	2,543,400
2021	1,385,600
	<u>58,541,730</u>

16. SEGMENTAL INFORMATION

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Company's Chief Operating Decision Maker (CODM) and used to allocate resources to the segments and to assess their performance.

The Company is engaged in a single line of business, being the supply of telecommunication services and related products. The majority of the Company's revenues, profits and assets relate to its operations in Saudi Arabia. The operating segments that are regularly reported to the CODM are explained below:

- **Voice** comprise of local and international calls including interconnection.
- **Data** comprise of internet broadband services provided to business-to-business (B2B) and business-to-consumer (B2C).
- **Unallocated** represents others which cannot be attributed to any of the reported operating segment.

	<u>As at 30 June 2017</u>			
	<u>Voice</u>	<u>Data</u>	<u>Unallocated</u>	<u>Total</u>
Segment assets				
Property and equipment	8,660,755	270,516,340	--	279,177,095
Intangibles	20,788,254	802,363,161	--	823,151,415
	<u>For the period ended 30 June 2017</u>			
	<u>Voice</u>	<u>Data</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue and costs				
Revenue, net	45,804,828	90,221,184	--	136,026,012
Cost of services	(61,856,272)	(49,092,736)	--	(110,949,008)
Selling and marketing expenses	--	--	(20,258,447)	(20,258,447)
Depreciation and amortization	(645,574)	(24,056,388)	--	(24,701,962)
General and administrative expenses	--	--	(31,371,101)	(31,371,101)
Other income	--	--	112,271,569	112,271,569
Finance cost	--	--	(5,593,132)	(5,593,132)

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16. SEGMENTAL INFORMATION (CONTINUED)

	Voice	As at 30 June 2016		Total
		Data	Unallocated	
Segment assets				
Property and equipment	8,660,754	338,188,380	--	346,849,134
Intangibles	20,788,254	812,064,558	--	832,852,812
	Voice	For the period ended 30 June 2016		Total
		Data	Unallocated	
Segment revenue and costs				
Revenue, net	41,413,997	48,575,969	--	89,989,966
Cost of services	(45,240,481)	(35,905,477)	--	(81,145,958)
Selling and marketing expenses	--	--	(17,739,467)	(17,739,467)
Depreciation and amortization	(1,008,529)	(37,297,926)	--	(38,306,455)
General and administrative expenses	--	--	(14,988,353)	(14,988,353)
Other income	--	--	7,342,851	7,342,851
Finance cost	--	--	(3,261,361)	(3,261,361)

The CODM monitors its current assets and all liabilities on an integrated basis. In addition, all of the Company's services are principally provided in Saudi Arabia.

17. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company comprise the shareholders, their affiliated companies and key management personnel. In the ordinary course of business, the Company enters into transactions with related parties on terms approved by the Board of Directors for the Company.

Significant transactions entered into with related parties are as follows:

Related parties	Relationship	Nature of transaction	For the three months period ended	
			30 June 2017	30 June 2016
Bahrain Telecommunication Company	Shareholder	Data revenue	<u>1,152,767</u>	<u>957,495</u>
		Interconnection revenue	<u>454,437</u>	<u>41,470</u>
		Interconnection cost	<u>962,474</u>	<u>37,388</u>
Ithraa Capital Company	Affiliate	Consultancy	<u>9,792,190</u>	--
Saudi Arabian Marketing and Agencies Limited	Affiliate	Data revenue	<u>308,453</u>	<u>205,498</u>
Bithar Trading Company Limited	Shareholder	Data revenue	<u>52,200</u>	<u>221,451</u>
Atheeb Saudi Intergraph Company Limited	Shareholder	Data revenue	<u>40,760</u>	<u>8,990</u>
Atheeb Maintenance and Services	Shareholder	Data revenue	<u>19,150</u>	--
Founding shareholders	Shareholder	Guarantee fee	<u>93,333</u>	<u>106,926</u>

The above transaction resulted in the following balances with these companies:

<u>Due from related parties</u>	<u>Relationship</u>	<u>30 June 2017</u>	<u>31 March 2017</u>
Bahrain Telecommunications Company	Shareholder	16,600,245	14,993,041
Bithar Trading Company Limited	Shareholder	1,989,309	1,937,109
Saudi Arabian Marketing and Agencies Limited	Affiliate	1,079,957	771,504
Atheeb Saudi Intergraph Company Limited	Shareholder	49,900	51,466
Atheeb Maintenance and Services	Shareholder	19,200	19,200
Etihad Shams Company Limited	Affiliate	21,600	21,600
		<u>19,760,211</u>	<u>17,793,920</u>

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17. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

<u>Due to related parties</u>	<u>Relationship</u>	<u>30 June 2017</u>	<u>31 March 2017</u>
Bahrain Telecommunications Company	Shareholder	21,482,625	20,433,057
Ithraa Capital Company	Affiliate	14,166,854	4,402,437
Al Nahla Trading and Contracting Company Limited	Shareholder	72,618	52,515
Bithar Trading Company Limited	Shareholder	1,052,276	1,028,585
Traco Company Trading and Contracting Company	Shareholder	882,275	873,659
Saudi Internet Company Limited	Shareholder	661,706	655,244
Bithar Communications & Information Technology Company Limited	Shareholder	661,706	655,244
Atheeb Maintenance and Services Company Limited	Shareholder	661,706	655,244
		<u>39,641,766</u>	<u>28,755,985</u>

18. PROVISION FOR ZAKAT AND TAX

18.1 Movement in Zakat provision

The movement in Zakat provision is as follows:

	<u>30 June 2017</u>	<u>31 March 2017</u>
Balance at the beginning of the period / year	2,698,958	2,698,958
Charge during the period / year	—	—
Balance at the end of the period / year	<u>2,698,958</u>	<u>2,698,958</u>

18.2 Zakat and tax status

The Company has filed its zakat and tax return with the General Authority of Zakat and Tax ("GAZT") for the period/ years up to 31 March 2016.

In July 2015, the GAZT raised zakat and withholding tax (WHT) assessment for the years 2010 to 2012 amounting to SAR 17.43 million and SAR 0.83 million respectively. The Company filed an appeal with the GAZT against the assessments in August 2015.

In response to appeal filed by the Company, the Preliminary Appeal Committee (PAC) issued ruling in October 2016 based on which the Company's zakat liability was reduced to SR 6.98 million while the WHT liability remained the same at SAR 0.83 million. The Company was also liable to pay fine of SAR 0.6 million as per the PAC ruling, on making delay in the payment of WHT.

In December 2016, the Company filed an appeal to the Higher Appeal Committee (HAC) against the PAC ruling in relation to zakat and imposition of delay fine on WHT. However, the Company has settled the WHT liability of SAR 0.83 million with the GAZT. Further, the management and the tax advisors are of the view that the appeal will be settled in favor of the Company.

The zakat and tax returns filed by the Company for the years 2013 to 2016 are still under review by the GAZT.

19. FINANCIAL INSTRUMENTS – FAIR VALUES

Fair values of financial and non-financial assets and liabilities are determined for measurement and/or disclosure purpose on the basis of accounting policies disclosed in the financial statements. As at the reporting date, carrying value of the Company's financial assets and liabilities were reasonably equal to their fair values.


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20. SUBSEQUENT EVENT

On 2 August 2017, the Company announced that it has received a letter from CITC, dated 1 August 2017, stating that the Board of Directors of CITC, in their meeting held on 23 July 2017, has accorded first approval for the grant of the unified license to the Company and has referred the matter to the Council of Ministers for their final approval.

21. DATE OF AUTHORIZATION

These condensed interim financial statements were authorized for issue by the Board of Directors on 21 Dhul-Qa'dah 1438H (Corresponding to 13 August 2017G).

