

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
Interim Financial Statements (Un-audited)
For the three months period ended 30 June 2015
Together with the
Independent Auditor's Review Report



KPMG Al Fozan & Al Sadhan
KPMG Tower
Salehudeen Al Ayoubi Road
P O Box 92876
Riyadh 11863
Kingdom of Saudi Arabia

Telephone +966 11 8748600
Fax +966 11 8748600
Internet www.kpmg.com.sa
License No. 48/11/323 issued 11/3/1992

**INDEPENDENT AUDITOR'S 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 June 2015, the related interim statement of income for the three months period then ended, cash flows and changes in shareholders' equity for the three months period then ended and the attached notes (1) to (16) 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 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 limited 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 applying analytical procedures to financial data and information and making inquiries of persons 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 regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 appropriate to the circumstances of the Company.

Emphasis of matter

We draw attention to Note 2 (b) to the accompanying interim financial statements; as at 30 June 2015, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 62.5% 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 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 financial statements have been prepared under going concern basis.

For KPMG Al Fozan & Al Sadhan



Khalil Ibrahim Al Sedais
License No: 371

Date: 27 Ramadan 1436H
Corresponding to: 14 July 2015


ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
INTERIM BALANCE SHEET
As at 30 June 2015
(Saudi Arabian Riyals)

	Note	2015 <i>(Un-audited)</i>	2014 <i>(Un-audited)</i>
ASSETS			
Current assets			
Cash and bank balances		169,745,582	208,776,362
Trade receivables	4	75,690,920	59,081,067
Inventories		5,149,893	13,394,663
Due from related parties	15(b)	11,659,280	11,458,833
Prepayments and other receivables	5	104,132,153	88,093,505
Total current assets		<u>366,377,828</u>	<u>380,804,430</u>
Non-current assets			
Long term receivable		--	50,000,000
Property and equipment	6	495,496,374	710,978,829
Intangible assets	7	781,224,455	552,003,254
Total non-current assets		<u>1,276,720,829</u>	<u>1,312,982,083</u>
TOTAL ASSETS		<u>1,643,098,657</u>	<u>1,693,786,513</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Tawarooq Islamic financing – current portion	8	31,068,137	31,068,109
Accounts payable		349,540,121	421,365,515
Due to related parties	15(c)	26,758,900	22,413,599
Deferred income	9	48,346,882	44,901,147
Accrued expenses and other current liabilities		193,013,810	189,495,998
Provision for Zakat	16	428,758	--
Total current liabilities		<u>649,156,608</u>	<u>709,244,368</u>
Non-current liabilities			
Tawarooq Islamic financing	8	124,272,503	155,340,627
Long term accounts payable	7.1	272,000,000	49,868,263
Deferred income	9	--	24,993,971
Provision for employees' end of service benefits		7,755,984	7,165,755
Total non-current liabilities		<u>404,028,487</u>	<u>237,368,616</u>
TOTAL LIABILITIES		<u>1,053,185,095</u>	<u>946,612,984</u>
SHAREHOLDERS' EQUITY			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	2(b)	(985,086,438)	(827,826,471)
TOTAL SHAREHOLDERS' EQUITY		<u>589,913,562</u>	<u>747,173,529</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,643,098,657</u>	<u>1,693,786,513</u>

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


Emad Maali
Chief Executive Officer


Sherif Salim Riad
Chief Financial Officer


Husam Sadagah
Chairman

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

		<u>For the three months period ended</u>	
	<i>Note</i>	<u>30 June 2015</u> <i>(Un-audited)</i>	<u>30 June 2014</u> <i>(Un-audited)</i>
Revenue from services		83,325,861	61,985,707
Cost of services		<u>(73,882,819)</u>	<u>(55,828,742)</u>
Gross profit		<u>9,443,042</u>	<u>6,156,965</u>
Operating expenses			
Selling and marketing expenses		(14,236,418)	(9,437,498)
Depreciation and amortization		(46,929,353)	(50,532,389)
General and administrative expenses		<u>(20,327,236)</u>	<u>(16,158,199)</u>
Total operating expenses		<u>(81,493,007)</u>	<u>(76,128,086)</u>
Loss from operations		(72,049,965)	(69,971,121)
Other income	10	33,124,247	132,007,343
Financial charges		<u>(1,231,871)</u>	<u>(1,605,522)</u>
Net loss / (income) for the period		<u>(40,157,589)</u>	<u>60,430,700</u>
(Loss) / earnings per share attributable to:	11		
- Loss from operations		<u>(0.46)</u>	<u>(0.44)</u>
- Net (loss) / income for the period		<u>(0.25)</u>	<u>0.38</u>
- Other income for the period		<u>0.21</u>	<u>0.84</u>
Weighted average number of shares outstanding during the period	1(a),11	<u>157,500,000</u>	<u>157,500,000</u>

The accompanying notes (1) through (16) on pages (5) 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
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

	Note	<u>2015</u> <i>(Un-audited)</i>	<u>2014</u> <i>(Un-audited)</i>
Cash flows from operating activities			
Net (loss) / income for the period		(40,157,589)	60,430,700
<i>Adjustments to reconcile net (loss) / income for the period to net cash flow generated from operating activities</i>			
Depreciation and amortization	6,7	46,929,353	50,532,389
Gain on sale of property	6.1	(3,124,247)	(63,431,685)
Provision for doubtful receivables		965,544	425,504
Provision for employees' end of service benefits		983,234	122,567
		<u>5,596,295</u>	<u>48,079,475</u>
<i>Changes in working capital</i>			
Inventories		(1,913,542)	(7,491,046)
Trade receivables		(41,227,748)	(17,792,794)
Due from related parties		(541,535)	(1,132,633)
Prepayments and other receivables		(9,977,202)	(10,398,524)
Accounts payable		6,900,742	3,683,215
Due to related parties		1,678,308	1,737,246
Accrued expenses and other current liabilities		38,443,104	86,155,415
Deferred income		5,319,153	25,678,621
<i>Cash generated from operating activities</i>		<u>4,277,575</u>	<u>128,518,975</u>
Employees' end of service benefits paid		(400,443)	(452,253)
Net cash generated from operating activities		<u>3,877,132</u>	<u>128,066,722</u>
Cash flow from investing activities			
Acquisition of property and equipment	6	(7,077,130)	(11,728,429)
Proceeds from sale of property		—	60,000,000
Net cash (used in) / generated from investing activities		<u>(7,077,130)</u>	<u>48,271,571</u>
Cash flows from financing activities			
Repayment for Tawarooq Islamic financing		(7,767,024)	(7,767,040)
Net cash used in financing activities		<u>(7,767,024)</u>	<u>(7,767,040)</u>
Net (decrease) / increase in cash and cash equivalents		(10,967,022)	168,571,253
Cash and cash equivalents at the beginning of the period		<u>180,712,604</u>	<u>40,205,109</u>
Cash and cash equivalents at the end of the period		<u>169,745,582</u>	<u>208,776,362</u>
<u>Non-cash supplemental information:</u>			
Acquisition of intangible assets	7.1	<u>68,000,000</u>	<u>—</u>

The accompanying notes (1) through (16) on pages (5) 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
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

	For the three months period ended 30 June 2015		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 31 March 2015 <i>(audited)</i>	1,575,000,000	(944,928,849)	630,071,151
Net loss for the period ended 30 June 2015 <i>(un-audited)</i>	-	(40,157,589)	(40,157,589)
Balance at 30 June 2015 (un-audited)	1,575,000,000	(985,086,438)	589,913,562

	For the three months period ended 30 June 2014		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 31 March 2014 <i>(audited)</i>	1,575,000,000	(888,257,171)	686,742,829
Net income for the period ended 30 June 2014 <i>(un-audited)</i>	--	60,430,700	60,430,700
Balance at 30 June 2014 (un-audited)	1,575,000,000	(827,826,471)	747,173,529

The accompanying notes (1) through (16) on pages (5) 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 (Un-audited)
For the three months period ended 30 June 2015

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 102.4 million shares with a nominal value of SAR 10 each, which represents 65% shares of the Company's capital and the remaining 55.1 million shares with a nominal value of SAR 10 each 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 some external 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.

- 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 months period ended 30 June 2015

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 14 July 2015 corresponding to 27 Ramadhan 1436 A.H..

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 June 2015, the Company's current liabilities exceeds its current assets by SAR 282.8 million (2014: SAR 328.4 million). Moreover, the Company has accumulated losses amounting to SAR 985 million as of 30 June 2015 which approximate 62.5% 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 debts 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 months period ended 30 June 2015

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 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 months period ended 30 June 2015

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 statement of income over the useful life as follows:

	<u>Life (Years)</u>
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 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 interim statement of income. 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' 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 three months period ended 30 June 2015

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. Fees for installation and activation are recognized as revenue upon activation.

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
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(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>2015</u>	<u>2014</u>
Trade receivables	87,405,579	66,273,021
Provision for doubtful receivables	<u>(11,714,659)</u>	<u>(7,191,954)</u>
	<u>75,690,920</u>	<u>59,081,067</u>

5) PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables include receivable from STC in respect of sale of the Company's building and land (see note 6.1) and marketing support (see note 10) amounting to SAR 55 million and SAR 39.3 million, respectively.



ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

6) PROPERTY AND EQUIPMENT

	<u>2015</u>				<u>2014</u>	
	<u>Leasehold improvements</u>	<u>Network infrastructure</u>	<u>Facilities, support & IT equipment</u>	<u>Capital work in progress</u>	<u>Total</u>	<u>Total</u>
Cost:						
Balance at 1 April	3,670,619	1,333,596,825	30,173,231	2,459,152	1,369,899,827	1,503,191,737
Additions during the period	--	1,910,267	50,000	5,116,863	7,077,130	11,728,429
Disposals during the period	--	--	--	--	--	(74,526,035)
Capitalization during the period	--	1,894,119	--	(1,894,119)	--	--
Balance at 30 June	3,670,619	1,337,401,211	30,223,231	5,681,896	1,376,976,957	1,440,394,131
Accumulated depreciation:						
Balance at 1 April	1,333,499	819,750,155	24,194,909	--	845,278,563	699,038,232
Charge for the period	261,874	35,552,765	387,381	--	36,202,020	39,577,259
Eliminated on disposals	--	--	--	--	--	(9,200,189)
Balance at 30 June	1,595,373	855,302,920	24,582,290	--	881,480,583	729,415,302
Net book value						
At 30 June 2015	2,075,246	482,098,291	5,640,941	5,681,896	495,496,374	
<i>At 30 June 2014</i>						<u>710,978,829</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 an operating lease agreement with STC related to 1/3rd portion 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.

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

15


ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

7. INTANGIBLE ASSETS

	2015						2014
	<u>License</u>	<u>Network capacity</u>	<u>Pre-operating costs</u>	<u>Network capacity under development</u>	<u>Software</u>	<u>Total</u>	<u>Total</u>
Cost:							
Balance at 1 April	527,904,000	227,260,000	24,599,711	136,000,000	51,679,643	967,443,354	763,443,354
Additions during the period (note 7.1)	—	—	—	68,000,000	—	68,000,000	—
Balance at 30 June	<u>527,904,000</u>	<u>227,260,000</u>	<u>24,599,711</u>	<u>204,000,000</u>	<u>51,679,643</u>	<u>1,035,443,354</u>	<u>763,443,354</u>
Accumulated amortization:							
Balance at 1 April	126,696,960	56,562,414	22,051,022	—	38,181,170	243,491,566	200,484,970
Charge for the period	5,279,040	4,078,275	695,094	—	674,924	10,727,333	10,955,130
Balance at 30 June	<u>131,976,000</u>	<u>60,640,689</u>	<u>22,746,116</u>	<u>—</u>	<u>38,856,094</u>	<u>254,218,899</u>	<u>211,440,100</u>
Net book value							
At 30 June 2015	<u>395,928,000</u>	<u>166,619,311</u>	<u>1,853,595</u>	<u>204,000,000</u>	<u>12,823,549</u>	<u>781,224,455</u>	
At 30 June 2014							<u>552,003,254</u>

7.1) Under the IRU agreement with STC (see note 1), during the period the Company acquired ports amounting to SAR 68 million which are currently under development. Also, the Company previously acquired ports of SAR 204 million of which SAR 68 million were capitalized as network capacity and the remaining ports of SAR 136 million are still under development. The related payment of SAR 272 million shall be due in eight equal quarterly installments of SAR 34 million each, commencing from first quarter of 2017 hence; the related liability has been included under long-term accounts payable.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

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 20 quarterly installments.

The financing balance as of 30 June was as follows:

	<u>2015</u>	<u>2014</u>
Current portion	31,068,137	31,068,109
Non-current portion	124,272,503	155,340,627
	<u>155,340,640</u>	<u>186,408,736</u>

9. DEFERRED INCOME

	Note	<u>2015</u>	<u>2014</u>
Current portion		48,346,882	44,901,147
Non-current portion	6.1	--	24,993,971
		<u>48,346,882</u>	<u>69,895,118</u>

10. OTHER INCOME

Other income mainly includes SAR 3.1 million (June 2014: SAR 63.4 million) related to gain on sale of Company's owned building and land (see note 6.1) and SAR 30 million (June 2014: SAR 67 million) related to various marketing support services as the Company entered into agreements with STC to market their business sector (see note 1(d)).

11. (LOSS) / EARNINGS PER SHARE

(Loss) / earning per share for the three months period ended 30 June 2015 and 2014 is calculated by dividing the loss / (earnings) for the period by the weighted average number of shares outstanding during the period.

12. CONTINGENCIES AND COMMITMENTS

a) *Contingencies*

Letter of guarantees

The Company's banks have issued letters of guarantees amounting to SAR 50 million (2014: 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 179 million (June 2014 : SAR 457 million) out of which, SAR 136 million pertains to the IRU agreement signed with STC (see note 1(c)).

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

13. OPERATING LEASES

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the period ended 30 June 2015 amounted to SAR 11.7 million (June 2014: SAR 11.2 million).

Future rental commitments at 30 June 2015 under these operating leases are as follows:

Years ending 30 June:	SAR
2016	38,833,510
2017	38,463,510
2018	30,692,560
2019	12,818,220
2020 and thereafter	1,489,600
	<u>122,297,400</u>

14. SEGEMENTAL 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** 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 30 June 2015</u>			<u>Total</u>
	<u>Voice</u>	<u>Data</u>	<u>Unallocated</u>	
Segment revenue	46,409,327	36,916,534	--	83,325,861
Segment profit / (loss)	(20,154,883)	(53,126,953)	33,124,247	(40,157,589)
Depreciation and amortization	(5,096,320)	(41,833,033)	--	(46,929,353)
Finance expenses	(565,123)	(666,748)	--	(1,231,871)

	<u>For the three months period ended 30 June 2014</u>			<u>Total</u>
	<u>Voice</u>	<u>Data</u>	<u>Unallocated</u>	
Segment revenue	23,371,749	38,613,958	--	61,985,707
Segment profit / (loss)	(29,076,048)	(42,500,595)	132,007,343	60,430,700
Depreciation and amortization	(5,487,594)	(45,044,795)	--	(50,532,389)
Finance expenses	(736,536)	(868,986)	--	(1,605,522)

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 however the comparative disclosure is not available. In addition, all of the Company's services are principally provided in Saudi Arabia.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period ended 30 June 2015
(Saudi Arabian Riyals)

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 months period ended	
		30 June 2015	30 June 2014
a) <u>Significant related party transactions</u>			
<u>Related parties</u>	<u>Nature of transaction</u>		
Bahrain Telecommunications Company (BATELCO)	Data revenue	285,123	302,651
Ithraa Capital Company	Interconnection revenue	19,488	849,651
Founding shareholders	Interconnection cost	(2,930,022)	(1,694,826)
	Consultancy	(646,156)	--
	Financial charges	(120,519)	(564,902)
b) <u>Due from related parties</u>			
	<u>Relationship</u>	<u>2015</u>	<u>2014</u>
Bahrain Telecommunications Company (BATELCO)	Shareholder	9,930,885	10,066,194
Atheeb Trading Company Limited	Shareholder	1,209,129	798,347
Saudi Arabian Marketing and Agencies Limited	Affiliate	467,664	381,642
EtiHAD Shams Company Limited	Affiliate	46,100	86,400
Atheeb Saudi Intergraph Company Limited	Shareholder	5,502	126,250
		<u>11,659,280</u>	<u>11,458,833</u>
c) <u>Due to related parties</u>			
	<u>Relationship</u>	<u>2015</u>	<u>2014</u>
Bahrain Telecommunications Company (BATELCO)	Shareholder	20,796,769	17,383,832
Ithraa Capital Company	Affiliate	1,600,000	439,583
Al Nahla Trading and Contracting Company Limited	Shareholder	908,687	1,446,624
Atheeb Trading Company Limited	Shareholder	838,587	679,440
Traco Group Trading and Contracting Company	Shareholder	804,570	758,191
Saudi Internet Company Limited	Shareholder	603,429	568,643
Atheeb Computer and Communications Company Limited	Shareholder	603,429	568,643
Atheeb Maintenance and Services Company Limited	Shareholder	603,429	568,643
		<u>26,758,900</u>	<u>22,413,599</u>

16. PROVISION FOR ZAKAT AND TAX

The final zakat and tax declarations for the period/years ended 31 March 2010 to 2014 have been submitted to Department of Zakat and Income Tax DZIT. However, the DZIT has not yet raised an assessment for these period/ years. No zakat and tax charge has been recognized during the period ended 30 June 2015 and 2014 due to negative zakat base and taxable losses, computed in accordance with Saudi Arabian Zakat and income tax regulations.

