

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**Interim Financial Statements (Un-audited)**  
**For the three and six months period ended 30 September 2016**  
together with the  
**Independent Auditors' Review Report**



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**INDEPENDENT AUDITORS' REVIEW REPORT ON THE**  
**INTERIM FINANCIAL STATEMENTS**

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

***Scope of Review***

We have reviewed the accompanying interim balance sheet of **Etihad Atheeb Telecommunication Company** (the "Company") as at 30 September 2016, the related interim statement of income for the three-month and six-month periods then ended, the interim statement of cash flows and changes in shareholders' equity for the six-month period then ended and the attached notes (1) through (15) which form an integral part of the interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

***Review conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

***Emphasis of matter***

We draw attention to Note 2(b) to the accompanying interim financial statements; as at 30 September 2016, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 73.12% 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 Fozan & Partners**  
**Certified Public Accountants**

**Khalil Ibrahim Al Sedais**  
License No: 371



Date: 17 Muharram 1438H  
Corresponding to: 18 October 2016

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

(A Saudi Joint Stock Company)  
**INTERIM BALANCE SHEET (Un-audited)**  
**As at 30 September 2016**  
(Saudi Arabian Riyals)


	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>			
<b>Current assets</b>			
Bank balances		128,919,835	154,731,892
Trade receivables	4	87,257,964	88,029,698
Inventories		7,727,563	3,935,839
Due from related parties	14(b)	12,485,124	12,432,842
Prepayments and other receivables	5	95,842,205	126,851,297
<b>Total current assets</b>		<u>332,232,691</u>	<u>385,981,568</u>
<b>Non-current assets</b>			
Property and equipment	6	373,956,803	462,091,534
Intangible assets	7	861,054,105	838,497,121
<b>Total non-current assets</b>		<u>1,235,010,908</u>	<u>1,300,588,655</u>
<b>TOTAL ASSETS</b>		<u>1,567,243,599</u>	<u>1,686,570,223</u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b><u>LIABILITIES</u></b>			
<b>Current liabilities</b>			
Tawaroq Islamic financing – current portion	8	31,068,118	31,068,144
Accounts payable		551,876,995	366,034,387
Due to related parties	14(c)	23,307,996	27,884,806
Deferred income		32,315,775	44,668,245
Accrued expenses and other liabilities		170,028,919	158,319,853
Provision for Zakat	15	2,698,958	1,111,526
<b>Total current liabilities</b>		<u>811,296,761</u>	<u>629,086,961</u>
<b>Non-current liabilities</b>			
Tawaroq Islamic financing	8	85,437,363	116,505,472
Long term accounts payable	7.1	238,000,000	340,000,000
Provision for employees' end of service benefits		9,158,427	8,173,800
<b>Total non-current liabilities</b>		<u>332,595,790</u>	<u>464,679,272</u>
<b>TOTAL LIABILITIES</b>		<u>1,143,892,551</u>	<u>1,093,766,233</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	2(b)	(1,151,648,952)	(982,196,010)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>423,351,048</u>	<u>592,803,990</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,567,243,599</u>	<u>1,686,570,223</u>

The accompanying notes (1) through (15) on pages (5) to (16) form an integral part of these interim financial statements.

These interim financial statements and accompanying notes were approved by the Board of Directors on 18 October 2016 and are signed on their behalf by:

  
Emad Maali  
Chief Executive Officer

  
Husam Sadagah  
Chairman

  
Mahmoud Hamdan Al Abdullah  
Acting Chief Financial Officer

(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF INCOME (Un-audited)**  
(Saudi Arabian Riyals)

	<i>Note</i>	For the three months period ended		For the six months period ended	
		30 September 2016	30 September 2015	30 September 2016	30 September 2015
Revenue from services		86,300,260	76,052,124	176,290,226	159,377,985
Cost of services		(73,506,483)	(66,880,513)	(154,123,024)	(140,494,118)
<b>Gross profit</b>		<b>12,793,777</b>	<b>9,171,611</b>	<b>22,167,202</b>	<b>18,883,867</b>
<b>Operating expenses</b>					
Selling and marketing expenses		(18,029,807)	(14,861,240)	(35,769,274)	(29,097,658)
General and administration expenses		(14,491,352)	(18,675,535)	(29,372,530)	(39,271,985)
Depreciation and amortization	6.7	(48,289,047)	(47,146,794)	(95,847,350)	(94,076,147)
<b>Total operating expenses</b>		<b>(80,810,206)</b>	<b>(80,683,569)</b>	<b>(160,989,154)</b>	<b>(162,445,790)</b>
<b>Loss from operations</b>		<b>(68,016,429)</b>	<b>(71,511,958)</b>	<b>(138,821,952)</b>	<b>(143,561,923)</b>
Other income	9	78,455,194	76,257,807	85,798,045	109,382,054
Financial charges		(1,425,942)	(1,172,653)	(3,326,837)	(2,404,524)
<b>Net income / (loss) for the period</b>		<b>9,012,823</b>	<b>3,573,196</b>	<b>(56,350,744)</b>	<b>(36,584,393)</b>
(Loss) / earnings per share attributable to:	10				
- Loss from operations		(0.43)	(0.45)	(0.88)	(0.91)
- Net income / (loss) for the period		0.06	0.02	(0.36)	(0.23)
- Other income for the period		0.50	0.48	0.54	0.69
Weighted average number of shares	1(a), 10	157,500,000	157,500,000	157,500,000	157,500,000

The accompanying notes (1) through (15) on pages (5) to (16) form an integral part of these interim financial statements.

(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF CASH FLOWS (Un-audited)**  
**For the six months period ended 30 September 2016**  
(Saudi Arabian Riyals)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>			
<b>Net loss for the period</b>		(56,350,744)	(36,584,393)
<i>Adjustments to reconcile net loss for the period to net cash flow generated from operating activities</i>			
Depreciation and amortization	6.7	95,847,350	94,076,147
Other income - settlement with a vendor	9	(74,771,398)	--
Amortization of deferred gain on sale of property		(4,165,664)	(9,372,740)
Provision for doubtful receivables		479,182	1,991,391
Provision for employees' end of service benefits		1,069,183	1,591,086
		<u>(37,892,091)</u>	<u>51,701,491</u>
<i>Changes in working capital</i>			
Trade receivables		(22,492,989)	(54,592,373)
Inventories		(2,320,984)	(699,488)
Due from related parties		663,819	(1,315,097)
Prepayments and other receivables		20,711,806	(42,696,346)
Accounts payable		39,141,595	33,395,008
Due to related parties		(3,592,791)	2,804,214
Accrued expenses and other liabilities		17,805,403	3,749,147
Deferred income		(1,140,612)	7,889,009
<i>Cash generated from operating activities</i>		10,883,156	235,565
Employees' end of service benefits paid		(1,124,945)	(590,479)
<b>Net cash generated from / (used in) operating activities</b>		<u>9,758,211</u>	<u>(354,914)</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment		(3,032,061)	(10,091,750)
Proceeds from sale of equipment		480	--
<b>Net cash used in investing activities</b>		<u>(3,031,581)</u>	<u>(10,091,750)</u>
<b>Cash flows from financing activities</b>			
Repayment for Tawarooq Islamic financing		(15,534,065)	(15,534,048)
<b>Net cash used in financing activities</b>		<u>(15,534,065)</u>	<u>(15,534,048)</u>
<b>Net decrease in cash and cash equivalents</b>		(8,807,435)	(25,980,712)
Cash and cash equivalents at the beginning of the period		137,727,270	180,712,604
Cash and cash equivalents at the end of the period		<u>128,919,835</u>	<u>154,731,892</u>
<b><u>Non-cash supplemental information:</u></b>			
Acquisition of intangible asset	7.1	--	136,000,000
Non-cash compensation received from a vendor on final settlement	9	74,771,398	--

The accompanying notes (1) through (15) on pages (5) to (16) form an integral part of these interim financial statements.

(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the six months period ended 30 September 2016**  
(Saudi Arabian Riyals)

	For the six months period ended 30 September 2016		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at April 1, 2016 (audited)	1,575,000,000	(1,095,298,208)	479,701,792
Net loss for the period ended 30 September 2016 (un-audited)	--	(56,350,744)	(56,350,744)
Zakat charge for the period	--	--	--
<b>Balance at 30 September 2016 (un-audited)</b>	<b>1,575,000,000</b>	<b>(1,151,648,952)</b>	<b>423,351,048</b>

	For the six months period ended 30 September 2015		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at April 1, 2015 (audited)	1,575,000,000	(944,928,849)	630,071,151
Net loss for the period ended 30 September 2015 (un-audited)	--	(36,584,393)	(36,584,393)
Zakat charge for the period	--	(682,768)	(682,768)
<b>Balance at 30 September 2015 (un-audited)</b>	<b>1,575,000,000</b>	<b>(982,196,010)</b>	<b>592,803,990</b>

The accompanying notes (1) through (15) on pages (5) to (16) form an integral part of these interim financial statements

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**

**1) ORGANIZATION AND ACTIVITIES**

*General information*

- a) Etihad Atheeb Telecommunication Company (the "Company" or "GO"), 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).

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 authorized, issued and paid up share capital of the Company is SAR 1,575 million divided into 157.5 million shares of SAR 10 each. The founding shareholders of the Company have subscribed and paid for 71.2 million shares and the remaining 86.3 million shares have been subscribed by the 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. The IRU agreement allows both parties to agree upon increasing the ports to reach hundred thousand ports (see note 7.1).

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 (see note 9).





**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**

**2) BASIS OF PREPARATION**

**a) *Statement of compliance***

These interim financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA). These interim financial statements do not include all the information presented in the annual financial statements; therefore, these interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended 31 March 2016. Further, the results of the interim period may not represent an accurate indicator for the annual results of the operations.

These interim financial statements were approved by the Board of Directors for issuance on 17 Muharram 1438H, corresponding to 18 October 2016.

**b) *Basis of measurement***

These interim financial statements have been prepared under the historical cost convention using the accrual basis of accounting.

As at 30 September 2016, the Company's current liabilities exceeds its current assets by SAR 479.1 million (2015: SAR 243.1 million). Moreover, the Company has accumulated losses amounting to SAR 1,151.6 million as of 30 September 2016 which approximate 73.12% of the Company's share capital.

The new Saudi Arabian Companies' Regulation which became effective on 2 May 2016 has reduced the accumulated loss threshold for Joint Stock Companies from 75% down to 50% of share capital, as per Article 150. The new Companies' Regulation has provided, in Article 224, a grace period of one year for affected Joint Stock Companies to correct their situation in accordance with the new regulation.

The management is confident that it will be able to comply with Article 150 and 224 of the new Companies' Regulation.

In addition, the Company's management believes that it would improve the Company's business and that it will be able to secure the necessary funding to meet its obligations as and when they become due. Accordingly, the Company's management believes that the going concern is the appropriate basis of preparation for the accompanying interim financial statements.

**c) *Functional and presentation currency***

These interim financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional currency of the Company.

**d) *Use of estimates and judgments***

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Estimates with a significant risk of material adjustments relates to the determination of provision for doubtful receivables and provision for obsolete and slow moving inventories.





**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**

**3) SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the interim financial statements. Certain comparative amounts have been reclassified to conform with the current period's presentation.

**a) *Cash and cash equivalents***

For the purpose of reporting cash flows, cash and cash equivalents comprise of cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Company without any restrictions.

**b) *Trade receivables***

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful receivable is established when there is objective evidence that the Company may not be able to collect the amounts due according to the original terms of receivables. When creating provisions, consideration is given to the type of services rendered (data, voice services, etc.), age of the receivable and the general economic situation.

Bad debts are written off when identified, against its related provisions. The provisions are charged to interim statement of income and any subsequent recoveries of receivable amounts previously written off are credited to interim statement of income.

**c) *Inventories***

Inventories comprise of modems, pre-paid cards, scratch cards and other telecommunication equipment, which are measured at the lower of weighted average 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 comprises estimated selling price in the ordinary course of business, less further appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective inventory items.

**d) *Property and equipment***

Property and equipment, except capital work in progress, are measured at cost less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Capital work in progress is carried at cost and includes telecom equipment of capital nature which will form part of property and equipment upon consumption.

Depreciation is charged to the interim statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure including repair and maintenance is recognized in the interim statement of income when incurred. The estimated useful life of the principal classes of assets are as follows:

	<u>Life (Years)</u>
Leasehold improvements	lower of lease term or 10
Network infrastructure	4-15
Facilities, support and IT Equipment	5

Gains or losses arising from the retirement or disposal of property and equipment are recognized in the interim statement of income on the date of retirement or disposal.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**

**3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Intangible assets***

Intangible assets represent secured data communication license, network capacity charges and other costs incurred by the Company upon incorporation.

License fees are initially capitalized and subsequently amortized on a straight-line basis over 25 years, which is the regulatory life of the licenses, starting on 1 April 2009 and ending on 31 March 2034.

Network capacity which includes Indefeasible Rights of Use "IRU" is amortized on a straight-line basis over the term of the agreement except for Network capacity under development which is carried at cost. Other intangibles are amortized over the estimated useful lives.

The amortization is charged to the interim statement of income over the useful life as follows:

	<u><b>Life (Years)</b></u>
License	25
Network capacity	7-15
Pre-operating costs	5-7
Software	5-10

**f) *Impairment of non-financial assets***

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim statement of income.

**g) *Accounts payable and accruals***

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**h) *Provision for employees' end of service benefits***

Provision for employees' end of service benefits, calculated in accordance with Saudi Arabian Labor Law, are accrued and charged to the interim statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.



**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**

**3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**i) *Provision for zakat and tax***

Zakat and tax are provided for in the interim financial statements in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Zakat and tax are charged to the interim statement of changes in shareholders' equity.

**j) *Operating leases***

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the interim statement of income on a straight-line basis over the period of the lease.

**k) *Borrowing costs***

Borrowing costs directly attributable to acquisitions or constructions of qualifying assets, which are the assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the interim statement of income in the period in which they are incurred.

**l) *Interconnection cost (only applicable for voice service)***

Interconnection cost represents connection charges to national and international telecommunication operators. Interconnection costs are recorded in the period when relevant calls are made and are charged to the interim statement of income.

**m) *Revenue recognition***

Revenue represents the value of fixed or determinable considerations that are receivable and includes revenue from sharing arrangements entered into with national and international telecommunication operators in respect of traffic (data and voice) exchanged. Revenue for services rendered is recognized at amounts invoiced to customers.

Service revenue received from the customer 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 interim 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 ("WiMAX modems") are delivered to subscribers and customers. Charges billed in advance are deferred and recognized over the contracted period of service.

**n) *Government charges***

Government charges represent fees and charges as stipulated in license agreements and against the right of use of telecommunications services in the Kingdom of Saudi Arabia including frequency fees. These fees are recorded as operating expenses in the related periods during which they are used and are charged to the interim statement of income.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**  
(Saudi Arabian Riyals)

**3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*o) Cost and expenses*

- cost of services comprise of expenses incurred on operations and maintenance of the network, including leased and/or purchased capacity, site rentals, inventory consumption and installation and interconnection charges.
- selling and marketing expenses include commissions, advertising and provision for doubtful receivables.
- all other expenses, except finance charges, are classified as general and administrative expenses.

*p) Foreign currency translation*

Transactions denominated in foreign currencies are translated to Saudi Arabian Riyals at the rates of exchange prevailing at the dates of the respective transactions. At balance sheet date, assets and liabilities denominated in foreign currencies are translated to Saudi Arabian Riyals at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates are recognized in the interim statement of income.

**4) TRADE RECEIVABLES**

	<u>2016</u>	<u>2015</u>
Trade receivables	102,098,263	100,770,204
Provision for doubtful receivables	(14,840,299)	(12,740,506)
	<u>87,257,964</u>	<u>88,029,698</u>

**5) PREPAYMENTS AND OTHER RECEIVABLES**

Prepayments and other receivables include receivable from STC in respect of sale of Company's property and rendering of marketing support services (see note 9) amounting to SAR 50 million (2015: SAR 50 million) and SAR 40.9 million (2015: SAR 69.3 million) respectively.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the six months period ended 30 September 2016**  
(Saudi Arabian Riyals)

**6) PROPERTY AND EQUIPMENT**

	2016				2015
	Leasehold improvements	Network infrastructure	Facilities, support & IT equipment	Capital work in progress	Total
Cost:					
Balance at 1 April (audited)	3,670,619	1,350,699,887	31,747,208	470,500	1,369,899,827
Additions during the period	--	37,725,465	73,362	12,082,493	10,091,750
Disposals during the period	--	--	(4,800)	--	--
Transfers during the period	--	470,500	--	(470,500)	--
Balance at 30 September (un-audited)	3,670,619	1,388,895,852	31,815,770	12,082,493	1,379,991,577
Accumulated depreciation:					
Balance at 1 April(audited)	3,293,304	961,410,978	25,802,876	--	845,278,563
Charge for the period	377,315	70,982,923	644,855	--	72,621,480
Eliminated on disposals	--	--	(4,320)	--	--
Balance at 30 September (un-audited)	3,670,619	1,032,393,901	26,443,411	--	917,900,043
Net book value					
At 30 September 2016 (un-audited)	--	356,501,951	5,372,359	12,082,493	373,956,803
At 30 September 2015 (un-audited)					462,091,534

**6.1** During the period ended 30 September 2016, the Company has finalized the settlement agreement with one of its vendor, resulting in the transfer of network infrastructure equipment and stores and spares of capital nature to the Company, aggregating to SAR 34.8 million and SAR 12 million, which have been capitalized under network infrastructure and capital work in progress, respectively.

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**7. INTANGIBLE ASSETS**

	2016					2015
	<u>License</u>	<u>Network capacity</u>	<u>Pre-operating costs</u>	<u>Network capacity under development</u>	<u>Software</u>	<u>Total</u>
<b>Cost:</b>						
Balance at 1 April ( <i>audited</i> )	527,904,000	295,260,000	24,599,711	272,000,000	51,679,643	1,171,443,354
Additions during the period (note 7.1)	--	--	--	--	--	--
Capitalization during the period	--	68,000,000	--	(68,000,000)	--	--
<b>Balance at 30 September (<i>un-audited</i>)</b>	<b>527,904,000</b>	<b>363,260,000</b>	<b>24,599,711</b>	<b>204,000,000</b>	<b>51,679,643</b>	<b>1,103,443,354</b>
<b>Accumulated amortization:</b>						
Balance at 1 April ( <i>audited</i> )	147,813,120	73,253,292	24,599,711	--	40,880,869	243,491,566
Charge for the period	10,558,080	11,934,327	--	--	1,349,850	21,454,667
<b>Balance at 30 September (<i>un-audited</i>)</b>	<b>158,371,200</b>	<b>85,187,619</b>	<b>24,599,711</b>	<b>--</b>	<b>42,230,719</b>	<b>264,946,233</b>
<b>Net book value</b>						
<b>At 30 September 2016 (<i>un-audited</i>)</b>	<b>369,532,800</b>	<b>278,072,381</b>	<b>--</b>	<b>204,000,000</b>	<b>9,448,924</b>	<b>861,054,105</b>
<i>At 30 September 2015 (<i>un-audited</i>)</i>						<u>838,497,121</u>

7.1) Under the IRU agreement with STC (see note 1), the Company has acquired ports amounting to SAR 408 million of which ports amounting to SAR 204 million are currently under development. The related payment is due in twelve equal quarterly installments of SAR 34 million each, commencing from first quarter of 2017 hence; the related liability has been accordingly classified under long-term and short-term accounts payable.



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**8. TAWAROOQ ISLAMIC FINANCING**

This comprises Islamic mode of financing obtained from a local bank (the "Bank") utilized to meet capital and operating expenditure 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. The Company is to repay the outstanding balance in 15 equal quarterly installments ending April 2020.

The financing balance as of 30 September was as follows:

	<u>2016</u>	<u>2015</u>
Current portion	31,068,118	31,068,144
Non-current portion	85,437,363	116,505,472
	<u>116,505,481</u>	<u>147,573,616</u>

**9. OTHER INCOME**

	<u>2016</u>	<u>2015</u>
Settlement with a vendor:		
Compensation in the form of network equipment (note 6.1)	46,849,260	--
Liability written back	27,922,138	--
	74,771,398	--
Marketing support income (note 1(c))	6,000,000	100,000,000
Amortization of gain on sale of property	4,165,664	9,372,740
Others	860,983	9,314
	<u>85,798,045</u>	<u>109,382,054</u>

**10. (LOSS) / EARNINGS PER SHARE**

(Loss) / earnings per share for the three-month periods ended 30 September 2016 and 2015 is calculated by dividing the (loss) / earnings for the period by the weighted average number of shares outstanding during the period .

**11. CONTINGENCIES AND COMMITMENTS**

**a) *Contingencies***

*Letter of guarantees*

The Company's banks have issued letters of guarantees amounting to SAR 50 million (2015: SAR 50 million) as at the interim balance sheet 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.

**b) *Commitments***

The Company has commitments resulting from major agreements which were entered into and not yet executed at the interim balance sheet date amounting approximately to SAR 88 million (2015: SAR 108 million) pertaining to the various vendors.



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**12. OPERATING LEASES**

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the period ended 30 September 2016 amounted to SAR 21.8 million (2015: SAR 22.7 million).

Future rental commitments at 30 September 2016 under these operating leases are as follows:

<u>Periods ending 30 September :</u>	<u>SAR</u>
2017	39,370,510
2018	23,992,420
2019	7,247,000
2020	839,800
2021 and thereafter	1,279,600
	<u>72,729,330</u>

**13. SEGMENTAL INFORMATION**

The Company has identified its main operating segments by the type of services provided to the customers. The main operating segments are explained below:

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

**For the three months period ended 30 September 2016**

	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	33,999,681	52,300,579	--	86,300,260
Segment (loss) / profit	(32,063,060)	(37,379,312)	78,455,195	9,012,823
Depreciation and amortization	(5,243,977)	(43,045,070)	--	(48,289,047)
Finance charges	(654,153)	(771,789)	--	(1,425,942)

**For the three months period ended 30 September 2015**

	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	40,205,205	35,846,919	--	76,052,124
Segment (loss) / profit	(20,973,447)	(51,711,164)	76,257,807	3,573,196
Depreciation and amortization	(5,119,934)	(42,026,860)	--	(47,146,794)
Finance charges	(537,957)	(634,696)	--	(1,172,653)

**For the six months period ended 30 September 2016**

	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	75,413,678	100,876,548	--	176,290,226
Segment (loss) / profit	(62,343,379)	(79,805,414)	85,798,049	(56,350,744)
Depreciation and amortization	(10,408,599)	(85,438,751)	--	(95,847,350)
Finance charges	(1,526,191)	(1,800,646)	--	(3,326,837)

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**13. SEGMENTAL INFORMATION (CONTINUED)**

	For the six months period ended 30 September 2015			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	86,614,532	72,763,453	--	159,377,985
Segment (loss) / profit	(41,128,330)	(104,838,117)	109,382,054	(36,584,393)
Depreciation and amortization	(10,216,254)	(83,859,893)	--	(94,076,147)
Finance charges	(1,103,079)	(1,301,445)	--	(2,404,524)

The services are provided using same facilities, which are not segregated among the services activities, as the Company's management monitors its assets and liabilities on an integrated basis. The Company is developing segment information system to enhance the disclosed information. In addition, all of the Company's services are principally provided in Saudi Arabia.

**14. RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Company comprise of the shareholders and their affiliated companies. In the ordinary course of business, the Company enters into transactions with related parties based on mutually agreed prices and contract terms approved by the Company's management.

		For the three months period ended		For the six months period Ended	
a) <u>Significant related party transactions</u>		30 September 2016	30 September 2015	30 September 2016	30 September 2015
<u>Related parties</u>	<u>Nature of transaction</u>				
Bahrain Telecommunications Company (BATELCO)	Data revenue	<u>1,330,042</u>	469,993	<u>2,287,537</u>	755,116
Company (BATELCO)	Interconnection revenue	<u>56,117</u>	81,274	<u>97,587</u>	100,762
	Interconnection cost	<u>942,483</u>	408,786	<u>979,871</u>	3,338,808
Ithraa Capital Company	Consultancy	--	600,000	--	1,246,156
Founding shareholders	Financial charges	<u>103,527</u>	117,120	<u>210,453</u>	237,639
b) <u>Due from related parties</u>			<u>Relationship</u>	<u>2016</u>	<u>2015</u>
Bahrain Telecommunications Company (BATELCO)	Shareholder	10,239,970		10,482,152	
Bithar Trading Company Limited (formerly Atheeb Trading Company Limited)	Shareholder	1,814,616		1,285,224	
Saudi Arabian Marketing and Agencies Limited	Affiliate	386,054		642,264	
Etihad Shams Company Limited	Affiliate	22,994		17,700	
Atheeb Maintenance and Services	Shareholder	19,200		--	
Atheeb Saudi Intergraph Company Limited	Shareholder	2,290		5,502	
		<u>12,485,124</u>		<u>12,432,842</u>	
c) <u>Due to related parties</u>			<u>Relationship</u>	<u>2016</u>	<u>2015</u>
Bahrain Telecommunications Company (BATELCO)	Shareholder	19,538,933		21,232,582	
Ithraa Capital Company	Affiliate	--		2,200,000	
Al Nahla Trading and Contracting Company Limited	Shareholder	10,114		933,913	
Bithar Trading Company Limited (formerly Atheeb Trading Company Limited)	Shareholder	978,613		868,318	
Traco Group Trading and Contracting Company	Shareholder	855,488		815,382	
Saudi Internet Company Limited	Shareholder	641,616		611,537	
Bithar Communications & Information Technology Company Limited (formerly Atheeb Computer and Communications Company Limited)	Shareholder	641,616		611,537	
Atheeb Maintenance and Services Company Limited	Shareholder	641,616		611,537	
		<u>23,307,996</u>		<u>27,884,806</u>	

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**15. PROVISION FOR ZAKAT AND TAX**

The final zakat and tax declarations for the period / years ended 31 March 2010 to 2016 have been submitted to General Authority of Zakat and Tax ("GAZT"). However, the GAZT has not yet raised an assessment for these period / years. During the period, the Company computed Zakat charge in accordance with the Saudi Arabian Zakat and Tax Regulation which has been charged to the Interim Statement of Changes in Shareholders' Equity as follows:

	<u>2016</u>	<u>2015</u>
Balance as at 1 April	2,698,958	428,758
Charge for the period	--	682,768
Balance as at 30 September	<u>2,698,958</u>	<u>1,111,526</u>

