

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
Financial Statements
31 March 2015
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 2015, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (25) 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.



Opinion

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

- 1) present fairly, in all material respects, the financial position of the Company as at 31 March 2015, 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 to the accompanying financial statements; as at 31 March 2015, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 60% 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 signed during the year, as explained in Note 1(d) and 1(e) to the accompanying 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



Riyadh on: 7 Sha'ban 1436H
Corresponding to: 25 May 2015

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
BALANCE SHEET
As at 31 March 2015
(Saudi Arabian Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>			
Current assets			
Bank balances		180,712,604	40,205,109
Trade receivables, net	4	35,428,716	25,801,868
Inventories, net		3,236,351	5,903,617
Due from related parties	24(b)	11,117,745	10,326,200
Prepayments and other receivables, net	5	89,154,951	7,970,985
Total current assets		<u>319,650,367</u>	<u>90,207,779</u>
Non-current assets			
Long term receivable	5	50,000,000	-
Property and equipment, net	6	524,621,264	804,153,507
Intangible assets, net	7	723,951,788	562,958,384
Total non-current assets		<u>1,298,573,052</u>	<u>1,367,111,891</u>
TOTAL ASSETS		<u>1,618,223,419</u>	<u>1,457,319,670</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>LIABILITIES</u>			
Current liabilities			
Tawaroq Islamic financing – current portion	10	31,068,118	31,068,118
Accounts payable	8	387,639,379	376,237,668
Due to related parties	24(c)	25,080,592	20,676,353
Deferred income – current portion	11	26,365,084	40,556,773
Accrued expenses and other current liabilities	9	154,570,706	81,566,567
Provision for Zakat		428,758	-
Total current liabilities		<u>625,152,637</u>	<u>550,105,479</u>
Non-current liabilities			
Tawaroq Islamic financing	10	132,039,546	163,107,658
Long term accounts payable	7.1	204,000,000	49,868,263
Deferred income	11	19,786,892	-
Provision for employees' end of service benefits		7,173,193	7,495,441
Total non-current liabilities		<u>362,999,631</u>	<u>220,471,362</u>
TOTAL LIABILITIES		<u>988,152,268</u>	<u>770,576,841</u>
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	2	(944,928,849)	(888,257,171)
TOTAL SHAREHOLDERS' EQUITY		<u>630,071,151</u>	<u>686,742,829</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>1,618,223,419</u>	<u>1,457,319,670</u>

The accompanying notes (1) through (25) 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 _____ and are signed on behalf of the Board of Directors by:


Emad Maali
Chief Executive Officer

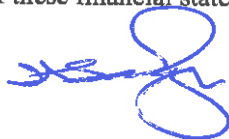

Husam Sadagah
Chairman


Sharif Salim Riad
Chief Financial Officer

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF INCOME
For the year ended 31 March 2015
(Saudi Arabian Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenue from services, net		247,102,700	234,542,232
Cost of services	13	<u>(218,157,467)</u>	<u>(202,111,138)</u>
Gross profit		<u>28,945,233</u>	<u>32,431,094</u>
Operating expenses			
Selling and marketing expenses	14	(44,933,911)	(45,724,413)
Depreciation and amortization	6,7	(198,391,579)	(201,591,517)
General and administrative expenses	15	(78,183,471)	(54,181,452)
Reversal of provisions	16	--	18,529,616
Total operating expenses		<u>(321,508,961)</u>	<u>(282,967,766)</u>
Loss from operations		(292,563,728)	(250,536,672)
Other income	17	242,171,562	8,467,197
Financial charges	18	<u>(5,850,754)</u>	<u>(7,205,496)</u>
Net loss for the year		<u>(56,242,920)</u>	<u>(249,274,971)</u>
(Loss) / earnings per share attributable to:	19		
- Loss from operations		<u>(1.86)</u>	<u>(1.59)</u>
- Other income for the year		<u>1.54</u>	<u>(0.05)</u>
- Net loss for the year		<u>(0.36)</u>	<u>(1.58)</u>
Weighted average number of shares outstanding during the year	1	<u>157,500,000</u>	<u>157,500,000</u>

The accompanying notes (1) through (25) 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 2015
(Saudi Arabian Riyals)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities			
Net loss for the year		(56,242,920)	(249,274,971)
<i>Adjustments to reconcile net loss for the year to net cash generated from/(used in) operating activities</i>			
Depreciation and amortization	6, 7	198,391,579	201,591,517
Gain on sale of property	17	(68,638,755)	--
Provision for doubtful debts	4.1	3,557,161	1,005,550
Provision for employees' end of service benefits		1,450,152	2,749,240
Provision for slow moving inventories		--	58,617
		<u>78,517,217</u>	<u>(43,870,047)</u>
<i>Changes in working capital</i>			
Trade receivables		(13,184,009)	(7,214,898)
Inventories		2,667,266	3,491,135
Due from related parties		(791,545)	(9,948,645)
Prepayments and other receivables		(31,183,966)	8,595,743
Accounts payable		49,633,859	1,699,724
Due to related parties		4,404,239	4,621,572
Accrued expenses and other current liabilities		73,004,139	55,341,507
Deferred income		(20,440,184)	(24,649,154)
Employees' end of service benefits paid		(1,772,400)	(1,147,819)
Net cash generated from / (used in) operating activities		<u>140,854,616</u>	<u>(13,080,882)</u>
Cash flow from investing activities			
Acquisition of property and equipment	6	(29,279,009)	(26,864,778)
Acquisition of intangible assets		--	(4,015,000)
Proceeds from sale of property	6.1	60,000,000	25,927
Net cash from / (used in) investing activities		<u>30,720,991</u>	<u>(30,853,851)</u>
Cash flows from financing activities			
Repayment for Tawaroq Islamic financing		(31,068,112)	(31,068,128)
Net cash used in financing activities		<u>(31,068,112)</u>	<u>(31,068,128)</u>
Net increase / (decrease) in cash and cash equivalents		<u>140,507,495</u>	<u>(75,002,861)</u>
Cash and cash-equivalents at the beginning of the year		<u>40,205,109</u>	<u>115,207,970</u>
Cash and cash equivalents at the end of the year		<u>180,712,604</u>	<u>40,205,109</u>
<u>Non-cash supplemental information:</u>			
Acquisition of intangible assets	7.1	<u>204,000,000</u>	--
Settlement of property and equipment	6.2	<u>88,100,411</u>	--

The accompanying notes (1) through (25) 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 2015
(Saudi Arabian Riyals)

	Note	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at 31 March 2013 (restated)		1,575,000,000	(638,982,200)	936,017,800
Net loss for the year		=	(249,274,971)	(249,274,971)
Balance at 31 March 2014		<u>1,575,000,000</u>	<u>(888,257,171)</u>	<u>686,742,829</u>
Net loss for the year		--	(56,242,920)	(56,242,920)
Zakat charge for the year	20	--	(428,758)	(428,758)
Balance at 31 March 2015		<u>1,575,000,000</u>	<u>(944,928,849)</u>	<u>630,071,151</u>

The accompanying notes (1) through (25) on pages (5) to (20) form an integral part of these financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 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 30 April 2014 related to the memorandum of understanding ("MoU") signed on 20 August 2013 between a subsidiary of Etihad Etisalat Company (Mobily) (namely Bayanat Al-Oula Network Services Company "Bayanat") and certain founding shareholders of the Company (namely Atheeb Trading Company, Al Nahla for Trading and Contracting Company, Traco Group for Trading and Contracting and Saudi Internet Company), hereinafter referred to as ("Founding Shareholders"), in respect of possibility of acquisition by Bayanat of a controlling stake in the Company. However, the Company announced on 29 May 2014 that it was informed by the Founding Shareholders that they decided to stop negotiations with Bayanat Al-Oula as Bayanat changed their initial offer in the MoU referred to above.
- c) Further to the announcement published on Tadawul's website on 31 March 2014 regarding the Indefeasible Rights of Use ("IRU") agreement with "Bayanat" that was signed on 30 March 2014, the Company announced on 29 May 2014 that it has terminated IRU agreement due to some technical and logistical difficulties that were not overcome by Bayanat.
- d) 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).

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015

1) ORGANIZATION AND ACTIVITIES (CONTINUED)

These installments shall be financed through the Company's internal resources and the prospective resources arising from the sale of this service in addition to some licensed financing bodies if necessary; noting that this agreement is irrevocable by both parties. The ports are to be used to provide broadband internet and fixed telephone services for consumers and small business. The agreement will allow the Company to increase its competitive capability in the telecom sector through expanding and diversifying its services. Consequently, the Company's financial capabilities will be enhanced.

- e) 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 17).

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).

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 2015, the Company's current liabilities exceeds its current assets by SAR 305 million (2014: SAR 460 million). Moreover, the Company has accumulated losses amounting to SAR 945 million as of 31 March 2015 which approximate 60% of the Company's share capital. The Company's management believes that the agreements held with STC, as explained in Note 1(d) and 1(e), 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 debts and provision for obsolete and slow moving inventories.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015

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, net*

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, net*

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, net*

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:

	<u>Life (Years)</u>
Building and leasehold improvements	10-40
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.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015

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:

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

Capitalized license fees and other intangibles are reviewed at each year-end to determine if there is any impairment in their values. In case impairment is identified, it is recorded in the statement of income.

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 year-end. 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. 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 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 FINANCIAL STATEMENTS
For the year ended 31 March 2015

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.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015
(Saudi Arabian Riyals)

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Cost and expenses

- cost of services comprise of expenses incurred on operations and maintenance of the network, including leased and/or purchased capacity, site rentals, inventory consumption and installation and interconnection charges.
- selling and marketing expenses are those, which specifically relate to selling and marketing of the Company's services, and include costs relating mainly to commissions and advertising as well as provision for doubtful debts.
- 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, NET

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Trade receivables		46,177,831	32,993,822
Provision for doubtful debts	4.1	<u>(10,749,115)</u>	<u>(7,191,954)</u>
		<u>35,428,716</u>	<u>25,801,868</u>

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

	<u>2015</u>	<u>2014</u>
Balance as at 1 April	7,191,954	6,186,404
Charge for the year	3,557,161	1,005,550
Balance as at 31 March	<u>10,749,115</u>	<u>7,191,954</u>

5) PREPAYMENTS AND OTHER RECEIVABLES, NET

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Advances to			
- suppliers		6,439,102	1,634,498
- employees		636,054	526,258
		7,075,156	2,160,756
Less: Provision for advances		<u>(916,408)</u>	<u>(916,408)</u>
		6,158,748	1,244,348
Prepaid expenses		2,836,235	5,814,596
Other receivables	5.1	<u>80,159,968</u>	<u>912,041</u>
		<u>89,154,951</u>	<u>7,970,985</u>

- 5.1) Other receivables include SAR 29.3 million for marketing support income (See note 17.1) and current portion of receivable from STC amounting to SAR 50 million in respect of sale of the Company's building and land (see note 6); the long term portion thereof has been included on balance sheet under non-current assets as long term receivable.



ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015
(Saudi Arabian Riyals)

6) PROPERTY AND EQUIPMENT, NET

	<u>2015</u>				<u>2014</u>	
	<u>Land, buildings and 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	77,647,434	1,303,867,001	28,674,333	93,002,971	1,503,191,739	1,476,398,105
Additions during the year	64,892	27,180,668	1,087,183	946,266	29,279,009	26,864,778
Disposals during the year	(74,041,707)	—	(428,803)	—	(74,470,510)	(71,144)
Adjustment during the year (note 6.2)	—	—	—	(88,100,411)	(88,100,411)	—
Capitalization during the year	—	2,549,156	840,518	(3,389,674)	—	—
Balance at 31 March	<u>3,670,619</u>	<u>1,333,596,825</u>	<u>30,173,231</u>	<u>2,459,152</u>	<u>1,369,899,827</u>	<u>1,503,191,739</u>
Accumulated depreciation:						
Balance at 1 April	9,618,496	669,769,400	19,650,336	—	699,038,232	542,208,162
Charge for the year	519,935	149,980,755	4,884,293	—	155,384,983	156,875,287
Eliminated on disposals	(8,804,932)	—	(339,720)	—	(9,144,652)	(45,217)
Balance at 31 March	<u>1,333,499</u>	<u>819,750,155</u>	<u>24,194,909</u>	<u>—</u>	<u>845,278,563</u>	<u>699,038,232</u>
Net book value						
At 31 March 2015	<u>2,337,120</u>	<u>513,846,670</u>	<u>5,978,322</u>	<u>2,459,152</u>	<u>524,621,264</u>	
<i>At 31 March 2014</i>	<u>68,028,938</u>	<u>634,097,601</u>	<u>9,023,997</u>	<u>93,002,971</u>		<u>804,153,507</u>



- 6.1) During the year ended 31 March 2015, the Company sold its owned building and two plots of land to STC under sale and lease back arrangement. The sale proceeds amounted to 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 the gain of SAR 31.2 million which will be recognized over the term of the lease back agreement in proportion to the rent expense over the lease period (see note 11). The remaining gain of SAR 63.4 million has been recognized as other income (see note 17) in the statement of income.
- 6.2) Capital work in progress mainly consisted of network assets for which delivery had not been accepted by the Company due to technical issues. The Company was negotiating with the vendor to upgrade / replace the related assets or it would reject the delivery with corresponding impact on the related liabilities. During the year, the Company has reached a minimum waiver of liability which has been adjusted against capital work in progress. The negotiations are still ongoing which may result in additional compensation from the vendor.



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7. INTANGIBLE ASSETS, NET

	<u>2015</u>						<u>2014</u>
	<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	159,260,000	24,599,711	--	51,679,643	763,443,354	759,428,354
Additions during the year (note 7.1)	--	68,000,000	--	136,000,000	--	204,000,000	4,015,000
Balance at 31 March	<u>527,904,000</u>	<u>227,260,000</u>	<u>24,599,711</u>	<u>136,000,000</u>	<u>51,679,643</u>	<u>967,443,354</u>	<u>763,443,354</u>
Accumulated amortization:							
Balance at 1 April	105,580,800	43,636,895	19,270,646	--	31,996,629	200,484,970	155,768,740
Charge for the year	21,116,160	12,925,519	2,780,376	--	6,184,541	43,006,596	44,716,230
Balance at 31 March	<u>126,696,960</u>	<u>56,562,414</u>	<u>22,051,022</u>	<u>--</u>	<u>38,181,170</u>	<u>243,491,566</u>	<u>200,484,970</u>
Net book value							
At 31 March 2015	<u>401,207,040</u>	<u>170,697,586</u>	<u>2,548,689</u>	<u>136,000,000</u>	<u>13,498,473</u>	<u>723,951,788</u>	
<i>At 31 March 2014</i>	<u>422,323,200</u>	<u>115,623,105</u>	<u>5,329,065</u>	<u>--</u>	<u>19,683,014</u>		<u>562,958,384</u>

7.1) Under the IRU agreement with STC (see note 1 (d)) , the Company acquired and capitalized fiber-to-the-home (FTTH) ports amounting to SR 68 million as network capacity and FTTH ports amounting to SR 136 million are currently under development. The payment of SAR 204 million shall be due in six equal quarterly installments of SAR 34 million each, commencing from first quarter of 2017 hence; the liability has been included under long-term accounts payable.

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8. ACCOUNTS PAYABLE

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Trade payables		340,276,989	303,024,623
Capital expenditure payable		251,362,390	123,081,308
Less: Non-current portion	8.1	(204,000,000)	(49,868,263)
		<u>47,362,390</u>	<u>73,213,045</u>
		<u>387,639,379</u>	<u>376,237,668</u>

8.1) During the year the Company acquired FTTH ports amounting to SR 204 million under IRU agreement with STC (see note 7.1). The amount of SR 49.8 million related to the year 2014 has been waived against capital work in progress (see note 6.2).

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Advance against marketing support	1, 17.1	60,000,000	-
Government fees		36,557,769	44,767,051
Voice interconnection		34,330,195	11,888,013
Employee related expenses		7,537,967	2,285,390
Capacity lease		2,074,469	810,031
Other		14,070,306	21,816,082
		<u>154,570,706</u>	<u>81,566,567</u>

10. TAWAROQ ISLAMIC FINANCING

This Islamic financing was obtained 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 21 quarterly installments.

The financing balance as of 31 March was as follows:

	<u>2015</u>	<u>2014</u>
Current portion	31,068,118	31,068,118
Non-current portion	132,039,546	163,107,658
	<u>163,107,664</u>	<u>194,175,776</u>

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, 22).

	<u>2015</u>	<u>2014</u>
Current portion	26,365,084	40,556,773
Non-current portion	19,786,892	-
	<u>46,151,976</u>	<u>40,556,773</u>

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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

	<u>2015</u>	<u>2014</u>
Voice interconnection charges	91,866,892	59,622,114
Site rental and utilities	43,562,296	44,499,320
Capacity lease charges	42,523,355	38,438,563
Network maintenance and support	21,324,766	29,115,961
Employees' costs	7,776,900	9,414,615
Inventory consumption and installation	5,907,875	11,010,092
Government fees	2,823,356	8,023,356
Other	2,372,027	1,987,117
	<u>218,157,467</u>	<u>202,111,138</u>

14. SELLING AND MARKETING EXPENSES

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Employees' costs		20,256,635	20,665,134
Point of display sales staff		11,273,058	5,684,673
Customer care		3,789,356	5,518,112
Dealers' commission		3,732,041	5,536,374
Provision for doubtful debts	4.1	3,557,161	1,005,550
Point of display and flagship rental		1,174,233	3,705,995
Other		1,151,427	3,608,575
		<u>44,933,911</u>	<u>45,724,413</u>

15. GENERAL AND ADMINISTRATION EXPENSES

	<u>2015</u>	<u>2014</u>
Employees' costs	38,187,175	20,771,982
Government fees	14,590,718	14,468,078
Professional and consultancy charges	12,113,238	2,241,537
Medical, visa and iqama charges	3,607,591	3,149,005
Utilities charges	2,508,789	434,821
Computer accessories and software	2,298,615	4,763,671
Founding shareholders' fee	--	1,871,587
Other	4,877,345	6,480,771
	<u>78,183,471</u>	<u>54,181,452</u>

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16. REVERSAL OF PROVISION

During the three month period ended 30 September 2013, the management of the Company carried out specific studies on all provisions and reversed certain provisions that were no longer required.

17. OTHER INCOME

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Marketing support income	17.1	172,304,000	--
Gain on sale of property	6.1	68,638,755	--
Others		1,228,807	8,467,197
		<u>242,171,562</u>	<u>8,467,197</u>

17.1 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(e)).

18. FINANCIAL CHARGES

	<u>2015</u>	<u>2014</u>
Tawaroq Financing costs	4,860,723	5,833,718
Guarantee fee to shareholders	516,051	615,163
Letter of guarantee charges	--	28,973
Other	473,980	727,642
	<u>5,850,754</u>	<u>7,205,496</u>

19. (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share for the year ended 31 March 2015 and 2014 is calculated by dividing the (loss) / earnings for the year by the weighted average number of shares outstanding during the year.

20. ZAKAT AND TAX

a) Zakat and tax status

The Company has filed its zakat and tax with the Department of Zakat and Income Tax ("DZIT") for the period/ years up to 31 March 2014. However, DZIT has not raised assessments for these period/ years.







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20. ZAKAT AND TAX (Continued)

b) Computation of Zakat and tax

The Zakat components are as follows:

	<u>2015</u>	<u>2014</u>
Adjusted loss		
Net loss for the year	(56,242,920)	(249,274,971)
Adjustments: Provisions and others	<u>(48,787,207)</u>	<u>23,718,129</u>
Adjusted loss for the year	<u>(105,030,127)</u>	<u>(225,556,842)</u>
Saudi shareholders' share of adjusted loss @ 96%	(A) <u>(100,828,922)</u>	<u>(216,534,568)</u>
Additions		
Share capital	1,575,000,000	1,575,000,000
Tawaroq Islamic financing	163,107,664	194,175,776
Long term payables	--	49,868,263
Provisions	<u>25,050,689</u>	<u>22,931,934</u>
	<u>1,763,158,353</u>	<u>1,841,975,973</u>
Deductions		
Accumulated losses at beginning of year	(888,257,171)	(638,982,200)
Net book value of property and equipment at end of year	<u>(752,006,146)</u>	<u>(1,008,550,549)</u>
	<u>122,895,036</u>	<u>194,443,224</u>
Share of Saudi shareholders @ 96%	117,979,234	186,665,495
Saudi shareholders' share of adjusted loss	<u>(100,828,922)</u>	<u>(216,534,568)</u>
Zakat base	(B) <u>17,150,312</u>	<u>(29,869,073)</u>
Zakat base for the year – higher of (A) or (B)	<u>17,150,312</u>	<u>(29,869,073)</u>
Zakat charge for the year at 2.5% of Zakat base	<u>428,758</u>	<u>--</u>

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:

	<u>2015</u>	<u>2014</u>
Balance at the beginning of the year	--	--
Charge during the year	428,758	--
Payments made during the year	--	--
Balance at the end of the year	<u>428,758</u>	<u>--</u>

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21. CONTINGENCIES AND COMMITMENTS

a) *Contingencies*

Letter of credit and guarantees

The Company's bankers have issued letters of credit and guarantees amounting to SAR 50 million (2014: 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 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 240 million (31 March 2014: SAR 450 million) of which, SAR 204 million pertains to the IRU agreement signed with STC (see note 1(d)).

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

22. OPERATING LEASES

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the year ended 31 March 2015 amounted to SAR 44.7 million (31 March 2014: SAR 48.2 million). Also on 28 May 2014, the Company entered into a sale and leaseback agreement with STC (see note 6.1), by which the Company has leased back its head-office premises for six years with an annual rental fee of SAR 3.25 million with an exemption of the first annual rental fee.

Future rental commitments at 31 March 2015 under these operating leases are as follows:

Years ending 31 March:	<u>SAR</u>
2016	42,223,510
2017	42,083,510
2018	41,443,510
2019	18,181,220
2020 and thereafter	6,100,000
	<u>150,031,750</u>

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23. 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.

	<u>For the year ended 31 March 2015</u>			<u>Total</u>
	<u>Voice</u>	<u>Data</u>	<u>Unallocated</u>	
Segment revenue	101,438,633	145,664,067	--	247,102,700
Segment profit / (loss)	(106,278,700)	(192,135,777)	242,171,557	(56,242,920)
Depreciation and amortization	(21,544,449)	(176,847,130)	--	(198,391,579)
Finance expenses	(2,684,042)	(3,166,712)	--	(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 however the comparative disclosure is not available. In addition, all of the Company's services are principally provided in Saudi Arabia.

24. 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**

<u>Related parties</u>	<u>Nature of transaction</u>	<u>2015</u>	<u>2014</u>
Bahrain Telecommunications Company (BATELCO)	Data revenue	<u>1,183,827</u>	<u>1,200,789</u>
	Interconnection revenue	<u>940,938</u>	<u>7,378,748</u>
	Interconnection cost	<u>(4,518,439)</u>	<u>(1,852,961)</u>
Ithraa Capital Company	Consultancy	<u>(6,000,000)</u>	<u>(787,614)</u>
	Management fee	--	<u>(1,961,587)</u>
Founding Shareholders	Guarantee fee	<u>(516,051)</u>	<u>(615,163)</u>
Saudi Arabian Marketing and Agencies Limited	Data revenue	<u>710,090</u>	<u>706,920</u>
Atheeb Saudi Intergraph Company Limited	Data revenue	<u>15,050</u>	<u>19,150</u>
Etihad Shams Company Limited	Data revenue	<u>43,200</u>	<u>43,200</u>
Key management personnel	Salaries and benefits	<u>(2,836,800)</u>	<u>(4,693,200)</u>
Board of Directors	Expenses	<u>(256,185)</u>	<u>(190,769)</u>

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24. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

<i>b) <u>Due from related parties</u></i>	<u>2015</u>	<u>2014</u>
Bahrain Telecommunications Company (BATELCO)	9,626,274	8,913,892
Atheeb Trading Company Limited	1,142,582	718,014
Saudi Arabian Marketing and Agencies Limited	298,839	510,744
Atheeb Saudi Intergraph Company Limited	3,950	97,150
EtiHAD Shams Company Limited	46,100	86,400
	<u>11,117,745</u>	<u>10,326,200</u>
<i>c) <u>Due to related parties</u></i>	<u>2015</u>	<u>2014</u>
Bahrain Telecommunications Company (BATELCO)	18,811,168	15,227,265
Ithraa Capital Company	2,000,000	639,583
Al Nahla Trading and Contracting Company Limited	882,729	1,740,222
Atheeb Trading Company Limited	807,994	645,397
Traco Group Trading and Contracting Company	793,449	745,812
Saudi Internet Company Limited	595,084	559,358
Atheeb Computer and Communications Company Limited	595,084	559,358
Atheeb Maintenance and Services Company Limited	595,084	559,358
	<u>25,080,592</u>	<u>20,676,353</u>

25. 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.

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25. 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 2015, the Company current liabilities exceeds it current assets by SR 305 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.

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