

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**Interim Financial Statements (Un-audited)**  
**For the three-month period and the year ended 31 March 2016**  
Together with the  
**Independent Auditors' Review Report**



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

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

***Scope of Review***

We have reviewed the accompanying interim balance sheet of Ethiad Atheeb Telecommunication Company ("the Company") as at 31 March 2016, the related interim statement of income for the three-month period and the year ended 31 March 2016, the interim statement of cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) to (16) 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 express a conclusion on these interim financial statements based on our review.

We conducted our review in accordance with the 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 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.

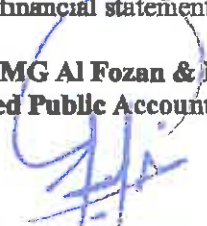
***Review conclusion***

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 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 31 March 2016, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 69.5% of the Company's share capital. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's management believes that the agreements held, as explained in Note 1(b) and 1(c) to the accompanying interim financial statements, would increase the business of the Company by enabling it to provide more and improved services. Also, the management believes that it will be able to secure the necessary funding to meet its obligations as and when they become due. Accordingly, the accompanying interim financial statements have been prepared under going concern basis.

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

  
Khalil Ibrahim Al Sedais  
License No: 371



Date: 13 Rajab 1437H  
Corresponding to: 20 April 2016

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM BALANCE SHEET (Un-audited)**  
As at 31 March 2016  
(Saudi Arabian Riyals)


	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances		137,727,270	180,712,604
Trade receivables	4	65,244,157	35,428,716
Inventories		5,406,579	3,236,351
Due from related parties	15(b)	13,148,943	11,117,745
Prepayments and other receivables	5	116,554,011	89,154,951
<b>Total current assets</b>		<u>338,080,960</u>	<u>319,650,367</u>
<b>Non-current assets</b>			
Long term receivable		--	50,000,000
Property and equipment	6	396,081,056	524,621,264
Intangible assets	7	884,896,362	723,951,788
<b>Total non-current assets</b>		<u>1,280,977,418</u>	<u>1,298,573,052</u>
<b>TOTAL ASSETS</b>		<u>1,619,058,378</u>	<u>1,618,223,419</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Tawarooq Islamic financing – current portion	8	31,068,118	31,068,118
Accounts payable		472,657,539	387,639,379
Due to related parties	15(c)	30,300,787	25,080,592
Deferred income	9	37,622,051	26,365,084
Accrued expenses and other liabilities		148,823,518	154,570,706
Provision for Zakat	16	2,033,124	428,758
<b>Total current liabilities</b>		<u>722,505,137</u>	<u>625,152,637</u>
<b>Non-current liabilities</b>			
Tawarooq Islamic financing	8	100,971,426	132,039,546
Long term accounts payable	7 (1)	306,000,000	204,000,000
Deferred income	9	--	19,786,892
Provision for employees' end of service benefits		9,214,189	7,173,193
<b>Total non-current liabilities</b>		<u>416,185,615</u>	<u>362,999,631</u>
<b>TOTAL LIABILITIES</b>		<u>1,138,690,752</u>	<u>988,152,268</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	2(b)	(1,094,632,374)	(944,928,849)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>480,367,626</u>	<u>630,071,151</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>1,619,058,378</u>	<u>1,618,223,419</u>

The accompanying notes (1) through (16) 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 20 April 2016 and are signed on their behalf by:

  
Emad Maali  
Chief Executive Officer

  
Husam Sadagah  
Chairman

  
Mahmoud Al Abdullah  
Acting Chief Financial Officer

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

	For the three-month period ended		For the year ended	
	31 March <u>2016</u>	31 March <u>2015</u>	31 March <u>2016</u>	31 March <u>2015</u>
Revenue from services	96,902,474	73,429,037	343,033,466	247,102,700
Cost of services	<u>(88,095,649)</u>	<u>(63,415,532)</u>	<u>(311,656,668)</u>	<u>(217,144,611)</u>
<b>Gross profit</b>	<u>8,806,825</u>	<u>10,013,505</u>	<u>31,376,798</u>	<u>29,958,089</u>
<b>Operating expenses</b>				
Selling and marketing expenses	(15,585,323)	(11,438,712)	(59,597,307)	(44,933,911)
General and administration expenses	(16,926,830)	(15,395,445)	(72,969,911)	(79,196,327)
Depreciation and amortization	<u>(47,215,770)</u>	<u>(47,166,200)</u>	<u>(188,284,016)</u>	<u>(198,391,579)</u>
<b>Total operating expenses</b>	<u>(79,727,923)</u>	<u>(74,000,357)</u>	<u>(320,851,234)</u>	<u>(322,521,817)</u>
<b>Loss from operations</b>	(70,921,098)	(63,986,852)	(289,474,436)	(292,563,728)
Other income	10 9,445,973	31,562,124	146,122,020	242,171,562
Financial charges	<u>(1,166,559)</u>	<u>(1,302,201)</u>	<u>(4,746,743)</u>	<u>(5,850,754)</u>
<b>Net loss for the period / year</b>	<u>(62,641,684)</u>	<u>(33,726,929)</u>	<u>(148,099,159)</u>	<u>(56,242,920)</u>
Loss per share attributable to:				
- Loss from operations	11 (0.45)	(0.41)	(1.84)	(1.86)
- Net loss for the period / year	<u>(0.40)</u>	<u>(0.21)</u>	<u>(0.94)</u>	<u>(0.36)</u>
- Other income for the period / year	<u>0.06</u>	<u>0.20</u>	<u>0.93</u>	<u>1.54</u>
Weighted average number of shares	1(a), 11 157,500,000	157,500,000	157,500,000	157,500,000

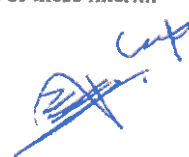
The accompanying notes (1) through (16) on pages (5) to (16) form an integral part of these interim financial statements.




**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM STATEMENT OF CASH FLOWS (Un-audited)**  
For the year ended 31 March 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 year</b>		(148,099,159)	(56,242,920)
<i>Adjustments to reconcile net loss for the year to net cash flow generated from operating activities</i>			
Depreciation and amortization	6.7	188,284,021	198,391,579
Gain on sale of property	6.1	(21,869,726)	(63,342,591)
Provision for doubtful receivables		3,612,002	3,557,161
Provision for employees' end of service benefits		3,066,497	1,450,152
<i>Changes in working capital</i>		<u>24,993,635</u>	<u>83,813,381</u>
Trade receivables		(33,427,443)	(13,184,009)
Inventories		(2,170,228)	2,667,266
Due from related parties		(2,031,198)	(791,545)
Prepayments and other receivables		(22,399,060)	(31,183,966)
Accounts payable		28,018,160	39,227,641
Due to related parties		5,220,195	4,404,239
Accrued expenses and other liabilities		(5,747,188)	83,410,357
Deferred income		13,339,801	(25,736,348)
<i>Cash generated from operating activities</i>		<u>5,796,674</u>	<u>142,627,016</u>
Employees' end of service benefits paid		(1,025,501)	(1,772,400)
<b>Net cash generated from operating activities</b>		<u>4,771,173</u>	<u>140,854,616</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	6	(16,688,387)	(29,279,009)
Proceeds from sale of property		--	60,000,000
<b>Net cash (used in) / from investing activities</b>		<u>(16,688,387)</u>	<u>30,720,991</u>
<b>Cash flows from financing activities</b>			
Repayment for Tawarooq Islamic financing		(31,068,120)	(31,068,112)
<b>Net cash used in financing activities</b>		<u>(31,068,120)</u>	<u>(31,068,112)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(42,985,334)</u>	<u>140,507,495</u>
Cash and cash equivalents at the beginning of the year		180,712,604	40,205,109
<b>Cash and cash equivalents at the end of the year</b>		<u>137,727,270</u>	<u>180,712,604</u>
<b><u>Non-cash supplemental information:</u></b>			
Acquisition of intangible asset	7.1	204,000,000	204,000,000
Settlement of property and equipment		--	88,100,411

The accompanying notes (1) through (16) on pages (5) to (16) 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 (Un-audited)**  
For the year ended 31 March 2016  
(Saudi Arabian Riyals)

	For the year ended 31 March 2016		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 31 March 2015	1,575,000,000	(944,928,849)	630,071,151
Net loss for the year ended 31 March 2016	-	(148,099,159)	(148,099,159)
Zakat charge for the year	-	(1,604,366)	(1,604,366)
<b>Balance at 31 March 2016</b>	<b>1,575,000,000</b>	<b>(1,094,632,374)</b>	<b>480,367,626</b>

	For the year ended 31 March 2015		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 31 March 2014	1,575,000,000	(888,257,171)	686,742,829
Net loss for the year ended 31 March 2015	--	(56,242,920)	(56,242,920)
Zakat charge for the year	--	(428,758)	(428,758)
<b>Balance at 31 March 2015</b>	<b>1,575,000,000</b>	<b>(944,928,849)</b>	<b>630,071,151</b>

The accompanying notes (1) through (16) 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 three-month period and the year ended 31 March 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 71.9 million shares and the remaining 85.6 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 10).



**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the three-month period and the year ended 31 March 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 2015. 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 13 Rajab 1437H, corresponding to 20 April 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 31 March 2016, the Company's current liabilities exceeds its current assets by SAR 384 million (2015: SAR 306 million). Moreover, the Company has accumulated losses amounting to SAR 1,095 million as of 31 March 2016 which approximate 69.50% of the Company's share capital. The Company's management believes that the agreements with STC would improve the Company's business. The management also believes 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 judgment, 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 three-month period and the year ended 31 March 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 in hand, 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 are carried at cost.

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 three-month period and the year ended 31 March 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:

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

f) ***Impairment of non-financial 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 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**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
For the three-month period and the year ended 31 March 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 Saudi Department of Zakat and Income Tax ("DZIT") 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.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
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(Saudi Arabian Riyals)

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

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.

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	79,605,274	46,177,831
Provision for doubtful receivables	<u>(14,361,117)</u>	<u>(10,749,115)</u>
	<u>65,244,157</u>	<u>35,428,716</u>

5) **PREPAYMENTS AND OTHER RECEIVABLES**

Prepayments and other receivables include receivable from STC in respect of sale of a Company's property (see note 6.1) and marketing support (see note 10) amounting to SAR 50 million (2015: SAR 50 million) and SAR 55.9 million (2015: SAR 29.3 million) respectively.

**ETIHAD ATHEEB TELECOMMUNICATION COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)**  
**For the three-month period and the year ended 31 March 2016**  
(Saudi Arabian Riyals)

**6) PROPERTY AND EQUIPMENT**

	<u>2016</u>				<u>2015</u>
	<u>Leasehold improvements</u>	<u>Network infrastructure</u>	<u>Facilities, support &amp; IT equipment</u>	<u>Capital work in progress</u>	<u>Total</u>
<b>Cost:</b>					
Balance at 1 April	3,670,619	1,333,596,825	30,173,231	2,459,152	1,503,191,739
Additions during the year	--	8,263,871	349,962	8,074,554	29,279,009
Disposals during the year	--	--	--	--	(74,470,510)
Capitalization during the year	--	8,839,191	1,224,015	(10,063,206)	(88,100,411)
<b>Balance at 31 March</b>	<b>3,670,619</b>	<b>1,350,699,887</b>	<b>31,747,208</b>	<b>470,500</b>	<b>1,369,899,827</b>
<b>Accumulated depreciation:</b>					
Balance at 1 April	1,333,499	819,750,155	24,194,909	--	699,038,232
Charge for the year	1,959,805	141,660,823	1,607,967	--	155,384,984
Eliminated on disposals	--	--	--	--	(9,144,653)
<b>Balance at 31 March</b>	<b>3,293,304</b>	<b>961,410,978</b>	<b>25,802,876</b>	<b>--</b>	<b>845,278,563</b>
<b>Net book value</b>					
<b>At 31 March 2016</b>	<b>377,315</b>	<b>389,288,909</b>	<b>5,944,332</b>	<b>470,500</b>	<b>396,081,056</b>
<i>At 31 March 2015</i>					<u>524,621,264</u>

6.1) During the period ended 30 June 2014, the Company sold its owned building and two plots of land to STC under sale and lease back arrangement for SAR 160 million that resulted in a gain of SAR 94.6 million. Further, the Company entered into and operating lease agreement with STC related to 1/3<sup>rd</sup> of the building, consequently the Company deferred gain of SAR 31.2 million which was being recognized as other income over the term of the lease back agreement in proportion to the rent expense over the lease period.

During the year, the Company terminated the five year operating lease agreement of 1/3<sup>rd</sup> of the building with STC and entered into a new operating lease agreement for a period of 1 year commencing from 28<sup>th</sup> May 2015. Accordingly, the outstanding deferred gain as at 28<sup>th</sup> May 2015 amounting to SAR 25 million is amortized over the new lease term.

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**7. INTANGIBLE ASSETS**

	2016				2015	
	License	Network capacity	Pre-operating costs	Network capacity under development	Software	Total
<b>Cost:</b>						
Balance at 1 April	527,904,000	227,260,000	24,599,711	136,000,000	51,679,643	967,443,354
Additions during the year (note 7.1)	--	--	--	204,000,000	--	204,000,000
Capitalization during the year	--	68,000,000	--	(68,000,000)	--	--
<b>Balance at 31 March</b>	<b>527,904,000</b>	<b>295,260,000</b>	<b>24,599,711</b>	<b>272,000,000</b>	<b>51,679,643</b>	<b>967,443,354</b>
<b>Accumulated amortization:</b>						
Balance at 1 April	126,696,960	56,562,414	22,051,022	--	38,181,170	200,484,970
Charge for the year	21,116,160	16,690,878	2,548,689	--	2,699,699	43,006,596
<b>Balance at 31 March</b>	<b>147,813,120</b>	<b>73,253,292</b>	<b>24,599,711</b>	<b>--</b>	<b>40,880,869</b>	<b>243,491,566</b>
<b>Net book value</b>						
<b>At 31 March 2016</b>	<b>380,090,880</b>	<b>222,006,708</b>	<b>--</b>	<b>272,000,000</b>	<b>10,798,774</b>	<b>884,896,362</b>
<i>At 31 March 2015</i>						<u>723,951,788</u>

7.1) Under the IRU agreement with STC (see note 1), during the year the Company acquired ports amounting to SAR 204 million which are currently under development. Also, the Company previously acquired ports of SAR 204 million of which SAR 136 million were capitalized as network capacity and the remaining ports of SAR 68 million are still under development. The related payment of SAR 408 million shall be due in twelve equal quarterly installments of SAR 34 million each, commencing from first quarter of 2017 hence; the related liability has been included under long-term and short-term accounts payable.

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**8. 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 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 17 equal quarterly installments ending April 2020.

The financing balance as of 31 March was as follows:

	<u>2016</u>	<u>2015</u>
Current portion	31,068,118	31,068,118
Non-current portion	100,971,426	132,039,546
	<u>132,039,544</u>	<u>163,107,664</u>

**9. DEFERRED INCOME**

	<u>2016</u>	<u>2015</u>
Current portion	37,622,051	26,365,084
Non-current portion	--	19,786,892
	<u>37,622,051</u>	<u>46,151,976</u>

**10. OTHER INCOME**

For the year ended 31 March 2016, other income mainly includes SAR 22 million (2015: SAR 69 million) related to gain on sale of a Company's property (see note 6.1) and SAR 124 million (2015: SAR 157 million) related to various marketing support services as the Company entered into agreements with STC to market their business sector (see note 1(c)).

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

(Loss) / earnings per share for the three-month period and year ended 31 March 2016 and 2015 is calculated by dividing the loss / (earnings) for the period / year by the weighted average number of shares outstanding during the period / year.

**12. 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 few suppliers. The 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 87.9 million (2015: SAR 327 million) pertaining to the various vendors.

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**13. OPERATING LEASES**

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the year ended 31 March 2016 amounted to SAR 44.9 million (2015: SAR 44.7 million).

Future rental commitments at 31 March 2016 under these operating leases are as follows:

Years ending 31 March :	SAR
2017	39,848,510
2018	39,100,510
2019	15,512,220
2020	2,543,400
2021 and thereafter	1,385,600
	<u>98,390,240</u>

**14. 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.

	<u>For the three months period ended 31 March 2016</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	53,691,139	43,211,335	--	96,902,474
Segment profit / (loss)	(23,460,485)	(48,627,173)	9,445,973	(62,641,684)
Depreciation and amortization	(5,127,424)	(42,088,346)	--	(47,215,770)
Finance expenses	(535,161)	(631,398)	-	(1,166,559)
	<u>For the three months period ended 31 March 2015</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	37,397,963	36,031,074	--	73,429,037
Segment profit / (loss)	(20,643,413)	(44,645,640)	31,562,124	(33,726,929)
Depreciation and amortization	(5,122,041)	(42,044,159)	--	(47,166,200)
Finance expenses	(597,387)	(704,814)	--	(1,302,201)
	<u>For the year ended 31 March 2016</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	186,737,183	156,296,283	--	343,033,466
Segment profit / (loss)	(90,998,986)	(203,222,193)	146,122,020	(148,099,159)
Depreciation and amortization	(20,446,812)	(167,837,204)	--	(188,284,016)
Finance expenses	(2,177,575)	(2,569,168)	--	(4,746,743)
	<u>For the year ended 31 March 2015</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	101,438,338	145,664,362	--	247,102,700
Segment profit / (loss)	(106,278,699)	(192,135,785)	242,171,564	(56,242,920)
Depreciation and amortization	(21,544,449)	(176,847,130)	--	(198,391,579)
Finance expenses	(2,684,043)	(3,166,711)	--	(5,850,754)



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**14. SEGMENTAL INFORMATION (CONTINUED)**

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.

**15. 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-month period ended		For the year ended	
		31 March 2016	31 March 2015	31 March 2016	31 March 2015
a)	<b><u>Significant related party transactions</u></b>				
	<b><u>Related parties</u></b>				
	<b><u>Nature of transaction</u></b>				
	Bahrain Telecommunications Company (BATELCO)	603,579	285,123	1,797,439	1,183,827
	Interconnection revenue	113,831	22,158	257,854	940,938
	Interconnection cost	573,848	2,753,254	4,330,746	4,518,439
	Ithraa Capital Company	616,000	800,000	2,462,156	6,000,000
	Consultancy				
	Founding shareholders	110,322	123,920	461,682	516,051
	Financial charges				
b)	<b><u>Due from related parties</u></b>		<b><u>Relationship</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
	Bahrain Telecommunications Company (BATELCO)		Shareholder	10,709,334	9,626,274
	Atheeb Trading Company Limited		Shareholder	1,425,045	1,142,582
	Saudi Arabian Marketing and Agencies Limited		Affiliate	1,014,564	298,839
	EtiHAD Shams Company Limited		Affiliate	—	46,100
	Atheeb Saudi Intergraph Company Limited		Shareholder	—	3,950
				<u>13,148,943</u>	<u>11,117,745</u>
c)	<b><u>Due to related parties</u></b>		<b><u>Relationship</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
	Bahrain Telecommunications Company (BATELCO)		Shareholder	22,276,226	18,811,168
	Ithraa Capital Company		Affiliate	3,400,000	2,000,000
	Al Nahla Trading and Contracting Company Limited		Shareholder	982,168	882,729
	Atheeb Trading Company Limited		Shareholder	925,190	807,994
	Traco Group Trading and Contracting Company		Shareholder	836,062	793,449
	Saudi Internet Company Limited		Shareholder	627,047	595,084
	Atheeb Computer and Communications Company Limited		Shareholder	627,047	595,084
	Atheeb Maintenance and Services Company Limited		Shareholder	627,047	595,084
				<u>30,300,787</u>	<u>25,080,592</u>

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**16. PROVISION FOR ZAKAT AND TAX**

The final zakat and tax declarations for the period / years ended 31 March 2010 to 2015 have been submitted to Department of Zakat and Income Tax (DZIT). However, the DZIT has not yet raised an assessment for these period / years. During the year, 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	428,758	--
Charge for the year	<u>1,604,366</u>	<u>428,758</u>
Balance as at 31 March	<u>2,033,124</u>	<u>428,758</u>

