

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
Interim Financial Statements (Un-audited)
For the three-months period and the year ended 31 March 2017
together with the
Independent Auditors' Review Report



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying 31 March 2017 interim financial statements of **Etihad Atheeb Telecommunication Company** ("the Company"), which comprises:

- the interim balance sheet as at 31 March 2017;
- the interim statement of income for the three-month period and year ended 31 March 2017;
- the interim statement of cash flows for the year ended 31 March 2017;
- the interim statement of changes in equity for the year ended 31 March 2017; and
- notes to the interim financial statements.

Management is responsible for the preparation and presentation of this interim financial statements in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA). Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 interim financial statements is not prepared, in all material respects, in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).



Emphasis of matter

We draw attention to Note 2(b) to the accompanying interim financial statements; as at 31 March 2017, the Company's current liabilities exceeded its current assets and the accumulated losses approximate to 78.34% of the Company's share capital. We have considered the adequacy of the disclosure made in note 2(b) to the interim financial statements concerning the Company's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the company's ability to continue as a going concern.

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


Khalil Ibrahim Al Sedais
License No: 371

Date: 22 Rajab 1438H
Corresponding to: 19 April 2017



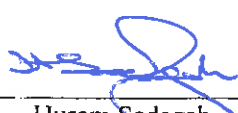
ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
INTERIM BALANCE SHEET (Un-audited)
As at 31 March 2017
(Saudi Arabian Riyals)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>			
Current assets			
Bank balances		102,693,540	137,727,270
Trade receivables	4	105,779,119	65,244,157
Inventories		8,329,081	5,406,579
Due from related parties	15(b)	17,793,920	13,148,943
Prepayments and other receivables	5	106,625,977	116,554,011
Total current assets		341,221,637	338,080,960
Non-current assets			
Property and equipment	6	329,317,041	396,081,056
Intangible assets	7	836,625,048	884,896,362
Total non-current assets		1,165,942,089	1,280,977,418
TOTAL ASSETS		1,507,163,726	1,619,058,378
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
<u>LIABILITIES</u>			
Current liabilities			
Tawarooq Islamic financing – current portion	8	31,068,118	31,068,118
Accounts payable		517,043,750	472,657,539
Due to related parties	15(c)	28,755,985	26,900,787
Deferred income		52,411,560	37,622,051
Accrued expenses and other liabilities		148,341,988	152,223,516
Provision for Zakat	16	2,698,958	2,698,958
Total current liabilities		780,320,359	723,170,969
Non-current liabilities			
Tawarooq Islamic financing	8	69,903,310	100,971,428
Long term accounts payable	7.2	306,000,000	306,000,000
Provision for employees' end of service benefits		9,860,070	9,214,189
Total non-current liabilities		385,763,380	416,185,617
TOTAL LIABILITIES		1,166,083,739	1,139,356,586
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	1	1,575,000,000	1,575,000,000
Accumulated losses	2(b)	(1,233,920,013)	(1,095,298,208)
TOTAL SHAREHOLDERS' EQUITY		341,079,987	479,701,792
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,507,163,726	1,619,058,378

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

These interim financial statements and accompanying notes were approved by the Board of Directors on 19 Apr 2017 and are signed on their behalf by:


Emad Maali
Chief Executive Officer


Husam Sadagah
Chairman


Mahmoud Hamdan Al Abdullah
Acting Chief Financial Officer

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

	Note	For the three months period ended		For the year ended	
		31 March 2017	31 March 2016	31 March 2017	31 March 2016
Revenue from services		129,099,945	96,902,474	421,745,872	343,033,466
Cost of services	9	<u>(98,001,720)</u>	<u>(88,095,649)</u>	<u>(339,341,470)</u>	<u>(311,656,668)</u>
Gross profit		<u>31,098,225</u>	<u>8,806,825</u>	<u>82,404,402</u>	<u>31,376,798</u>
Operating expenses					
Selling and marketing expenses		(21,459,775)	(15,585,323)	(76,275,257)	(59,597,307)
General and administration expenses		(30,530,209)	(16,926,830)	(82,518,487)	(72,969,911)
Depreciation and amortization	6,7	<u>(25,962,299)</u>	<u>(47,215,770)</u>	<u>(170,325,058)</u>	<u>(188,284,016)</u>
Total operating expenses		<u>(77,952,283)</u>	<u>(79,727,923)</u>	<u>(329,118,802)</u>	<u>(320,851,234)</u>
Loss from operations		<u>(46,854,058)</u>	<u>(70,921,098)</u>	<u>(246,714,400)</u>	<u>(289,474,436)</u>
Other income	10	26,530,631	9,445,973	114,598,316	146,122,020
Financial charges		<u>(1,694,290)</u>	<u>(1,166,559)</u>	<u>(6,505,721)</u>	<u>(4,746,743)</u>
Net loss for the period / year		<u>(22,017,717)</u>	<u>(62,641,684)</u>	<u>(138,621,805)</u>	<u>(148,099,159)</u>
(Loss) / earnings per share attributable to:	11				
- Loss from operations		<u>(0.30)</u>	<u>(0.45)</u>	<u>(1.57)</u>	<u>(1.84)</u>
- Net loss for the period / year		<u>(0.14)</u>	<u>(0.40)</u>	<u>(0.88)</u>	<u>(0.94)</u>
- Other income for the period / year		<u>0.17</u>	<u>0.06</u>	<u>0.73</u>	<u>0.93</u>
Weighted average number of shares	1(a), 11	<u>157,500,000</u>	<u>157,500,000</u>	<u>157,500,000</u>	<u>157,500,000</u>

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

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS (Un-audited)
For the year ended 31 March 2017
(Saudi Arabian Riyals)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Net loss for the year		(138,621,805)	(148,099,159)
<i>Adjustments to reconcile net loss for the year to net cash flow generated from operating activities</i>			
Depreciation and amortization	6,7	170,325,058	188,284,021
Other income - settlement with a vendor	10	(74,771,398)	--
Amortization of deferred gain on sale of property		(4,168,008)	(21,869,726)
Provision for doubtful receivables		2,069,279	3,612,002
Provision for employees' end of service benefits		2,325,887	3,066,497
<i>Changes in working capital</i>		<u>(42,840,987)</u>	<u>24,993,635</u>
Trade receivables		(42,604,241)	(33,427,443)
Inventories		(2,922,502)	(2,170,228)
Due from related parties		(4,644,977)	(2,031,198)
Prepayments and other receivables		9,928,034	(22,399,060)
Accounts payable		72,308,350	28,018,160
Due to related parties		1,855,198	1,820,195
Accrued expenses and other liabilities		(3,881,528)	(2,347,190)
Deferred income		18,955,173	13,339,801
<i>Cash generated from operating activities</i>		<u>6,152,520</u>	<u>5,796,672</u>
Employees' end of service benefits paid		(1,680,006)	(1,025,501)
Net cash generated from operating activities		<u>4,472,514</u>	<u>4,771,171</u>
Cash flows from investing activities			
Acquisition of property and equipment and intangibles		(8,478,606)	(16,688,387)
Proceeds from disposal of equipment		40,480	--
Net cash used in investing activities		<u>(8,438,126)</u>	<u>(16,688,387)</u>
Cash flows from financing activities			
Repayment for Tawarooq Islamic financing		(31,068,118)	(31,068,118)
Net cash used in financing activities		<u>(31,068,118)</u>	<u>(31,068,118)</u>
Net decrease in cash and cash equivalents		(35,033,730)	(42,985,334)
Cash and cash equivalents at the beginning of the year		137,727,270	180,712,604
Cash and cash equivalents at the end of the year		<u>102,693,540</u>	<u>137,727,270</u>

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

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Un-audited)
For the year ended 31 March 2017
(Saudi Arabian Riyals)

	For the year ended 31 March 2017		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at April 1, 2016	1,575,000,000	(1,095,298,208)	479,701,792
Net loss for the year ended 31 March 2017	--	(138,621,805)	(138,621,805)
Zakat charge for the year	--	--	--
Balance at 31 March 2017	<u>1,575,000,000</u>	<u>(1,233,920,013)</u>	<u>341,079,987</u>

	For the year ended 31 March 2016		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total</u>
Balance at April 1, 2015	1,575,000,000	(944,928,849)	630,071,151
Net loss for the year ended 31 March 2016	--	(148,099,159)	(148,099,159)
Zakat charge for the year	--	(2,270,200)	(2,270,200)
Balance at 31 March 2016	<u>1,575,000,000</u>	<u>(1,095,298,208)</u>	<u>479,701,792</u>

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

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017

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). On 30 Rabi'I 1438H (corresponding to 29 December 2016), the Communications and Information Technology Commission (CITC) has extended the life of the Company's license by 15 years (ending on 31 March 2049) (see note 7.1).

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 71.2 million shares and the remaining 86.3 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 7.2). However, on 30 January 2017, the Company has signed an amendment to the IRU agreement whereby the payment for the ports on STC's fiber optic network has been deferred by an additional one year and accordingly the payment of liability will now commence from September 2017.

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. However, on 30 January 2017, the Company has signed an addendum to the agreement whereby STC has extended the marketing agreements with the Company for another term of 24 months and has increased the value the agreements by SAR 96 million.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017

1) ORGANIZATION AND ACTIVITIES (CONTINUED)

- d) On 30 January 2017, the Company has entered into an agreement with STC for the sale of the passive structure of 500 telecommunication towers against total consideration of SAR 230 million. The legal formalities in respect of the transfer, as well as the transfer of the control and possession of the towers, has not yet been finalized. Accordingly, the disposal is not reflected in these financial statements. Simultaneously, the Company has also signed a Site Sharing agreement with STC for leasing back of 1/3rd of the usable space on each tower sold to STC for a period of 7 years.

2) BASIS OF PREPARATION

a) *Statement of compliance*

These interim financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA). These interim financial statements do not include all the information presented in the annual financial statements; therefore, these interim financial statements should be read in conjunction with the annual financial statements of the Company for the year ended 31 March 2016. Further, the results of the interim period may not represent an accurate indicator for the annual results of the operations.

These interim financial statements were approved by the Board of Directors for issuance on 22 Rajab 1438H, corresponding to 19 April 2017.

b) *Basis of measurement*

These interim financial statements have been prepared under the historical cost convention using the accrual basis of accounting.

As at 31 March 2017, the Company's current liabilities exceeds its current assets by SAR 439 million (2016: SAR 385 million). Moreover, the Company has accumulated losses amounting to SAR 1,234 million as of 31 March 2017, which approximate 78.34% of the Company's share capital.

The new Saudi Arabian Companies' Regulation, which became effective on 2 May 2016, has reduced the accumulated loss threshold for Joint Stock Companies from 75% down to 50% of share capital, as per Article 150. The new Companies' Regulation has provided, in Article 224, a grace period of one year for affected Joint Stock Companies to correct their situation in accordance with the new regulation.

In order to comply with Article 150 and 224 of the new Companies' Regulation, the Board of Directors of the Company recommended to reduce the Company's share capital by SR 945 million in their meeting held on 12 February 2017. Upon completion of the legal formalities by the Company's management associated with the reduction of share capital, the Company's shareholders, in their extra ordinary general meeting held on 10 April 2017, have resolved to reduce the Company's share capital as proposed by the Board of Directors. Accordingly, subsequent to 31 March 2017, the Company's share capital has been reduced to SR 630 million and accordingly the accumulated losses have been reduced to below 50% of the share capital.

In addition, the Company's management believes that it would improve the Company's business and that it will be able to secure the necessary funding to meet its obligations as and when they become due. Accordingly, the Company's management believes that the going concern is the appropriate basis of preparation for the accompanying interim financial statements.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017

2) BASIS OF PREPARATION (CONTINUED)

c) Functional and presentation currency

These interim financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional currency of the Company.

d) Use of estimates and judgments

The preparation of interim financial statements requires management to make judgments, 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 interim financial statements. Certain comparative amounts have been reclassified to conform with the current period's presentation.

a) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise of cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Company without any restrictions.

b) Trade receivables

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful receivable is established when there is objective evidence that the Company may not be able to collect the amounts due according to the original terms of receivables. When creating provisions, consideration is given to the type of services rendered (data, voice services, etc.), age of the receivable and the general economic situation.

Bad debts are written off when identified, against its related provisions. The provisions are charged to interim statement of income and any subsequent recoveries of receivable amounts previously written off are credited to interim statement of income.

c) Inventories

Inventories comprise of modems, pre-paid cards, scratch cards and other telecommunication equipment, which are measured at the lower of weighted average cost and net realizable value. Cost includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value comprises estimated selling price in the ordinary course of business, less further appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective inventory items.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017

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

d) ***Property and equipment***

Property and equipment, except capital work in progress, are measured at cost less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Capital work in progress is carried at cost and includes telecom equipment of capital nature which will form part of property and equipment upon consumption.

Depreciation is charged to the interim statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure including repair and maintenance is recognized in the interim statement of income when incurred. The estimated useful life of the principal classes of assets are as follows:

<u>Life (Years)</u>	
Leasehold improvements	lower of lease term or 10
Network infrastructure	4-15
Facilities, support and IT Equipment	5

Gains or losses arising from the retirement or disposal of property and equipment are recognized in the interim statement of income on the date of retirement or disposal.

e) ***Intangible assets***

Intangible assets represent secured data communication license, network capacity charges and other costs incurred by the Company upon incorporation.

License fees are initially capitalized and subsequently amortized on a straight-line basis over 40 years, which is the regulatory life of the licenses, starting on 1 April 2009 and ending on 31 March 2049.

Network capacity which includes Indefeasible Rights of Use "IRU" is amortized on a straight-line basis over the term of the agreement except for Network capacity under development which is carried at cost. Other intangibles are amortized over the estimated useful lives.

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

<u>Life (Years)</u>	
License	40
Network capacity	7-15
Pre-operating costs	5-7
Software	5-10

f) ***Impairment of non-financial assets***

Non-financial 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-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim statement of income.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017

3) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) *Accounts payable and accruals*

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

h) *Provision for employees' end of service benefits*

Provision for employees' end of service benefits, calculated in accordance with Saudi Arabian Labor Law, are accrued and charged to the interim statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date.

i) *Provision for zakat and tax*

Zakat and tax are provided for in the interim financial statements in accordance with General Authority of Zakat and Tax ("GAZT") regulations. Zakat and tax are charged to the interim statement of changes in shareholders' equity.

j) *Operating leases*

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the interim statement of income on a straight-line basis over the period of the lease.

k) *Borrowing costs*

Borrowing costs directly attributable to acquisitions or constructions of qualifying assets, which are the assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the interim statement of income in the period in which they are incurred.

l) *Interconnection cost (only applicable for voice service)*

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

m) *Revenue recognition*

Revenue represents the value of fixed or determinable considerations that are receivable and includes revenue from sharing arrangements entered into with national and international telecommunication operators in respect of traffic (data and voice) exchanged. Revenue for services rendered is recognized at amounts invoiced to customers.

Service revenue received from the customer is recognized in the period in which the service is delivered. Airtime revenue is recognized on a usage basis. Deferred income related to unused airtime is recognized when utilized by the customer or on a time proportion basis over the validity period. Upon termination of the customer contract, all deferred income for unused airtime is recognized in the interim statement of income. Revenue from data services is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service. Revenue from sale of WiMAX Customer Premises Equipment ("CPE") and Dongles (i.e. a broadband wireless adapter) are recognized when the WiMAX CPE and Dongles ("WiMAX modems") are delivered to subscribers and customers. Charges billed in advance are deferred and recognized over the contracted period of service.

ETIHAD ATHEEB TELECOMMUNICATION COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)
For the three months period and the year ended 31 March 2017
(Saudi Arabian Riyals)

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

n) *Government charges*

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

o) *Cost and expenses*

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

p) *Foreign currency translation*

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

4) **TRADE RECEIVABLES**

	<u>2017</u>	<u>2016</u>
Trade receivables	122,209,515	79,605,274
Provision for doubtful receivables	<u>(16,430,396)</u>	<u>(14,361,117)</u>
	<u>105,779,119</u>	<u>65,244,157</u>

5) **PREPAYMENTS AND OTHER RECEIVABLES**

Prepayments and other receivables include receivable from STC in respect of sale of Company's property and rendering of marketing support services (see note 10) amounting to SAR 50 million (2016: SAR 50 million) and SAR 45.3 million (2016: SAR 55.9 million) respectively.



ETIHAD ATHEEB TELECOMMUNICATION COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Un-audited)

For the three months period and the year ended 31 March 2017

(Saudi Arabian Riyals)

6) PROPERTY AND EQUIPMENT

	2017				2016
	Leasehold improvements	Network infrastructure	Facilities, support & IT equipment	Capital work in progress	Total
Cost:					
Balance at 1 April	3,670,619	1,350,699,887	31,747,208	470,500	1,369,899,827
Additions during the year	--	41,996,175	939,468	11,907,058	16,688,387
Disposals during the year	--	--	(65,050)	--	(65,050)
Transfers during the year	--	470,500	--	(470,500)	--
Balance at 31 March	3,670,619	1,393,166,562	32,621,626	11,907,058	1,441,365,865
Accumulated depreciation:					
Balance at 1 April	3,293,304	961,410,978	25,802,876	--	845,278,563
Charge for the year	377,315	119,994,300	1,196,965	--	145,228,595
Eliminated on disposals	--	--	(26,914)	--	(26,914)
Balance at 31 March	3,670,619	1,081,405,278	26,972,927	--	990,507,158
Net book value					
At 31 March 2017	--	311,761,284	5,648,699	11,907,058	329,317,041
<i>At 31 March 2016</i>					<u>396,081,056</u>

6.1) During the year ended 31 March 2017, the Company has finalized the settlement agreement with one of its vendor, resulting in the transfer of network infrastructure equipment and stores and spares of capital nature to the Company, aggregating to SAR 34.8 million and SAR 12 million, which have been capitalized under network infrastructure and capital work in progress, respectively.

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7) INTANGIBLE ASSETS

	2017					2016
	License (Note 7.1)	Network capacity	Pre- operating costs	Network capacity under development (Note 7.2)	Software	Total
Cost:						
Balance at 1 April	527,904,000	295,260,000	24,599,711	272,000,000	51,679,643	1,171,443,354
Additions during the year	--	--	--	--	485,164	485,164
Capitalization during the year	--	272,000,000	--	(272,000,000)	--	--
Balance at 31 March	527,904,000	567,260,000	24,599,711	--	52,164,807	1,171,928,518
Accumulated amortization:						
Balance at 1 April	147,813,120	73,253,292	24,599,711	--	40,880,869	243,491,566
Charge for the year	17,850,776	28,181,744	--	--	2,723,958	43,055,426
Balance at 31 March	165,663,896	101,435,036	24,599,711	--	43,604,827	286,546,992
Net book value						
At 31 March 2017	362,240,104	465,824,964	--	--	8,559,980	836,625,048
<i>At 31 March 2016</i>						<u>884,896,362</u>

7.1) As stated in Note 1, the CITC has extended the life of the Company's license by 15 years. Accordingly, from 1 December 2016, the remaining carrying value of the Company's license is now being amortized over the revised useful life of 32 years (ending 31 March 2049).

7.2) Under the IRU agreement with STC (see note 1b), the Company has acquired ports amounting to SAR 408 million. The related payment is due in twelve equal quarterly installments of SAR 34 million each, commencing from second quarter of 2017-18 hence; the related liability has been accordingly classified under long-term and short-term accounts payable.

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8) TAWAROOQ ISLAMIC FINANCING

This comprises Islamic mode of financing obtained from a local bank (the "Bank") utilized 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 13 equal quarterly installments ending April 2020.

The financing balance as of 31 March was as follows:

	<u>2017</u>	<u>2016</u>
Current portion	31,068,118	31,068,118
Non-current portion	69,903,310	100,971,428
	<u>100,971,428</u>	<u>132,039,546</u>

9) COST OF SERVICES

During the year, the Company's vendor has waived certain operation and maintenance charges due from the Company. Accordingly, the Company has reversed an amount of SAR 8.9 million in this respect.

10) OTHER INCOME

	<u>For the year ended</u>	
	<u>2017</u>	<u>2016</u>
Settlement with a vendor:		
Compensation in the form of network equipment (note 6.1)	46,849,260	--
Liability written back	27,922,138	--
	74,771,398	--
Marketing support income (note 1c)	32,000,000	124,000,000
Amortization of gain on sale of property	4,168,008	21,869,726
Others	3,658,910	252,294
	<u>114,598,316</u>	<u>146,122,020</u>

11) (LOSS) / EARNINGS PER SHARE

(Loss) / earnings per share for the three months period and the year ended 31 March 2017 and 2016 is calculated by dividing the (loss) / earnings for the period/year by the weighted average number of shares outstanding during the period/year.

12) CONTINGENCIES AND COMMITMENTS

a) *Contingencies*

Letter of guarantees

The Company's banks have issued letters of guarantees amounting to SAR 50 million (2016: SAR 50 million) as at the interim balance sheet date.

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12) CONTINGENCIES AND COMMITMENTS (CONTINUED)

Legal cases status

In the normal course of business, the Company became part of legal cases with a few suppliers. Management believes that the cases will be decreed in favor of the Company and accordingly no provision has been recognized.

b) Commitments

The Company has commitments resulting from major agreements which were entered into and not yet executed at the interim balance sheet date amounting approximately to SAR 83.4 million (2016: SAR 87.9 million) pertaining to the various vendors.

13) OPERATING LEASES

The Company has various operating leases for its offices, warehouses and operational facilities. Rental expenses for the year ended 31 March 2017 amounted to SAR 44.7 million (2016: SAR 44.9 million).

Future rental commitments at 31 March 2017 under these operating leases are as follows:

<u>Periods ending 31 March :</u>	<u>SAR</u>
2017	39,100,510
2018	15,512,220
2019	2,543,400
2020	1,385,600
2021 and thereafter	--
	<u>58,541,730</u>

14) SEGMENTAL INFORMATION

The Company has identified its main operating segments by the type of services provided to the customers. The main operating segments are explained below:

- **Voice** comprise of local and international calls including interconnection.
- **Data and Internet** comprise of internet broadband services provided to business to business (B2B) and business to consumer (B2C) customers.
- **Unallocated** represents other income which cannot be attributed to any of the reported operating segment.

For the three months period ended 31 March 2017

	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	39,397,020	89,702,925	--	129,099,945
Segment (loss) / profit	(45,710,457)	(2,837,891)	26,530,631	(22,017,717)
Depreciation and amortization	(2,819,391)	(23,142,908)	--	(25,962,299)
Finance charges	(777,258)	(917,032)	--	(1,694,290)

For the three months period ended 31 March 2016

	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	53,691,139	43,211,335	--	96,902,474
Segment (loss) / profit	(23,460,485)	(48,627,173)	9,445,974	(62,641,684)
Depreciation and amortization	(5,127,424)	(42,088,346)	--	(47,215,770)
Finance charges	(535,161)	(631,398)	--	(1,166,559)

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14) SEGMENTAL INFORMATION (CONTINUED)

	<u>For the year ended 31 March 2017</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	156,907,183	264,838,689	--	421,745,872
Segment (loss) / profit	(143,819,053)	(109,401,067)	114,598,315	(138,621,805)
Depreciation and amortization	(18,496,549)	(151,828,509)	--	(170,325,058)
Finance charges	(2,984,509)	(3,521,212)	--	(6,505,721)

	<u>For the year ended 31 March 2016</u>			
	<u>Voice</u>	<u>Data and internet</u>	<u>Unallocated</u>	<u>Total</u>
Segment revenue	186,737,183	156,296,283	--	343,033,466
Segment (loss) / profit	(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 charges	(2,177,575)	(2,569,168)	--	(4,746,743)

The services are provided using same facilities, which are not segregated among the services activities, as the Company's management monitors its assets and liabilities on an integrated basis. The Company is developing segment information system to enhance the disclosed information. In addition, all of the Company's services are principally provided in Saudi Arabia.

15) RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company comprise of the shareholders and their affiliated companies. In the ordinary course of business, the Company enters into transactions with related parties based on mutually agreed prices and contract terms approved by the Company's management.

a) <u>Significant related party transactions</u>	<u>Related parties</u>	<u>Nature of transaction</u>	<u>For the three months period ended</u>		<u>For the year ended</u>	
			<u>31 March 2017</u>	<u>31 March 2016</u>	<u>31 March 2017</u>	<u>31 March 2016</u>
	Bahrain Telecommunications Company (BATELCO)	Data revenue	<u>2,180,563</u>	<u>603,579</u>	<u>5,810,373</u>	<u>1,797,439</u>
		Interconnection revenue	<u>565,057</u>	<u>113,831</u>	<u>1,327,913</u>	<u>257,854</u>
		Interconnection cost	<u>620,314</u>	<u>573,848</u>	<u>1,812,957</u>	<u>4,330,746</u>
	Founding shareholders	Financial charges	<u>96,729</u>	<u>110,322</u>	<u>407,310</u>	<u>461,682</u>
	Ithraa Capital Company	Consultancy	<u>4,402,437</u>	--	<u>4,402,437</u>	<u>62,156</u>
b) <u>Due from related parties</u>		<u>Relationship</u>	<u>31 March 2017</u>	<u>31 March 2016</u>		
	Bahrain Telecommunications Company (BATELCO)	Shareholder	14,993,041	10,709,334		
	Bithar Trading Company Limited (formerly Atheeb Trading Company Limited)	Shareholder	1,937,109	1,425,045		
	Saudi Arabian Marketing and Agencies Limited	Affiliate	771,504	1,014,564		
	Atheeb Saudi Intergraph Company Limited	Shareholder	51,466	--		
	Atheeb Maintenance and Services	Shareholder	19,200	--		
	EtiHAD Shams Company Limited	Affiliate	21,600	--		
			<u>17,793,920</u>	<u>13,148,943</u>		

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15) RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

<i>c) Due to related parties</i>	<i>Relationship</i>	<u>31 March</u> <u>2017</u>	<u>31 March</u> <u>2016</u>
Bahrain Telecommunications Company (BATELCO)	Shareholder	20,433,058	22,276,226
Bithar Trading Company Limited (formerly Atheeb Trading Company Limited)	Shareholder	1,028,585	925,190
Traco Group Trading and Contracting Company	Shareholder	873,659	836,062
Saudi Internet Company Limited	Shareholder	655,244	627,047
Bithar Communications & Information Technology Company Limited (formerly Atheeb Computer and Communications Company Limited)	Shareholder	655,244	627,047
Atheeb Maintenance and Services Company Limited	Shareholder	655,244	627,047
Al Nahla Trading and Contracting Company Limited	Shareholder	52,515	982,168
Ithraa Capital Company	Affiliate	4,402,437	--
		<u>28,755,986</u>	<u>26,900,787</u>

16) PROVISION FOR ZAKAT AND TAX

- a) The Company has filed its zakat and tax returns for the years up to and including the year ended 31 March 2016 with the General Authority for Zakat and Tax ("GAZT"). The Company computed zakat charge in accordance with the Saudi Arabian Zakat and Tax Regulation which has been charged to the Interim Statement of Changes in Shareholders' Equity as follows:

	<u>2017</u>	<u>2016</u>
Balance as at 1 April		
Charge for the year	2,698,958	428,758
Balance as at 31 March	<u>--</u>	<u>2,270,200</u>
	<u>2,698,958</u>	<u>2,698,958</u>

- b) In July 2015, the GAZT raised zakat and withholding tax (WHT) assessment for the years 2010 to 2012 amounting to SAR 17.43 million and SAR 0.83 million respectively. The Company filed an appeal with the GAZT against the assessments in August 2015.

In response to appeal filed by the company, the Preliminary Appeal Committee (PAC) issued ruling in October 2016 based on which the Company's zakat liability was reduced to SR 6.98 million while the WHT liability remained the same at SAR 0.83 million. The Company was also liable to pay delay fine on WHT of SAR 0.6 million as per the PAC ruling.

The Company filed an appeal to the Higher Appeal Committee (HAC) in December 2016 against the PAC ruling in relation to zakat and imposition of delay fine on WHT. The Company has settled the WHT liability of SAR 0.83 million with the GAZT.

The returns filed by the Company for the years 2013 to 2016 are still under review by the GAZT.