


**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
**(A Saudi Joint Stock Company)**

**INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE-MONTH PERIOD ENDED**  
**JUNE 30, 2014 AND AUDITORS' REVIEW REPORT**

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**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim Financial Statements (unaudited)**  
**For the three-month period ended June 30, 2014**

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## REVIEW REPORT

July 21, 2014

To the Shareholders of Etihad Atheeb Telecommunication Company  
(A Saudi Joint Stock Company)

### Scope of review

We have reviewed the accompanying interim balance sheet of Etihad Atheeb Telecommunication Company (A Saudi Joint Stock Company) (the "Company") as of June 30, 2014 and the related interim statements of income, cash flows and changes in shareholders' equity for the three-month period then ended and the related notes which form an integral part of these 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 information and explanations which we required.

We conducted our review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of the review is substantially less than an audit conducted in accordance with auditing standards generally accepted in Saudi Arabia, the objective of which is the expression of an opinion regarding 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 accounting principles generally accepted in Saudi Arabia.

### Emphasis of matter

We draw attention to Note 1 to the accompanying interim financial statements that state that; the Company's current liabilities exceeded its current assets as of June 30, 2014. Moreover, the Company had accumulated losses amounting Saudi Riyals 827.8 million as of June 30, 2014. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The Company's management believes that it will be able to secure the necessary funding to meet its obligations when they become due. Accordingly, the accompanying interim financial statements have been prepared under the going concern basis.

**PricewaterhouseCoopers**

  
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ETIHAD ATHEEB TELECOMMUNICATION COMPANY  
(A Saudi Joint Stock Company)  
Interim balance sheet (Unaudited)  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	June 30,	
		2014 (Unaudited)	2013 (Unaudited and Restated)
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and bank balances		208,776,362	83,957,008
Inventories		13,394,663	7,811,017
Trade receivables, net		70,539,900	29,839,675
Prepayments and other current assets		138,093,505	40,062,560
<b>TOTAL CURRENT ASSETS</b>		<b>430,804,430</b>	<b>161,669,260</b>
<b>NON CURRENT ASSETS:</b>			
Property and equipment, net	4,14	728,625,788	928,140,189
Intangible assets, net	5	534,356,295	566,713,870
<b>TOTAL NON CURRENT ASSETS</b>		<b>1,262,982,083</b>	<b>1,494,854,059</b>
<b>TOTAL ASSETS</b>		<b>1,693,786,513</b>	<b>1,656,523,319</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable		443,779,114	347,146,202
Accrued expenses and other payables		189,495,998	105,184,493
Deferred revenues and gains	6	69,895,118	59,279,836
Tawarooq Islamic financing - current portion	7	31,068,109	31,068,113
<b>TOTAL CURRENT LIABILITIES</b>		<b>734,238,339</b>	<b>542,678,644</b>
<b>NON CURRENT LIABILITIES:</b>			
Tawarooq Islamic financing	7	155,340,627	186,408,751
Long term accounts payable		49,868,263	53,452,401
Employees' termination benefits		7,165,755	6,936,120
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>212,374,645</b>	<b>246,797,272</b>
<b>TOTAL LIABILITIES</b>		<b>946,612,984</b>	<b>789,475,916</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	1,14	(827,826,471)	(707,952,597)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>747,173,529</b>	<b>867,047,403</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,693,786,513</b>	<b>1,656,523,319</b>

The attached notes 1 to 15 form an integral part of these interim financial statements

ETIHAD ATHEEB TELECOMMUNICATION COMPANY  
(A Saudi Joint Stock Company)  
Interim statement of income  
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Three-months ended June 30,	
		2014 (Unaudited)	2013 (Unaudited and Restated)
Revenue from services	8	61,985,707	58,093,474
Cost of services	14	(55,828,742)	(48,137,167)
<b>GROSS PROFIT</b>		<b>6,156,965</b>	<b>9,956,307</b>
<b>OPERATING EXPENSES</b>			
Employees' costs		(12,473,760)	(11,501,611)
Selling and marketing expenses		(4,596,457)	(8,931,535)
Depreciation and amortization	14	(50,532,389)	(50,042,869)
General and administration expenses		(8,525,480)	(7,330,568)
<b>TOTAL OPERATING EXPENSES</b>		<b>(76,128,086)</b>	<b>(77,806,583)</b>
<b>LOSS FROM MAIN OPERATIONS</b>		<b>(69,971,121)</b>	<b>(67,850,276)</b>
Other income	1,4	132,007,343	754,200
Financial charges		(1,605,522)	(1,874,321)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<b>60,430,700</b>	<b>(68,970,397)</b>
Weighted average number of shares	1,9	157,500,000	157,500,000
<b>Income (loss) per share:</b>			
Loss from main operations	9,14	(0.44)	(0.43)
Net income (loss) for the period	9,14	0.38	(0.44)

The attached notes 1 to 15 form an integral part of these interim financial statements.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim statement of cash flows**  
**(All amounts in Saudi Riyals unless otherwise stated)**

	June 30,	
	2014 (Unaudited)	2013 (Unaudited and Restated)
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the period	60,430,700	(68,970,397)
Adjustment for non-cash items:		
Depreciation and amortization	50,532,389	50,042,869
Gain from sale of property and equipment	(83,431,685)	-
Provision for doubtful debts	425,504	-
Provision for employees' termination benefits	122,567	1,316,888
Operating cash flow before changes in operating assets and liabilities	48,079,475	(17,610,640)
Changes in operating assets and liabilities:		
Inventories	(7,491,046)	1,642,352
Trade receivables	(18,925,427)	(7,907,399)
Prepayments and other current assets	(110,398,524)	1,174,370
Accounts Payable	3,683,215	12,528,273
Accrued expenses and other payables	87,892,661	(60,628)
Deferred revenues	25,678,621	(5,926,091)
Employees' termination benefits paid	(452,253)	(274,788)
<b>Net cash generated from (used in) operating activities</b>	<b>28,066,722</b>	<b>(16,436,551)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(11,728,429)	(7,059,746)
Proceeds from sale of property and equipment	160,000,000	12,375
<b>Net cash generated from (used in) investing activities</b>	<b>148,271,571</b>	<b>(7,047,371)</b>
<b>FINANCING ACTIVITIES</b>		
Payment for tawarooq Islamic financing	(7,767,040)	(7,767,040)
<b>Net cash used in financing activities</b>	<b>(7,767,040)</b>	<b>(7,767,040)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>		
	<b>168,571,253</b>	<b>(31,250,962)</b>
Cash and cash equivalents at the beginning of the period	40,205,109	115,207,970
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>208,776,362</b>	<b>83,957,008</b>

The attached notes 1 to 15 form an integral part of these interim financial statements

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
**(A Saudi Joint Stock Company)**  
**Interim statement of changes in shareholders' equity**  
**(All amounts in Saudi Riyals unless otherwise stated)**

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at April 1, 2013	1,575,000,000	(674,761,128)	900,238,872
Effect of restatement	<u>-</u>	<u>35,778,928</u>	<u>35,778,928</u>
Balance at April 1, 2013 (Restated)	1,575,000,000	(638,982,200)	936,017,800
Net loss for the year ended March 31, 2014	<u>-</u>	<u>(249,274,971)</u>	<u>(249,274,971)</u>
Balance at March 31, 2014 (audited)	1,575,000,000	(888,257,171)	686,742,829
Net income for the period ended June 30, 2014	<u>-</u>	<u>60,430,700</u>	<u>60,430,700</u>
Balance at June 30, 2014 (unaudited)	<u>1,575,000,000</u>	<u>(827,826,471)</u>	<u>747,173,529</u>

The attached notes 1 to 15 form an integral part of these interim financial statements





## ETIHAD ATHEEB TELECOMMUNICATION COMPANY

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three-month period ended June 30, 2014 (Unaudited)

(All amounts in Saudi Riyals unless otherwise stated)

### 1 General information

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 February 25, 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 (February 25, 2008) which was approved by the issuance of Royal Decree No. M/6 dated 19 Safar 1429H (February 26, 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 April 1, 2009 and ending on March 31, 2034).

The Company provides 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 via Worldwide Interoperability for Microwave Access ("WiMAX") technology as access technology. The Company commenced commercial operations from January 1, 2010.

At date of incorporation, the Company's authorized and paid share capital amounted to Saudi Riyals 1 billion consisting of 100 million shares (Saudi Riyals 10 par value per share).

On August 6, 2011 the extraordinary general assembly approved reducing the Company's share capital from Saudi Riyals 1 billion to Saudi Riyals 400 million, by transferring Saudi Riyals 600 million from share capital to the accumulated losses.

On January 14, 2012 the extraordinary general assembly approved increasing the Company's share capital from Saudi Riyals 400 million by Saudi Riyals 1,175 million to become Saudi Riyals 1,575 million, through a rights issue. The last day to exercise the rights was March 31, 2012. Accordingly, the Company's authorized and paid share capital, after the reduction and rights issue, is Saudi Riyals 1,575,000,000 consisting of 157,500,000 shares (Saudi Riyals 10 par value per share) with an adjustment factor of 1.56.

The Company's current liabilities exceeded its current assets as of June 30, 2014. Moreover, the Company had accumulated losses amounting Saudi Riyals 827.8 million as of June 30, 2014. The Company's management believes that it will be able to secure the necessary funding to meet its obligations when they become due. Accordingly, the accompanying interim financial statements have been prepared under the going concern basis.

Further to the announcement published on Tadawul's website on April 30, 2014 related to the memorandum of understanding (MoU) signed on August 20, 2013 between a subsidiary of EtiHAD Etisalat Company (Mobily) (namely Bayanat Al-Oula Network Services Company "Bayanat") and certain founding shareholders of the Company (namely Atheeb Trading Company, Al Nahla for Trading and Contracting Company, Traco Group for Trading and Contracting and Saudi Internet Company), The Company announced on May 29, 2014 that it was informed by the founding shareholders mentioned above that they decided to stop negotiations with Bayanat Al-Oula as Bayanat changed their initial offer in the MoU referred to above, which constitute a high risk for the company's future, and additional liabilities on the shareholders.

Further to the announcement published on Tadawul's website on March 31, 2014 regarding the Indefeasible Rights of Use ("IRU") agreement with Bayanat Al-Oula Network services Company "Bayanat", a subsidiary of EtiHAD Etisalat Company (Mobily) and referring to the IRU agreement with Bayanat Al-Oula Network Services Company signed on March 30, 2014. The Company announced on May 29, 2014 that it has terminated IRU agreement due to some technical and logistical difficulties that were not overcome by Bayanat.

Further to the announcement published on Tadawul's website on June 5, 2014 related to the Indefeasible Rights of Use "IRU" agreement with Saudi Telecom Company (STC) which was signed on June 4, 2014. According to the agreement, STC granted EtiHAD Atheeb Company IRU for 15 years for 30 thousand ports on its fiber optics network (see note 10). The IRU allows both parties to agree upon increasing the ports by EtiHAD Atheeb Company to reach 100 thousand ports. The agreement amount is Saudi Riyals 408 million which include operations and maintenance fees. This amount is to be paid on installments during 5 year period. These installments shall be financed through the Company's internal resources and the prospective resources arising from the sale of this service in addition to some licensed financing bodies 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.

The Company announced on June 12, 2014 that it has executed a marketing agreement with STC for the business sector dated June 11, 2014 with STC through which the Company will market business sector



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**(All amounts in Saudi Riyals unless otherwise stated)**

services of STC to some of its current or new customers specially for the small and medium size enterprises during a period of 18 months starting from the date of executing this agreement. The agreement amounted to Saudi Riyals 117 million which was received in full from STC.

The accompanying interim financial statements were approved for issue by the Board of Directors on July 21 2014.

**2 Basis of preparation**

The accounting policies adopted in the preparation of the interim financial statements, summarized below, are consistent with those followed in the preparation of the Company's annual audited financial statements for the year ended March 31, 2014.

**a) Statement of compliance**

The interim financial statements have been prepared in accordance with accounting standards issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

**b) Basis of measurement**

These interim financial statements have been prepared on a historical cost basis using the accrual basis of accounting. The Company's interim results may not be indicative of its annual results.

**c) Functional and presentation currency**

These interim financial statements are presented in Saudi Riyals which is the functional currency of the Company.

**3 Significant accounting policies**

**a. Use of estimates**

The preparation of interim financial statements in conformity with accounting standards generally accepted in Saudi Arabia requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods.

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.

**b. Accounts receivable**

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts provision is written-off as incurred.

**c. Provision for doubtful debts**

The Company reviews its accounts receivable for the purpose of creating required provisions against doubtful debts. 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.

**d. Intangible assets**

Intangible assets represent secured data communication license 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 April 1, 2009 and ending on March 31, 2034. Network capacity is amortized on a straight-line basis over the term of the agreement. Other intangibles are amortized over the estimated useful lives.

Capitalized license fees are reviewed at each financial period end to determine if there is any impairment in their values. In case impairment is identified, it is recorded in the interim statement of income.

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

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**(All amounts in Saudi Riyals unless otherwise stated)**

	<u>Life (Years)</u>
Network capacity	7-15

**e. Property and equipment**

Property and equipment, except land and capital work in progress, are stated at cost less accumulated depreciation and any impairment in value, if any. Land and capital work in progress are stated at cost. Routine repair and maintenance costs are expensed as incurred. The cost less estimated residual value of property and equipment is depreciated on a straight-line basis over the following estimated useful lives as follows:

	<u>Life (Years)</u>
Buildings	40
Civil works	10
Network infrastructure	4-15
Facilities ,support and IT Equipment	5

Gains and losses on disposals are determined by comparing the sale proceeds with the carrying amounts of these assets and are recognized in the interim statement of income.

Maintenance and normal repairs, which do not materially extend the estimated useful life of an asset, are charged to the statement of income. Major renewals and improvements, if any are capitalized and the assets so replaced are retired.

**f. Impairment of non-current assets**

Non-current 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-current assets other than intangible 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 income statement. Impairment losses recognized on intangible assets are not reversible.

**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' termination benefits**


The provision for employees' termination benefits is calculated in accordance with the Saudi Arabian Labor Law and is charged to the interim statement of income.

**i. Foreign currency translation**

Transactions denominated in foreign currencies are recorded and translated into Saudi Riyals at the rates of exchange prevailing at the date of the transaction. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at exchange rates prevailing on that date. Gains and losses arising on translation are recognized in the interim statement of income.

**j. Contingent liabilities**

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.



**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
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**k. Government charges**

Government charges represent fees and charges as stipulated in license agreements and paid 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.

**l. Zakat and income tax**

Zakat and income tax are provided for in accordance with Saudi Arabian financial regulations. The liability is charged to the interim statement of changes in shareholders' equity.

**m. Statutory reserve**

As required by Saudi Arabian Regulations for Companies, 10% of the net income for the year (after deducting losses, zakat and income tax) should be transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the share capital. The reserve is not currently available for distribution.

**n. Operating leases**

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lesser 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.

**o. Interconnection cost (only applicable for voice service)**

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

**p. 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. Fees for installation and activation are recognized as revenue upon activation. Installation and activation costs are expensed as incurred.

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 revenue 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 revenue 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.

**q. Expenses**

Cost of service comprises expenses incurred on operations and maintenance of the network, including leased and/or purchased capacity, inventory consumption and installation and interconnection charges. Selling and marketing expenses are those, which specifically relate to selling and marketing of the Company's products, and include costs relating mainly to commissions and advertising as well as provision for doubtful debts. All other expenses are classified as general and administrative expenses.

**r. Inventory**

Inventory comprises WiMAX modems, pre-paid cards, scratch cards and other telecommunication equipment. Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the difference between estimated selling price in the ordinary course of business and all necessary expenses expected to be incurred in selling the inventory. Cost is determined on a weighted average basis.



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**s. Borrowing costs**

Borrowing costs that are directly attributable to the construction of an asset are capitalized up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the interim statement of income.



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ETIHAD ATHEEB TELECOMMUNICATION COMPANY  
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Notes to the interim financial statements for the three-month period ended June 30, 2014 (Unaudited)  
(All amounts in Saudi Riyals unless otherwise stated)

4 Property and equipment, net

	Civil works	Network infrastructure	Facilities, support & IT	Work-in progress	2014 Total	2013 Total
<b>Cost:</b>						<b>(Restated)</b>
April 1 balance	77,647,434	1,355,546,646	28,674,333	93,002,967	1,554,871,380	1,475,184,994
Effect of restatement	-	-	-	-	-	52,892,754
April 1 balance (restated)	77,647,434	1,355,546,646	28,674,333	93,002,967	1,554,871,380	1,528,077,748
Additions during the period	14,392	1,614,479	52,276	10,047,282	11,728,429	7,059,746
Transfers during the period	-	3,809,253	840,517	(4,649,770)	-	-
Disposals	(74,097,233)*	-	(428,802)	-	(74,526,035)	(29,444)
<b>June 30 balance</b>	<b>3,564,593</b>	<b>1,360,970,378</b>	<b>29,138,324</b>	<b>98,400,479</b>	<b>1,492,073,774</b>	<b>1,535,108,050</b>
<b>Accumulated depreciation:</b>						
April 1 balance	9,618,496	701,766,029	19,650,336	-	731,034,861	548,946,745
Effect of restatement	-	-	-	-	-	17,113,826
April 1 balance (restated)	9,618,496	701,766,029	19,650,336	-	731,034,861	566,060,571
Charge for the period	299,780	39,827,133	1,486,401	-	41,613,314	40,924,359
Disposals	(8,860,459)	-	(339,730)	-	(9,200,189)	(17,069)
<b>June 30 balance</b>	<b>1,057,817</b>	<b>741,593,162</b>	<b>20,797,007</b>	<b>-</b>	<b>763,447,986</b>	<b>606,967,861</b>
<b>Net book values</b>	<b>2,506,776</b>	<b>619,377,216</b>	<b>8,341,317</b>	<b>98,400,479</b>	<b>728,625,788</b>	<b>928,140,189</b>

At year ended March 31, 2014, the Company reassessed certain capitalizable costs related to the construction of its network infrastructure (see note 14).

\* During the three-month period ended June 30, 2014, the company sold its owned building and two plots of land. The sale proceeds amounted to Saudi Riyals 160 million and the Company recognized a gain from the sale amounting to Saudi Riyals 63.4 million.

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**(A Saudi Joint Stock Company)**  
**Notes to the interim financial statements for the three-month period ended June 30, 2014 (Unaudited)**  
**(All amounts in Saudi Riyals unless otherwise stated)**

**5 Intangible assets, net**

<b>As of June 30:</b>	<b>2014</b>	<b>2013</b>
<b>Cost:</b>		
License fees paid to Communication & Information Technology Commission ("CITC")	527,904,000	527,904,000
Network Capacity	159,260,000	155,260,000
Other	24,599,711	24,584,711
	<u>711,763,711</u>	<u>707,748,711</u>
<b>Amortization:</b>		
April 1 balance	(168,488,341)	(131,916,331)
Charge for the period	(8,919,075)	(9,118,510)
June 30 balance	<u>(177,407,416)</u>	<u>(141,034,841)</u>
	<u>534,356,295</u>	<u>566,713,870</u>

License fees are amortized on a straight-line basis over 25 years, which is the regulatory life of the license.

Network capacity represents indefeasible right to use ("IRU") acquired on a Fibre Optic cable network for local service connectivity for a period of fifteen years connecting the Company's headquarters in Riyadh.

**6 Deferred revenues and gains**

This represent amounts billed in advance to customers and will be recognized as revenue over the service period. This also include deferred gains resulted from the sale and lease back agreements signed with Saudi Telecom Company "STC" (see note 4, 11). These deferred gains will be recognized as other income over the term of the lease back agreement.

**7 Tawarooq Islamic financing**

This comprises Islamic mode of financing from a local bank (the "Bank") to meet capital and operating expenditure of the company. The Islamic financing involves the sale and purchase of commodities with the Bank as per standard mutually agreed terms. The average rate of return on this financing is based on Saudi Interbank Offer Rate (SIBOR) plus the commission of the Bank.

The financing balance as of June 30 was as follows:

	<b>2014</b>	<b>2013</b>
Current portion	31,068,109	31,068,113
Non-current portion	155,340,627	186,408,751
	<u>186,408,736</u>	<u>217,476,864</u>

The non-current portion amounting to Saudi Riyals 155.3 million will be settled in twenty quarterly installments starting from July 2015 and ending on April 2020.

**8 Revenue from services**

Revenue recognized is in respect of broadband and voice services provided to subscribers during the period and termination revenue billed to other telecommunication operators for the period ended June 30, 2014.

**9 Income (Loss) per share**

Income (Loss) per share for the three-month periods ended June 30, 2014 and 2013 is calculated by dividing the income (loss) for the period by the weighted average number of shares outstanding during the period.

**10 Commitments and contingencies**

**a) Major capital commitments**

The company had commitments resulting from major agreements which were entered into and not yet executed at the balance sheet date amounting approximately to Saudi Riyals 457 million (June 30, 2013: Saudi Riyals 80 million) out of which, Saudi Riyals 408 million are resulting from the IRU agreement signed with STC (see note 1).

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**b) Contingent liabilities**

The Company's bankers have issued letters of credit and guarantees amounting to Saudi Riyals 50 million (June 30, 2013: Saudi Riyals 50 million) (including temporary sub allocation of facilities) as at the interim balance sheet date.

**c) Legal Situation**

The Company is part of legal cases with employees, and some suppliers in the normal course of business. The Company's management believes that the values of these cases are not significant.

The company filed an appeal to the Board of Grievance against the Communications and Information Technology Commission's assessment decision that fined the Company an amount of Saudi Riyals 5 million related to a service provided by them, the appeal is still under consideration by the Board of Grievances in Riyadh, Saudi Arabia.

**11 Operating leases**

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the three-month period ended June 30, 2014 amounted to Saudi Riyals 11.2 million (June 30, 2013: Saudi Riyals 12.3 million). Also on May 28, 2014, the Company entered into an operating lease agreement for its head-office building sold to Saudi Telecom Company "STC" (see note 4) for 6 years with an annual rental fee of Saudi Riyals 3.25 million with an exemption of the first annual rental fee.

Future rental commitments at June 30, 2014 under these operating leases are as follows:

<b>Years ending March 31:</b>	<b>Saudi Riyal</b>
2015	31,552,178
2016	45,747,514
2017	44,955,563
2018	35,995,358
2019	14,837,873
2020 and thereafter	5,188,238
	<u>178,276,724</u>

**12 Segmental information**

The segmental information are not currently available for the Company to disclose. The Company is working on developing such information to be disclosed in the near future.

**13 Related party matters**

**13.1 Related party transactions**

Significant transactions with related parties in the ordinary course of business included in the interim financial statements for the three-month periods ended June 30, 2014 and 2013 are summarized below:

<b>Nature of transactions</b>	<b>2014</b>	<b>2013</b>
Interconnection revenue	849,651	2,368,087
Data revenue	590,784	864,652
Management Fees	430,792	495,497
Voice Interconnection Cost	265,955	745,086
GMPLS Lease circuit invoices	1,428,871	1,000,000
Compensation for corporate guarantees issued by the founding shareholders	134,110	166,877
Other charges	-	90,000

**13.2 Related party balances**

Significant balances arising from transactions with related parties as of June 30, 2014 and 2013 are as follows:

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(i) Trade receivable from related parties

	2014	2013
BATELCO	10,066,194	3,284,832
Atheeb Trading Company Ltd.	798,347	356,966
SAMACO	381,642	179,926
Atheeb Integraph	126,250	31,500
UFM Radio	86,400	43,200
	11,458,833	3,896,424

(ii) Due to related parties

	2014	2013
BATELCO	17,383,832	13,335,756
Al Nahla Trading and Contracting Company Ltd.	1,446,624	1,643,669
Traco Group Trading and Contracting Company	758,191	704,429
Saudi Internet Company Ltd.	568,643	287,226
Atheeb Computer and Communications Company Ltd.	568,643	287,226
Atheeb Maintenance and Services Company Ltd.	568,643	287,226
Atheeb Trading Company Ltd.	679,440	1,211,794
	21,974,016	17,757,326

**14 Restatement of certain capitalizable costs**

At the year ended March 31, 2014, the Company reassessed costs of capitalizable nature which were charged to cost of revenues in prior years. as a consequence, the Company restated certain prior years' amounts to capitalize certain amounts in technical employees cost. The capitalized costs were added to the cost of "Network Infrastructure" under property and equipment and depreciated on straight line basis using the related asset category depreciation rate ranging from 4 to 15 years. Accordingly the related comparative amounts and balances presented in the interim financial statements as of and for the three-month period ended June 30, 2013 were restated as follows:

Balance sheet:	Balance as previously reported June 30, 2013	Balance after restatement June 30, 2013
Property and Equipment, net	1,014,261,796	928,140,189
Accumulated losses	(742,297,228)	(707,952,597)
	Amounts as previously reported June 30, 2013	Amounts after restatement June 30, 2013
<b>Income statement:</b>		
Cost of services	(48,598,589)	(48,137,167)
Depreciation and amortization	(48,147,150)	(50,042,869)
Gross profit	9,494,885	9,956,307
Loss from main operations	(66,415,979)	(67,850,276)
Net loss for the period	(67,536,100)	(68,970,397)




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	<b>Amounts as previously reported June 30, 2013</b>	<b>Amounts after restatement June 30, 2013</b>
<b>Loss per share:</b>		
Loss from main operations	(0.42)	(0.43)
Net Loss for the period	(0.43)	(0.44)

The Company's management believes the reassessment of such capitalizable costs as shown above more accurately reflect the Company's financial position and results of operations for the current and previous periods. Had the Company not made the reassessment of such capitalizable costs, the losses for the three-month period ended June 30, 2014 would have been lower by an amount of SR 1.4 million while accumulated losses would have been higher by SR 34 million.

**15 Reclassifications**

Certain reclassifications have been made in the comparative figures to conform to the presentation for the current period.