ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
Financial Statements
31 March 2016
Together with the
Independent Auditors' Report

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **Etihad Atheeb Telecommunication Company** ("the Company") which comprise the balance sheet as at 31 March 2016, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (24) which form an integral part of the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's by-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Opinion

In our opinion, the financial statements taken as a whole:

1) present fairly, in all material respects, the financial position of Etihad Atheeb Telecommunication Company as at 31 March 2016, and results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and

2) comply with the requirements of the Regulations for Companies and the Company's by-laws with respect to the preparation and presentation of the financial statements.

Emphasis of matter

We draw attention to Note 2(b) to the accompanying financial statements; as at 31 March 2016, the Company's current liabilities exceeded its current assets by SAR 385 million (2015: SAR 306 million) 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 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 financial statements have been prepared under going concern basis.

For KPMG Al Fozan & Partners
Certified Public Accountants

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
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Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No: 371

Riyadh on: 25 Shaban 1437H
Corresponding to: 1 June 2016

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

	Note	2016	2015
ASSETS			
Current assets			
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	23(b)	**13,148,943**	11,117,745
Prepayments and other receivables	5	**116,554,011**	89,154,951
Total current assets		**338,080,960**	319,650,367
Non-current assets			
Long term receivable	5	--	50,000,000
Property and equipment	6	**396,081,056**	524,621,264
Intangible assets	7	**884,896,362**	723,951,788
Total non-current assets		**1,280,977,418**	1,298,573,052
TOTAL ASSETS		**1,619,058,378**	1,618,223,419
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities			
Tawaroq Islamic Financing – current portion	10	**31,068,118**	31,068,118
Accounts payable	8	**472,657,539**	387,639,379
Due to related parties	23(c)	**26,900,787**	25,080,592
Deferred income – current portion	11	**37,622,051**	26,365,084
Accrued expenses and other liabilities	9	**152,223,516**	154,570,706
Provision for Zakat	19	**2,698,958**	428,758
Total current liabilities		**723,170,969**	625,152,637
Non-current liabilities			
Tawaroq Islamic Financing	10	**100,971,428**	132,039,546
Long term accounts payable	8.1	**306,000,000**	204,000,000
Deferred income	11	--	19,786,892
Provision for employees' end of service benefits		**9,214,189**	7,173,193
Total non-current liabilities		**416,185,617**	362,999,631
TOTAL LIABILITIES		**1,139,356,586**	988,152,268
SHAREHOLDERS' EQUITY			
Share capital	1	**1,575,000,000**	1,575,000,000
Accumulated losses	2	**(1,095,298,208)**	(944,928,849)
TOTAL SHAREHOLDERS' EQUITY		**479,701,792**	630,071,151
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,619,058,378**	1,618,223,419

The accompanying notes (1) through (24) on pages (5) to (20) form an integral part of these financial statements.

These financial statements and accompanying notes were approved by the Board of Directors on 25 Shaban 1437H, corresponding to 1 June 2016 and are signed on behalf of the Board of Directors 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)
STATEMENT OF INCOME
For the year ended 31 March 2016
(Saudi Arabian Riyals)

	Note	2016	2015
Revenue from services, net	22	**343,033,466**	247,102,700
Cost of services	13	**(311,656,668)**	(217,144,611)
Gross profit		**31,376,798**	29,958,089
Operating expenses			
Selling and marketing expenses	14	**(59,597,307)**	(44,933,911)
Depreciation and amortization	6,7	**(188,284,021)**	(198,391,579)
General and administrative expenses	15	**(72,969,906)**	(79,196,327)
Total operating expenses		**(320,851,234)**	(322,521,817)
Loss from operations		**(289,474,436)**	(292,563,728)
Other income	16	**146,122,020**	242,171,562
Financial charges	17	**(4,746,743)**	(5,850,754)
Net loss for the year		**(148,099,159)**	(56,242,920)
(Loss) / earnings per share attributable to:	18		
- Loss from operations		**(1.84)**	(1.86)
- Other income for the year		**0.93**	1.54
- Net loss for the year		**(0.94)**	(0.36)
Weighted average number of shares outstanding during the year	1	**157,500,000**	157,500,000

The accompanying notes (1) through (24) on pages (5) to (20) form an integral part of these financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS
For the year ended 31 March 2016
(Saudi Arabian Riyals)

	Note	2016	2015
Cash flows from operating activities			
Net loss for the year		**(148,099,159)**	(56,242,920)
Adjustments to reconcile net loss for the year to net cash generated from/(used in) operating activities			
Depreciation and amortization	6, 7	**188,284,021**	198,391,579
Gain on sale of property	16	**(21,869,726)**	(68,638,755)
Provision for doubtful debts	4.1	**3,612,002**	3,557,161
Provision for employees' end of service benefits		**3,066,497**	1,450,152
		24,993,635	78,517,217
Changes in working capital			
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**	49,633,859
Due to related parties		**1,820,195**	4,404,239
Accrued expenses and other liabilities		**(2,347,190)**	73,004,139
Deferred income		**13,339,801**	(20,440,184)
Employees' end of service benefits paid		**(1,025,501)**	(1,772,400)
Net cash generated from operating activities		4,771,171	140,854,616
Cash flow from investing activities			
Acquisition of property and equipment	6	**(16,688,387)**	(29,279,009)
Proceeds from sale of property	6.1	--	60,000,000
Net cash (used in) / from investing activities		(16,688,387)	30,720,991
Cash flows from financing activities			
Repayment for Tawaroq Islamic financing		**(31,068,118)**	(31,068,112)
Net cash used in financing activities		**(31,068,118)**	(31,068,112)
Net (decrease) / increase in cash and cash equivalents		**(42,985,334)**	140,507,495
Cash and cash equivalents at the beginning of the year		**180,712,604**	40,205,109
Cash and cash equivalents at the end of the year		**137,727,270**	180,712,604
Non-cash supplemental information:			
Acquisition of intangible assets	7.1	**204,000,000**	204,000,000
Settlement of property and equipment		–	88,100,411

The accompanying notes (1) through (24) on pages (5) to (20) form an integral part of these financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 March 2016
(Saudi Arabian Riyals)

	Note	Share capital	Accumulated losses	Total
Balance at 01 April 2014		1,575,000,000	(888,257,171)	686,742,829
Net loss for the year		--	(56,242,920)	(56,242,920)
Zakat charge for the year	19	--	(428,758)	(428,758)
Balance at 31 March 2015		**1,575,000,000**	**(944,928,849)**	**630,071,151**
Net loss for the year		--	**(148,099,159)**	**(148,099,159)**
Zakat charge for the year	19	--	**(2,270,200)**	**(2,270,200)**
Balance at 31 March 2016		**1,575,000,000**	(1,095,298,208)	479,701,792

The accompanying notes (1) through (24) on pages (5) to (20) form an integral part of these financial statements.

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 16).

2) BASIS OF PREPARATION

a) *Statement of compliance*

These 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 financial statements were approved by the Board of Directors for issuance on 25 Shaban 1437H, corresponding to 1 June 2016.

b) *Basis of measurement*

These 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 385 million (2015: SAR 306 million). Moreover, the Company has accumulated losses amounting to SAR 1,095 million as of 31 March 2016 which approximate 69.54% of the Company's share capital. The Company's management believes that the agreements held with STC, as explained in Note 1(b) and 1(c), would increase the business of the Company by providing more and improved services. 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 financial statements.

c) *Functional and presentation currency*

These 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 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.

3) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. Certain comparative amounts have been reclassified to conform with the current year'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 the statement of income and any subsequent recoveries of receivable amounts previously written off are credited to 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 land and 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 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 statement of income when incurred. The estimated useful life of the principal classes of assets are as follows:

	Life (Years)
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 statement of income on the date of retirement or disposal.

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Intangible assets, net*

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:

	Life (Years)
License	25
Network capacity	7-15
Pre-operating costs	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 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 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.

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Provision for zakat and tax

Zakat and tax are provided for in the financial statements in accordance with Saudi Department of Zakat and Income Tax ("DZIT") regulations. Zakat and tax are charged to the 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 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 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 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 statement of income. Revenue from data services is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service. Revenue from sale of WiMAX Customer Premises Equipment ("CPE") and Dongles (i.e. a broadband wireless adapter) are recognized when the WiMAX CPE and Dongles ("WiMAX modems") are delivered to subscribers and customers. Charges billed in advance are deferred and recognized over the contracted period of service.

n) Government charges

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

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) *Cost and expenses*

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

p) *Foreign currency translation*

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

4) TRADE RECEIVABLES

	Note	2016	2015
Trade receivables		**79,605,274**	46,177,831
Provision for doubtful debts	4.1	**(14,361,117)**	(10,749,115)
		65,244,157	35,428,716

4.1) Movement in provision for doubtful debts is as follows:

	2016	2015
Balance as at 1 April	**10,749,115**	7,191,954
Charge for the year	**3,612,002**	3,557,161
Balance as at 31 March	**14,361,117**	10,749,115

5) PREPAYMENTS AND OTHER RECEIVABLES

	Note	2016	2015
Advances to			
- Suppliers		**7,311,812**	6,439,102
- Employees		**1,076,102**	636,054
		8,387,914	7,075,156
Less: Provision for advances		**(916,408)**	(916,408)
		7,471,506	6,158,748
Prepaid expenses		**2,285,501**	2,836,235
Other receivables	5.1	**106,797,004**	80,159,968
		116,554,011	89,154,951

5.1) Other receivables include SAR 55.9 million (2015: SAR 29.3 million) for marketing support income (See note 16.1) and receivable from STC amounting to SAR 50 million (2015: 50 SAR million) in respect of sale of the Company's property (see note 6), which was presented as long term receivable in the prior year.

6) PROPERTY AND EQUIPMENT

	2016					2015
	Land, buildings and leasehold improvements	Network infrastructure	Facilities, support & IT equipment	Capital work in progress	Total	Total
Cost:						
Balance at 1 April	3,670,619	1,333,596,825	30,173,231	2,459,152	1,369,899,827	1,503,191,739
Additions during the year	--	8,263,871	349,962	8,074,554	16,688,387	29,279,009
Disposals during the year	--	--	--	--	--	(74,470,510)
Adjustment during the year	--	--	--	--	--	(88,100,411)
Capitalization during the year	--	8,839,191	1,224,015	(10,063,206)	--	--
Balance at 31 March	3,670,619	1,350,699,887	31,747,208	470,500	1,386,588,214	1,369,899,827
Accumulated depreciation:						
Balance at 1 April	1,333,499	819,750,155	24,194,909	--	845,278,563	699,038,232
Charge for the year	1,959,805	141,660,823	1,607,967	--	145,228,595	155,384,983
Eliminated on disposals	--	--	--	--	--	(9,144,652)
Balance at 31 March	3,293,304	961,410,978	25,802,876	--	990,507,158	845,278,563
Net book value						
At 31 March 2016	377,315	389,288,909	5,944,332	470,500	396,081,056	
At 31 March 2015	*2,337,120*	*513,846,670*	*5,978,322*	*2,459,152*		*524,621,264*

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 1/3rd 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 1/3rd 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.

7. INTANGIBLE ASSETS

	2016						2015
	License	Network capacity	Pre-operating costs	Network capacity under development	Software	Total	Total
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 year (note 7.1)	–	–	–	204,000,000	–	204,000,000	204,000,000
Capitalization during the year	–	68,000,000	–	(68,000,000)	–	–	–
Balance at 31 March	527,904,000	295,260,000	24,599,711	272,000,000	51,679,643	1,171,443,354	967,443,354
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 year	21,116,160	16,690,878	2,548,689	–	2,699,699	43,055,426	43,006,596
Balance at 31 March	147,813,120	73,253,292	24,599,711	–	40,880,869	286,546,992	243,491,566
Net book value							
At 31 March 2016	380,090,880	222,006,708	–	272,000,000	10,798,774	884,896,362	
At 31 March 2015	*401,207,040*	*170,697,586*	*2,548,689*	*136,000,000*	13,498,473		*723,951,788*

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 second quarter of 2017 hence, the related liability has been included under long-term and short-term accounts payable.

8. ACCOUNTS PAYABLE

	Note	2016	2015
Trade payables		322,875,471	340,276,989
Capital expenditure payable		455,782,068	251,362,390
Less: Non-current portion	8.1	(306,000,000)	(204,000,000)
		149,782,068	47,362,390
		472,657,539	387,639,379

8.1) During the year the Company acquired FTTH ports amounting to SR 204 million under IRU agreement with STC (see note 7.1).

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Note	2016	2015
Advance against marketing support	1, 16.1	20,000,000	60,000,000
Government fees		51,234,640	36,557,769
Voice interconnection		30,592,850	34,330,195
Employee related expenses		13,163,920	7,933,584
Capacity lease		11,731,083	2,074,469
Electricity		7,051,342	2,774,353
Other		18,449,681	10,900,336
		152,223,516	154,570,706

10. TAWAROQ 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:

	2016	2015
Current portion	31,068,118	31,068,118
Non-current potion	100,971,428	132,039,546
	132,039,546	163,107,664

11. DEFERRED INCOME

This represent amounts billed in advance to customers and will be recognized as revenue over the service period. This also include deferred gain which resulted from the sale and lease back agreements (see note 6, 21).

	2016	2015
Current portion	37,622,051	26,365,084
Non-current potion	–	19,786,892
	37,622,051	46,151,976

12. STATUTORY RESERVE

In accordance with Article 176 of Saudi Arabian Regulations for Companies, the Company is required to transfer at least 10% of net income to a statutory reserve until such reserve equals 50% of the share capital. This reserve is not available for distribution. No amount has been transferred to the statutory reserve due to net loss incurred during the year.

13. COST OF SERVICES

	2016	2015
Voice interconnection charges	**170,163,730**	91,866,892
Site rental and utilities	**43,747,582**	43,562,296
Capacity lease charges	**56,343,144**	42,523,355
Network maintenance and support	**16,711,748**	21,324,766
Employees' costs	**6,276,627**	6,764,044
Inventory consumption and installation	**9,023,575**	5,907,875
Government fees	**5,623,356**	2,823,356
Other	**3,766,906**	2,372,027
	311,656,668	217,144,611

14. SELLING AND MARKETING EXPENSES

	Note	2016	2015
Employees' costs		**33,052,252**	20,256,635
Point of display sales staff		**14,949,700**	11,273,058
Customer care		**1,212,948**	3,789,356
Dealers' commission		**4,164,501**	3,732,041
Provision for doubtful debts	4.1	**3,612,002**	3,557,161
Point of display and flagship rental		**1,128,024**	1,174,233
Other		**1,477,880**	1,151,427
		59,597,307	44,933,911

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employees' costs	**35,793,036**	39,200,031
Government fees	**14,686,871**	14,590,718
Professional and consultancy charges	**7,738,803**	12,113,238
Medical, visa and iqama charges	**3,613,903**	3,607,591
Office rent	**3,174,743**	--
Utilities charges	**1,057,842**	2,508,789
Computer accessories and software	**227,606**	2,298,615
Other	**6,677,102**	4,877,345
	72,969,906	79,196,327

16. OTHER INCOME

	Note	2016	2015
Marketing support income	16.1	**124,045,500**	172,304,000
Gain on sale of property	6.1	**21,869,726**	68,638,755
Others		206,794	1,228,807
		146,122,020	242,171,562

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

17. FINANCIAL CHARGES

	2016	2015
Tawaroq financing costs	**3,935,264**	4,860,723
Guarantee fee to shareholders	**461,682**	516,051
Other	349,797	473,980
	4,746,743	5,850,754

18. (LOSS) / EARNINGS PER SHARE

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

19. ZAKAT AND TAX

a) Zakat and tax status

The Company has filed its zakat and tax return with the Department of Zakat and Income Tax ("DZIT") for the period/ years up to 31 March 2015. However, DZIT has not raised assessments for these period/ years.

19. ZAKAT AND TAX (Continued)

b) Computation of Zakat and tax

The Zakat components are as follows:

		2016	2015
Adjusted loss			
Net loss for the year		(148,099,159)	(56,242,920)
Adjustments: Provisions and others		(26,743,997)	(48,787,207)
Adjusted loss for the year		(174,843,156)	(105,030,127)
Saudi shareholders' share of adjusted loss @ 96%	(A)	(167,849,430)	(100,828,922)
Additions			
Share capital		1,575,000,000	1,575,000,000
Tawaroq Islamic financing		132,039,549	163,107,664
Long term payables		433,080,592	--
Provisions		30,217,830	25,050,689
		2,170,337,971	1,763,158,353
Deductions			
Accumulated losses at beginning of year		(944,928,849)	(888,257,171)
Net book value of property and equipment at end of year		(955,974,282)	(752,006,146)
		269,434,840	122,895,036
Share of Saudi shareholders @ 96%		258,657,446	117,979,234
Saudi shareholders' share of adjusted loss		(167,849,430)	(100,828,922)
Zakat base	(B)	90,808,016	17,150,312
Zakat base for the year – higher of (A) or (B)		90,808,016	17,150,312
Zakat charge for the year at 2.5% of Zakat base		2,270,200	428,758

No tax provision has been made in these financial statements due to taxable losses incurred by the Company during the year.

c) Movement in Zakat provision

The movement in Zakat provision is as follows:

	2016	2015
Balance at the beginning of the year	428,758	–
Charge during the year	2,270,200	428,758
Balance at the end of the year	2,698,958	428,758

20. CONTINGENCIES AND COMMITMENTS

a) *Contingencies*

Letter of credit and guarantees

The Company's banks have issued letters of guarantees amounting to SAR 50 million (2015: SAR 50 million) as at the 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 balance sheet date amounting approximately to SAR 87.9 million (31 March 2015: SAR 327 million).

Furthermore, in 2009 the Company had entered into a wholesale services agreement with STC related to utilization of local and international capacity links. Subsequently, both parties agreed that in case of non-utilization of said services by the Company before May 2017, both parties shall mutually agree to address the settlement of unutilized services.

21. 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 (31 March 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
	98,390,240

22. 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** comprise of internet broadband services provided to business-to-business (B2B) and business-to-consumer (B2C).
- **Unallocated** represents other income which cannot be attributed to any of the reported operating segment.

	For the year ended 31 March 2016			
	Voice	**Data and Internet**	**Unallocated**	**Total**
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)**	**(167,837,209)**	**--**	**(188,284,021)**
Finance expenses	**(2,177,575)**	**(2,569,168)**	**--**	**(4,746,743)**

	For the year ended 31 March 2015			
	Voice	Data and internet	Unallocated	Total
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)

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.

23. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company comprise 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.

a) ***Significant related party transactions***

Related parties		***Nature of transaction***	**2016**	2015
Bahrain Telecommunications Company (BATELCO)	Shareholder	Data revenue	**1,797,439**	1,183,827
		Interconnection revenue	**257,854**	940,938
		Interconnection cost	**4,330,746**	4,518,439
Ithraa Capital Company	Affiliate	Consultancy	**62,156**	6,000,000
Founding Shareholders	Shareholder	Guarantee fee	**461,682**	516,051
Saudi Arabian Marketing and Agencies Limited	Affiliate	Data revenue	**715,725**	710,090
Atheeb Saudi Intergraph Company Limited	Shareholder	Data revenue	=	15,050
Etihad Shams Company Limited	Affiliate	Data revenue	=	43,200
Key management personnel		Salaries and benefits	2,829,750	2,836,800
Board of Directors		Expenses	**155,508**	256,185

23. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

b)	***Due from related parties***	**2016**	2015
	Bahrain Telecommunications Company (BATELCO)	**10,709,334**	9,626,274
	Atheeb Trading Company Limited	**1,425,045**	1,142,582
	Saudi Arabian Marketing and Agencies Limited	**1,014,564**	298,839
	Atheeb Saudi Intergraph Company Limited	–	3,950
	Etihad Shams Company Limited	–	46,100
		13,148,943	11,117,745

c)	***Due to related parties***	**2016**	2015
	Bahrain Telecommunications Company (BATELCO)	**22,276,226**	18,811,168
	Ithraa Capital Company	–	2,000,000
	Al Nahla Trading and Contracting Company Limited	**982,168**	882,729
	Atheeb Trading Company Limited	**925,190**	807,994
	Traco Group Trading and Contracting Company	**836,062**	793,449
	Saudi Internet Company Limited	**627,047**	595,084
	Atheeb Computer and Communications Company Limited	**627,047**	595,084
	Atheeb Maintenance and Services Company Limited	**627,047**	595,084
		26,900,787	25,080,592

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Management of risk is an essential element of the Company's business. The major risks faced by the Company are those related to credit, market, foreign exchange rates and liquidity. These risks are managed in the following manner:

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises principally on trade receivables and bank balance.

The management believes that the Company has no significant exposure to credit risk in respect of bank balance, as these amounts are kept with local banks with sound credit ratings. The credit risk with respect to trade receivable is limited as these balances are spread among multiple customers. The management has established a credit policy under which each new customer is analysed individually for creditworthiness before the standard payment and terms and conditions are offered. Further, the management has set up procedures to regularly follow up all overdue payments and an allowance for impairment is established that represents an estimate of incurred losses in respect of trade receivables.

Market risk
Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk

Interest rate risk are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risk arise mainly from bank debts, which are at floating rates of interest. All deposits and debts are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the interest rate risks to the Company are not significant due to a stable SAIBOR and monetary policy.

Foreign exchange rate risk

Foreign exchange rate risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liability in that currency. The Company is not exposed to risk of fluctuation in foreign exchange rates as most of the Company's transactions are in Saudi Arabian Riyals.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to be unavailable. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments however as at 31 March 2016, the Company current liabilities exceeds it current assets by SR 384 million.

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair values of on-balance sheet financial instruments are not significantly different from the carrying values included in these financial statements.