

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**Interim Consolidated**  
**Financial Statements (Unaudited)**  
**For The Three-Month and Nine-Month Periods**  
**Ended 30 September 2015**  
together with  
**Independent Auditors' Review Report**

**ETIHAD ETISALAT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

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**LIMITED REVIEW REPORT**  
**ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

To: **The Shareholders of Etihad Etisalat Company**  
**(A Saudi Joint Stock Company)**

***Scope of review***

We have reviewed the accompanying interim consolidated balance sheet of **Etihad Etisalat Company** (the "Company") and its subsidiaries (together the "Group") as of 30 September 2015 and the interim consolidated statement of income for the three-month and nine-month periods ended 30 September 2015, and the interim consolidated statements of cash flows and changes in equity for the nine-month period then ended and the related notes from 1 to 13 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

We conducted our limited review in accordance with the standard of Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. The scope of such limited review is substantially less than an audit conducted in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

***Review conclusion***

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

***Emphasis of matters***

We draw attention to the following matters:

- a) Note 2.1 to the accompanying interim consolidated financial statements which describes the basis on which these interim consolidated financial statements have been prepared. As at 30 September 2015, and consistent with the position as at 31 December 2014, the Group is unable to meet a certain financial covenant under its long-term financing facilities with various lenders and, consequently such long-term loans and notes payable are continued to be classified under current liabilities as at that date. As a result, the Group's net current liabilities amounted to Saudi Riyals 17.5 billion at 30 September 2015.

These conditions indicate that the Group's ability to meet its obligations as they become due and to continue as a going concern depends on its ability to obtain a reset of the relevant covenant from the lenders. The management of the Group is currently engaged in negotiations with the lenders to obtain a reset of the relevant covenant and are confident that negotiations will be successful. Accordingly, the accompanying interim consolidated financial statements have been prepared under the going concern basis.



- b) Notes 12 and 13 to the accompanying interim consolidated financial statements which outline the impact of certain reclassifications and restatements in the interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2014 as a result of restatements regarding the revenue recognition of the multiple element arrangements contracts and the net property and equipment capitalization and depreciation. These notes contain details of the impact of these adjustments on the revenue and net income in the interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2014 and retained earnings and other related balances as of 30 September 2014.

**KPMG Al Fozan & Al Sadhan**




Khalil Ibrahim Al Sedais  
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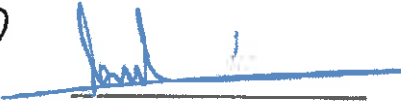
Date: 6 Muharram 1437H  
Corresponding to: 19 October 2015

**ETIHAD ETISALAT COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**  
**INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)**  
**(All amounts in Saudi Riyals thousands unless otherwise stated)**

	<i>Notes</i>	<b>As at 30 September</b>	
		<b>2015</b>	<b>2014</b> <i>(Restated)</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,301,685	1,290,767
Short-term investments		1,250,000	1,100,000
Accounts receivable, net	3	3,628,773	6,150,806
Due from a related party		25,639	61,046
Inventories, net		445,908	841,852
Prepaid expenses and other assets		3,174,490	5,204,448
<b>Total current assets</b>		<b>9,826,495</b>	<b>14,648,919</b>
<b>Non-current assets</b>			
Property and equipment, net	4	23,677,953	24,269,247
Licenses' acquisition fees, net	5	8,148,218	8,570,410
Goodwill		1,466,865	1,529,886
Investment		18,755	5,279
<b>Total non-current assets</b>		<b>33,311,791</b>	<b>34,374,822</b>
<b>TOTAL ASSETS</b>		<b>43,138,286</b>	<b>49,023,741</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Current portion of long-term loans	6	14,607,053	2,185,812
Accounts payable		6,962,128	8,455,023
Due to related parties		185,712	111,017
Accrued expenses and other liabilities		5,603,923	4,491,762
<b>Total current liabilities</b>		<b>27,358,816</b>	<b>15,243,614</b>
<b>Non-current liabilities</b>			
Long-term loans and notes payable	6	-	14,834,703
Provision for end-of-service benefits		229,294	183,083
<b>Total non-current liabilities</b>		<b>229,294</b>	<b>15,017,786</b>
<b>TOTAL LIABILITIES</b>		<b>27,588,110</b>	<b>30,261,400</b>
<b>EQUITY</b>			
Share capital	1	7,700,000	7,700,000
Statutory reserve	7	2,648,971	2,648,971
Retained earnings		5,199,705	8,411,870
<b>Total shareholders' equity</b>		<b>15,548,676</b>	<b>18,760,841</b>
Non-controlling interest		1,500	1,500
<b>Total equity</b>		<b>15,550,176</b>	<b>18,762,341</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>43,138,286</b>	<b>49,023,741</b>

The accompanying notes from 1 to 13 form an integral part of these interim consolidated financial statements.

  
 Chief Financial Officer

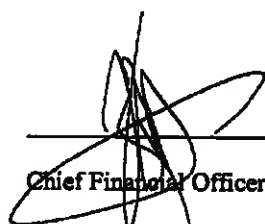
  
 Chief Executive Officer

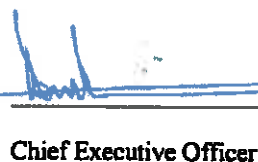
  
 Authorized Board Member

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED INCOME STATEMENT (UNAUDITED)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<i>Notes</i>	For the three-month period ended 30 September		For the nine-month period ended 30 September	
		<u>2015</u>	<u>2014</u> (Restated)	<u>2015</u>	<u>2014</u> (Restated)
Revenues		3,685,136	3,859,864	10,896,744	11,281,446
Cost of services and sales		<u>(1,528,343)</u>	<u>(1,677,019)</u>	<u>(4,890,183)</u>	<u>(5,033,109)</u>
Gross profit		2,156,793	2,182,845	6,006,561	6,248,337
<b>Operating expenses:</b>					
Selling and marketing expenses		(351,643)	(425,344)	(1,146,579)	(1,239,544)
General and administrative expenses		(984,363)	(749,530)	(3,031,059)	(1,794,837)
Depreciation and amortization	4, 5	<u>(870,826)</u>	<u>(880,957)</u>	<u>(2,645,978)</u>	<u>(2,612,739)</u>
Total operating expenses		(2,206,832)	(2,055,831)	(6,823,616)	(5,647,120)
Operating (loss) / income		(50,039)	127,014	(817,055)	601,217
Finance expenses	6	(120,952)	(64,485)	(246,730)	(180,498)
Other income		22,353	108,602	107,060	232,843
Net (loss) / income before zakat		<u>(148,638)</u>	171,131	<u>(956,725)</u>	653,562
Zakat		<u>(9,650)</u>	<u>(41,672)</u>	<u>(146,990)</u>	<u>(120,917)</u>
Net (loss) / income for the period		<u>(158,288)</u>	129,459	<u>(1,103,715)</u>	532,645
<b>(Loss) / earnings per share (in Saudi Riyals) from:</b>					
(Loss) / income from main operations	8	<u>(0.06)</u>	0.17	<u>(1.06)</u>	0.78
Net (loss) / income for the period	8	<u>(0.21)</u>	0.17	<u>(1.43)</u>	0.69

The accompanying notes from 1 to 13 form an integral part of these interim consolidated financial statements.

  
Chief Financial Officer

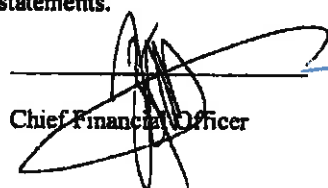
  
Chief Executive Officer

  
Authorized Board Member

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	<b>For the nine-month period ended 30 September</b>	
	<b>2015</b>	<b>2014 (Restated)</b>
<b>OPERATING ACTIVITIES</b>		
Net (loss) / income for the period	(1,103,715)	532,645
Adjustments to reconcile net (loss)/income to net cash from operating activities:		
Depreciation	2,198,490	2,194,711
Amortization of licenses' acquisition fees	447,488	418,028
Provision for doubtful debts	1,079,873	340,509
Finance expenses	246,730	180,498
Gain on sale of investment	(5,696)	-
<b>Changes in working capital:</b>		
Accounts receivable	(236,115)	980,620
Due from a related party	30,755	(27,776)
Inventories	372,166	72,669
Prepaid expenses and other assets	39,920	356,731
Accounts payable	405,651	771,642
Due to related parties	40,438	7,905
Accrued expenses and other liabilities	758,373	(980,298)
Provision for end-of-service benefits, net	29,373	25,341
<b>Net cash provided from operating activities</b>	<b>4,303,731</b>	<b>4,873,225</b>
<b>INVESTING ACTIVITIES</b>		
Short-term investment	(150,000)	(1,100,000)
Purchase of property and equipment	(2,177,430)	(4,337,082)
Disposals of property and equipment, net	702	2,502
Acquisition of license	(29,953)	(75,646)
Disposal of license, net	12,389	-
Proceeds from sale of investment	11,076	-
Investment	(22)	352
<b>Net cash used in investing activities</b>	<b>(2,333,238)</b>	<b>(5,509,874)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from long-term loans	30,401	5,406,709
Payment of long-term loans	(2,439,639)	(1,972,131)
Finance expenses paid	(223,902)	(191,455)
Cash dividends	-	(2,887,500)
Changes in non-controlling interest	-	1,500
<b>Net cash (used in) / provided from financing activities</b>	<b>(2,633,140)</b>	<b>357,123</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(662,647)</b>	<b>(279,526)</b>
Cash and cash equivalents, beginning of the period	1,964,332	1,570,293
<b>Cash and cash equivalents, end of the period</b>	<b>1,301,685</b>	<b>1,290,767</b>

The accompanying notes from 1 to 13 form an integral part of these interim consolidated financial statements.

  
Chief Financial Officer


  
Chief Executive Officer

  
Authorized Board Member

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total Shareholders equity	Non-controlling interest	Total
Balance as at 1 January 2015		7,700,000	2,648,971	6,303,420	16,652,391	1,500	16,653,891
Net loss for the period		-	-	(1,103,715)	(1,103,715)	-	(1,103,715)
Balance as at 30 September 2015		7,700,000	2,648,971	5,199,705	15,548,676	1,500	15,550,176
Balance as at 1 January 2014		7,700,000	2,648,971	10,766,725	21,115,696	-	21,115,696
Net income for the period (restated)	13	-	-	532,645	532,645	-	532,645
Cash dividend		-	-	(2,887,500)	(2,887,500)	-	(2,887,500)
Contribution in non-controlling interest		-	-	-	-	1,500	1,500
Balance as at 30 September 2014		7,700,000	2,648,971	8,411,870	18,760,841	1,500	18,762,341

The accompanying notes from 1 to 13 form an integral part of these interim consolidated financial statements.

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board Member



## **ETIHAD ETISALAT COMPANY**

(A Saudi Joint Stock Company)

### **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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#### **1. ORGANIZATION AND ACTIVITY**

##### **1.1 Etihad Etisalat Company**

Etihad Etisalat Company (“Mobily” or the “Company”), a Saudi joint stock company, is registered in the Kingdom of Saudi Arabia under commercial registration number 1010203896 issued in Riyadh on 14 December 2004 (corresponding to Dhul Qa’adah 2, 1425H). The main address for the Company is P.O. Box 23088, Riyadh 11321, Kingdom of Saudi Arabia.

The Company was incorporated pursuant to the Royal decree number M/40 dated 18 August 2004 (corresponding to Rajab 2, 1425H) approving the Council of Ministers resolution number 189 dated 10 August 2004 (corresponding to Jumada II 23, 1425H) to approve the award of the license to incorporate a Saudi joint stock company under the name of “Etihad Etisalat Company”.

Pursuant to the Council of Ministers resolution number 190 dated 10 August 2004 (corresponding to Jumada II 23, 1425H), the Company obtained the licenses to install and operate 2G and 3G mobile telephone network including all related elements and the provision of all related services locally and internationally through its own network.

The Company’s main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks and any extension thereof, manage, install and operate telephone networks, terminals and communication unit systems, in addition to sell and maintain mobile phones and communication unit systems in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 25 May 2005 (corresponding to Rabi Al-Thani 17, 1426H).

The Extraordinary General Assembly decided in its meeting held on 12 January 2013 (corresponding to Safar 30, 1434H) to approve the recommendation of the Board of Directors to increase the Company’s share capital from Saudi Riyals 7 billion to Saudi Riyals 7.7 billion through a bonus share issue of one share for every ten shares owned by registered shareholders in the Company’s shareholders’ register as at the end of the trading day on which the Extraordinary General Assembly meeting was held, and that the increase in share capital shall be effected by transferring Saudi Riyals 700 million from the retained earnings as of 30 September 2012. The total number of shares increased by 70 million shares from 700 million shares to 770 million shares. Accordingly, the Company’s share capital amounting to Saudi Riyals 7.7 billion consists of 770 million shares of Saudi Riyals 10 each. The legal formalities related to the increase in the Company’s share capital were completed during the first quarter in 2013.

Mobily clarified in its announcement on 13 May 2015 (corresponding to Rajab 24, 1436H) that it is currently at the phase of studying the possibility of selling its telecommunications towers. The Company has not entered into any binding agreement in this regard nor determined the financial impact thereof.

The Board of Directors in its meeting held on 24 February 2015 (corresponding to Jumada-Awwal 5, 1436H) resolved to cancel an agreement pertaining to FTTH Partnership as the partner failed to submit the required bank guarantee and the termination agreement was mutually signed by Bayanat and the partner on 2 June 2015 (corresponding to Shaban 15, 1436H). The termination of the agreement has no impact on the reported revenues for the three-month and nine-month periods ended 30 September 2015 and 2014.

The Board of Directors in its meeting held on June 9, 2015 (corresponding to Shaban 22, 1436H) agreed on the settlement of amount due in respect of the cancellation of the Branded Reseller agreement made by one of the partners and the termination agreement was mutually signed by Mobily and the partner on 15 June 2015 (corresponding to Shaban 28, 1436H). The termination of the agreement has no impact on the reported revenues for the three-month and nine-month periods ended 30 September 2015 and 2014 after restatement.

**ETIHAD ETISALAT COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

**1. ORGANIZATION AND ACTIVITY (CONTINUED)****1.2 Subsidiary companies**

Below is the summary of Group's subsidiaries' and ownership percentage as at 30 September 2015:

Name	Country of incorporation	Ownership percentage	
		Direct	Indirect
Mobily Ventures Holding SPC	Bahrain	100.00%	-
Mobily InfoTech India Private Limited	India	99.99%	0.01%
Bayanat Al-Oula for Network Services Company	Saudi Arabia	99.00%	1.00%
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%
Sehati for Information Service Company	Saudi Arabia	90.00%	10.00%
Mobily Plug & Play LLC	Saudi Arabia	60.00%	-
National Company for Business Solutions FZE	United Arab Emirates	-	100.00%

The main activities of the subsidiaries are as follows:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for the installation and maintenance of wire and wireless telecommunications networks and the installation of computer systems and data services.
- Wholesale and retail trade in equipment and machinery, electronic and electrical devices, wire and wireless telecommunications' equipment, smart building systems and import and export to third parties, in addition to marketing and distributing telecommunication services and providing consultation services in the telecommunication domain.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- Providing television channels service over internet protocol (IPTV).
- Establishment, management and operation of, and investment in service and industrial projects.
- Establishment, operating and maintenance of telecommunications networks, computer and its related works, and establishment, maintenance and operating of computer software, importing and exporting and sale of equipment, devices and programs of telecommunication systems and computer software
- Establish and own companies specializing in commercial activities.
- Manage its affiliated companies or to participate in the management of other companies in which it owns shares, and to provide the necessary support for such companies.
- Invest funds in shares, bonds and other securities.
- Own real estate and other assets necessary for undertaking its activities within the limits pertained by law.
- Own or to lease intellectual property rights such as patents and trademarks, concessions and other intangible rights to exploit and lease or sub-lease them to its affiliates or to others.
- Have interest or participate in any manner in institutions which carry on similar activities or which may assist the Company in realizing its own objectives in the Kingdom of Bahrain or abroad. The Company may acquire such entities or merge therewith.
- Perform all acts and services relating to the realization of the foregoing objects.

**ETIHAD ETISALAT COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**1. ORGANIZATION AND ACTIVITY (CONTINUED)**

**1.2 Subsidiary companies (continued)**

The interim consolidated financial statements of the Group include the financial information of the following subsidiaries:

**1.2.1 Mobily Ventures Holding SPC**

During 2014, the Company completed the legal formalities pertaining to the investment in a new subsidiary, Mobily Ventures Holding, Single Person Company (SPC), located in the Kingdom of Bahrain owned 100% by the Company.

**1.2.2 Mobily InfoTech India Private Limited**

During the year 2007, the Company invested in 99.99% of the share capital of a subsidiary company, Mobily InfoTech India Private Limited incorporated in Bangalore, India which commenced its commercial activities during the year 2008. Early 2009, the remaining 0.01% of the subsidiary's share capital was acquired by National Company for Business Solutions, a subsidiary of the Company.

**1.2.3 Bayanat Al-Oula for Network Services Company**

During the year 2008, the Company acquired 99% of the partners' shares in Bayanat, a Saudi limited liability company. The acquisition included Bayanat's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 1.5 billion, resulting in goodwill of Saudi Riyals 1.466 billion on the acquisition date. The remaining 1% is owned by National Company for Business Solutions, a subsidiary of the Company.

**1.2.4 Zajil International Network for Telecommunication Company**

During the year 2008, the Company acquired 96% of the partners' shares in Zajil International Network for Telecommunication Company ("Zajil"), a Saudi limited liability company. The acquisition included Zajil's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 80 million, resulting in goodwill of Saudi Riyals 63 million on the acquisition date. The remaining 4% is owned by National Company for Business Solutions, a subsidiary of the Company. The goodwill has been fully impaired during the year ended December 31, 2014.

**1.2.5 National Company for Business Solutions**

During the year 2008, the Company invested in 95% of the share capital of National Company for Business Solutions, a Saudi limited liability company. The remaining 5% is owned by Bayanat, a subsidiary of the Company.

**1.2.6 Sehati for Information Service Company**

During 2014, the Company completed the legal formalities pertaining to the investment of 90% in Sehati for Information Service Company. The remaining 10% is owned by Bayanat, a subsidiary of the Company.

**1.2.7 Mobily Plug & Play LLC**

During 2014, the Company completed the legal formalities pertaining to the investment of 60% in Mobily Plug & Play LLC. The remaining 40% is owned by Plug & Play International, a company incorporated in USA.

**1.2.8 National Company for Business Solutions FZE**

During 2014, the National Company for Business Solutions (KSA) completed the legal formalities pertaining to the investment of 100% in National Company for Business Solutions FZE, a company incorporated in the United Arab of Emirates.

**ETIHAD ETISALAT COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**2.1 Basis of preparation**

The accompanying interim consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA"). The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's reissued annual consolidated financial statements for the year ended 31 December 2014.

In management's opinion, the interim financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented. The Group's interim results may not be indicative of its annual results.

As referred to in Note 6, the Group is unable to meet a certain financial covenant under its long term financing facilities with various lenders and, consequently, such long-term loans and notes payable continue to be classified as a current liability as at 30 September 2015 consistent with the position as at 31 December 2014. The Group therefore has net current liabilities of Saudi Riyals 17.5 billion as at 30 September 2015. The Group is currently engaged in negotiations with the lenders to obtain a reset of the relevant covenant based on its current financial forecasts.

Management is confident that negotiations with the lenders to obtain such a reset will be successful. The Group expects to continue to meet its obligations as they become due in the normal course of operation. Accordingly, Management and Directors believe that it is appropriate to prepare these interim consolidated financial statements under the going concern basis.

Notes 12 and 13 outline the impact of certain reclassifications and restatements in the interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2014 as a result of restatements regarding the revenue recognition of the multiple element arrangements contracts and the net property and equipment capitalization and depreciation. These notes contain details of the impact of these adjustments on the revenue and net income in the interim consolidated financial statements for the three-month and nine-month periods ended 30 September 2014 and retained earnings and other related balances as of 30 September 2014.

**ETIHAD ETISALAT COMPANY**

(A Saudi Joint Stock Company)

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE THREE AND NINE-MONTHS PERIODS ENDED 30 SEPTEMBER 2015**

(All amounts in Saudi Riyals thousands unless otherwise stated)

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Critical accounting estimates and judgments**

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards in Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

a) Provision for doubtful debts

A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and recoverability in the prior years. The provision for doubtful debts included in "general and administrative expenses" in the interim consolidated statement of income for the nine-month period ended 30 September 2015 amounted to SR 1,080 million (30 September 2014: SR 340 million).

b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.9. These calculations require the use of estimates and recoverable amounts of cash generating units have been determined based on value-in-use calculations.

c) Property and equipment

*Useful lives of property and equipment*

The useful life of each of the Group's items of property and equipment is estimated based on the period over which the asset is expected to be available for use (Note 2.7). Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation, experience with similar assets and application of judgment as to when the assets become available for use and the commencement of the depreciation charge.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease non-current assets.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Critical accounting estimates and judgments (continued)**

*Allocation of costs*

The Group enters into arrangements with certain of its key suppliers which may include the provision of multiple products and services including property and equipment, inventories and maintenance and other services across a number of reporting periods. Such arrangements may include the provision of free of charge assets and incentives which enable the Group to obtain further products and services at discounted values. Management aggregates, where appropriate, such arrangements and allocates the net cost of such an aggregation between the multiple products and services based on its best estimate of the fair value of the individual components. The cost of such components is capitalized or expensed according to the relevant accounting policy.

(d) Zakat assessments

Provision for zakat and withholding taxes is determined by the Group in accordance with the requirements of the Department of Zakat and Income Tax ("DZIT") and is subject to change based on final assessments received from the DZIT. The Group recognizes liabilities for any anticipated zakat and withholding tax based on management's best estimates of whether additional zakat/taxes will be due. The final outcome of any additional amount assessed by the DZIT is dependent on the eventual outcome of the appeal process which the Group is entitled to. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could impact the interim consolidated statement of income in the period in which such final determination is made.

(e) Contingencies

The Group is currently involved in various legal proceedings. Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Group's defense in these matters and are based upon the probability of potential results. The Group's management currently believes that these proceedings will not have a material effect on the financial statements. It is possible, however, that future results of operations could be materially affected depending on the final outcome of the proceedings.

(f) Revenues

*Finance lease arrangements*

The Group accounts for certain arrangements as finance leases. In accounting for such arrangements, the Group's management has to determine whether the arrangement meets the relevant criteria, that substantially all risks and rewards incidental to ownership are transferred by the lessor, by reviewing the individual facts and circumstances of each arrangement. The Group recognises revenue related to such arrangement only when it considers it is probable that future amounts due under such arrangements will be received. Where finance lease arrangements form part of the delivery of bundled products and services, the allocation of fair values follows the accounting policy set out in Note 2.17 (j).

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Critical accounting estimates and judgments (continued)**

*Gross versus net presentation*

When the Group sells goods or services as a principal, revenue and payments to partners are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to partners are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgments impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

*Multiple element arrangements*

In arrangements involving the delivery of bundled products and services, including long-term arrangements, those bundled products and services are separated into individual elements, each with its own separate revenue contribution taking into the consideration the specific contractual details, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverables may be sold on a standalone basis, taking into consideration the time value of the money.

**2.3 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank current accounts and Murabaha facilities with original maturities of three month or less from acquisition date.

**2.4 Short-term investments**

Short-term investments include placements with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

**2.5 Accounts receivable**

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated statement of income and reported under "general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "general and administrative expenses" in the interim consolidated statement of income. Write-off of accounts receivable against which no provision is made is charged directly to the interim consolidated statement of income in the period in which such write-off is made and reported under general and administrative expenses. Accounts receivables which are collectible beyond 12 months are classified and presented as non-current assets in the interim consolidated balance sheet.

**2.6 Inventories**

Inventories comprise of mobile phones (handsets) and other customer-premise equipment (CPE), SIM cards, pre-paid vouchers and scratch cards. Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the difference between the estimated selling price in the ordinary course of business and selling expenses. Cost is determined by using the weighted average method. The Group provides for slow-moving and obsolete inventories in the general and administrative expenses in the interim consolidated statement of income.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.7 Property and equipment**

Property and equipment, except land, are stated at cost less accumulated depreciation. The cost of property and equipment includes direct costs and other directly attributable incremental costs incurred in their acquisition and installation, net of any supplier discounts.

During the quarter ended March 31, 2015, the Group conducted internal reviews of useful life of property and equipment based on a study conducted by an independent consultant, which resulted in changes in the useful life of certain categories of the assets. Depreciation on property and equipment is charged to the consolidated statement of income using the straight line method over their estimated useful lives at the following annual depreciation rates.

	<b>Estimates applied from January 1, 2015 onwards</b>	<b>Estimates applied as on December 31, 2014 and before</b>
Buildings	5%	5%
Leasehold improvements	10%	10%
Telecommunication network equipment	4% - 20%	5% - 20%
Computer equipment and software	16%-20%	25%
Office equipment and furniture	14%-33%	20%-25%
Vehicles	20%-25%	20%-25%

Additional depreciation is charged in the current period to allow for known delays in capitalization or transfer out of capital work in progress.

Major renovations and improvements are capitalized if they increase the productivity or the operating useful life of the assets as well as direct labor and other direct costs. Repairs and maintenance are expensed when incurred. Gain or loss on disposal of property and equipment which represents the difference between the sale proceeds and the carrying amount of these assets, is recognized in the interim consolidated statement of income.

Capital work in progress is stated at cost until the construction on installation is complete. Upon the completion of construction or installation, the cost of such assets together with cost directly attributable to construction or installation, including capitalized borrowing cost, are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

**2.8 Licenses' acquisition fees**

Licenses' acquisition fees are amortized according to their regulatory useful lives and the amortization is charged to the consolidated statement of income. The capitalized license fees are reviewed at the end of each financial year to determine if any decline exists in their values. In case impairment is identified in the capitalized licenses' fees, such impairment is recorded in the interim consolidated statement of income.

**2.9 Goodwill**

Goodwill represents the excess of consideration paid for the acquisition of subsidiaries over the fair value of the net assets acquired at the acquisition date and reported in the interim consolidated financial statements at carrying value after adjustments for impairment in value.



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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.10 Investments in subsidiaries and associates**

*(a) Subsidiaries*

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported separately in the accompanying interim consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated impairment losses, if any.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Non-controlling interest*

Non-controlling interest represents the portion of income or loss and net assets not held by the Group and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated balance sheet, separately from shareholders' equity.

Acquisition of non-controlling interest is accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.11 Impairment of non-financial assets**

Non-financial assets, other than goodwill, 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 other than goodwill 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 consolidated statement of income. Impairment losses recognized on goodwill are not reversible.

**2.12 Borrowings**

Borrowings are recognized at the proceeds received, net of transactions costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated statement of income.

**2.13 Accounts payable and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

**2.14 Provisions**

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**2.15 Zakat and income tax**

The Group is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the interim consolidated statement of income. Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the interim consolidated statement of income.

**2.16 Employee termination benefits**

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the interim consolidated statement of income. Provision for employees' termination benefits are made in accordance with the Projected Unit Cost method. The provision is recognized based on the present value of the defined benefit obligations.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.16 Employee termination benefits (continued)**

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference to government and corporate bonds.

**2.17 Revenues**

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of trade discounts, promotions and volume rebates and after eliminating revenue within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue comprises revenue from mobile telecommunications services as summarized below:

- (a) Revenue from mobile telecommunications comprises amounts charged to customers in respect of connection or activation, airtime usage, text messaging, the provision of other mobile telecommunications services including data services, and fees for connecting users of other fixed line and mobile networks to the Group's network.
- (b) Airtime, text messaging and data usage by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred and recognised as the customer uses the airtime.
- (c) Connection or activation fees, are non-refundable, one-off, fees charged to customers when they connect to the network and are recognized in full as revenue in the period in which the underlying obligation is fulfilled (refer to Note 2.17 (j)). The fees to the Group are not contingent upon resale or payment by the end user as the Group has no further obligations related to bringing about resale or delivery, and all other revenue recognition criteria have been met.
- (d) Subscription fees are monthly access fees that do not vary according to usage and are recognized as revenue on a straight-line basis over the service period.
- (e) Interconnect revenue is recognized on the basis of the gross value of invoices raised on other operators for termination charges based on the airtime usage, text messaging, and the provision of other mobile telecommunications services for the billing period as per the agreed rate.
- (f) Roaming revenue is recognized on the basis of the gross value of invoices raised on other roaming partners based on actual traffic delivered during the billing period.
- (g) Revenue from sale of handsets and sim cards is recognized upon delivery of the products to the customers in the period during which the sale transaction took place.
- (h) Revenue from sale of bundled handsets and sim cards is presented net of the related costs.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.17 Revenues (continued)**

- (i) Revenue from finance lease arrangements is recognized when substantially all the risks and rewards incidental to ownership are transferred by the lessor and there are no unfulfilled obligations on the lessor that affect the lessee's final acceptance of the arrangement. Where finance lease arrangements form part of the delivery of bundled products and services, the allocation of fair values follows the accounting policy set out in Note 2.17 (j).
- (j) In arrangements involving the delivery of bundled products and services, those bundled products and services are separated into individual elements, each with its own separate revenue contribution, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverable is regularly sold on a standalone basis.

**2.18 Costs and expenses**

**2.18.1 Cost of revenues**

Represent the cost of services and revenues incurred during the period which include the costs of goods sold, direct labor, governmental charges, interconnection costs and other overheads related to the revenues recognized.

**2.18.1.a Governmental charges**

Governmental charges represent government contribution fees in trade earnings, license fees, frequency waves' fees and costs charged to the Group against the rights to use telecommunications and data services in the Kingdom of Saudi Arabia as stipulated in the license agreements. These fees are recorded in the related periods during which these fees are incurred and included under cost of services in the interim consolidated statement of income.

**2.18.1.b Interconnection costs**

Interconnection costs represent connection charges to national and international telecommunication networks. Interconnection costs are recorded in the period when relevant calls are made and are included in the cost of services caption in the interim consolidated statement of income.

**2.18.2 Selling and marketing expenses**

Represent expenses resulting from the Group's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing expenses and cost of revenues, when required, are made on a consistent basis.

**2.18.3 General and administrative expenses**

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

**2.19 Dividends**

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Shareholders of the Group.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.20 Foreign currency transactions**

*(a) Reporting currency and functional currency*

The interim consolidated financial statements are presented in Saudi Riyals, which is the Company's functional and Group's presentation currency. Each subsidiary in the Group determines its own functional currency, and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

*(b) Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. At interim consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates for the period ended 30 September 2014 and 30 September 2015, are recognized in the interim consolidated statement of income.

*(c) Group companies*

The results and financial position of foreign subsidiaries and associates, not operating in a hyper-inflationary economy, having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

- i. assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- ii. income and expenses for each the income statement are translated at average exchange rates; and
- iii. components of the shareholders' equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of foreign subsidiaries and associates into Saudi Riyals are reported as a separate component of shareholders' equity.

**2.21 Operating and finance leases**

Lease agreements are classified as finance leases if the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. Other leases are classified as operating leases whereby the expenses and the revenues associated with the operating leases are recognized in the interim consolidated statement of income on a straight-line basis over the term of the leases.

The present value of lease payments for assets sold under finance lease is recognized as a receivable net of unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Provision is made against lease receivables, as soon as they are considered doubtful of recovery. Amounts due over one year are classified as non-current assets.

**2.22 Loyalty program**

The Group operates a loyalty program that provides a variety of benefits for customers. Loyalty award credits are based on a customer's telecommunications usage. The Group accounts for the loyalty award credits as a separately identifiable component of the sales transaction in which they are granted.

The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability in the interim consolidated balance sheet until the awards are utilized. The fair value is determined using estimation techniques that take into account the fair value of the benefits for which the awards could be redeemed. The Group also sells award credits to third parties for use in promotional activities. The revenue from such sales is recognized when the awards are ultimately utilized.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.23 Contingent liabilities**

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the interim consolidated financial statements.

**2.24 Segment reporting**

(a) Business segment

A business segment is group of assets, operations or entities:

- i. engaged in revenue producing activities;
- ii. results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
- iii. financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. See also Note 11.

**3. ACCOUNTS RECEIVABLES, NET**

	<u>2015</u>	<u>2014</u> (Restated)
Accounts receivables	5,917,377	7,183,045
Less: provision for doubtful debts	<u>(2,288,604)</u>	<u>(1,032,239)</u>
	<u>3,628,773</u>	<u>6,150,806</u>

During quarter four of 2014, the Company started an arbitration process in relation to amounts receivable arising from a Service Agreement signed with Mobile Telecommunications Company Saudi Arabia ("Zain KSA") on May 6, 2008 (corresponding to Jumada Al-Awwal 1,1429H). This agreement covers provision of services that include national roaming, site sharing, transmission links, and international traffic. The first arbitration session was held on December 20, 2014 (corresponding to Safar 28, 1436H) during which the arbitration panel process was agreed and the Company submitted its statement of claims.

The second session was held on February 7, 2015 (corresponding to Rabi Al-Thani 18,1436H) wherein the Company submitted during this session the documents relating to the engagement cancellation of its previous lawyer handling this case and confirmed the appointment of the new legal counsel to represent the Company in this case. The arbitration panel decided to schedule the next session to be held on February 14, 2015 (corresponding to Rabi Al-Thani 25, 1436H).

On February 14, 2015 (corresponding to Rabi Al-Thani 25, 1436H), the arbitration panel confirmed the Company's appointment of the new legal counsel to represent the Company in this case. Also during this session, the Company submitted its statement of response no. 1 to the statement of defense submitted by Zain KSA. Furthermore, Zain KSA has submitted its counter response to the reply provided by the Company.

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**3. ACCOUNTS RECEIVABLES, NET (CONTINUED)**

On May 23, 2015 (corresponding to Shaban 5, 1436H), the Company submitted a detailed response consisting of the required statement of claim and supporting annexes to the Secretary General of the Arbitration Panel to which Zain KSA acknowledged the receipt of the documents from the Secretary General and had two-and-a-half months from the date of receipt of the documents to prepare and respond to Company's statement of claim.

On June 27, 2015 (corresponding to Ramadan 10, 1436H), the Company stated in an announcement on Tadawul that following a review of outstanding receivables, an additional provision of Saudi Riyals 800 million booked against the amount due from Zain KSA.

On July 13, 2015 (corresponding to Ramadan 26, 1436H), Zain KSA stated in the Tadawul website the submission of its response and documents accompanying the response to the Secretary General of the Arbitration Panel and on the same date, the Company acknowledged the receipt of Zain's KSA brief and supporting attachments thereto and indicated it would respond to this brief in accordance with the arbitration procedures.

On August 27, 2015 (corresponding to 12 Dhul Qa'dah 1436H), The Company submitted its response and the documents accompanying the response to the Secretary General of the Arbitration Panel in reply to Zain KSA statement.

On October 07, 2015 (corresponding to 24 Dhul Hijjah 1436H), Zain KSA announced on Tadawul website that it submitted its response and the documents accompanying the response to the Secretary General of the Arbitration Panel and on the same date, the Company acknowledged the receipt of Zain KSA brief and supporting attachments thereto.

An arbitration hearing is scheduled to be held on October 24, 2015 (corresponding to 11 Muharram 1437H).

The amount subject to the arbitration proceedings amounted to Saudi Riyals 2.2 billion as of 30 September 2015. The Group is adequately covered by providing SR 2.0 billion against the amounts claimed from Zain KSA as of 30 September 2015. Total provision for doubtful debts charged during the nine month period ended 30 September 2015 related to Zain balances amounted to Saudi Riyals 800 million less a net reversal of Saudi Riyals 25 million relating to balances not subject to arbitration proceedings (Saudi Riyals 152 million charged in year ended 31 December 2014).

The Service Agreement is still valid and the Company is receiving irregular payments from Zain KSA for the services provided. While the outcome of the arbitration proceedings is still on-going, management and the directors believe that sufficient and adequate provision has been made as of 30 September 2015.

The Company has also reassessed the recoverability of various other outstanding receivables and, based on the current circumstances in each case, has provided additional amounts against heightened risks of non-recovery.

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**4. PROPERTY AND EQUIPMENT, NET**

	Land	Buildings	Leasehold improvements	Telecommunication network equipment	Computer equipment and software	Office equipment and furniture	Vehicles	Capital work-in progress	Total
<b>Cost</b>									
January 1, 2015	274,710	750,810	743,376	30,243,236	4,030,802	496,738	2,642	981,823	37,524,137
Additions	-	59,570	28,347	789,588	57,267	1,353	-	868,493	1,804,618
Reclassification	-	(85,942)	-	85,942	-	-	-	-	-
Transfers	-	177,593	11,891	522,459	85,480	-	-	(797,423)	-
Disposals	-	-	-	(3,139)	(15)	-	-	-	(3,154)
<b>September 30, 2015</b>	<b>274,710</b>	<b>902,031</b>	<b>783,614</b>	<b>31,638,086</b>	<b>4,173,534</b>	<b>498,091</b>	<b>2,642</b>	<b>1,052,893</b>	<b>39,325,601</b>
<b>Accumulated depreciation</b>									
January 1, 2015	-	97,829	457,252	10,293,838	2,191,680	409,780	1,231	-	13,451,610
Depreciation for the period	-	30,322	57,453	1,774,283	315,395	20,775	262	-	2,198,490
Disposals	-	-	-	(2,443)	(9)	-	-	-	(2,452)
<b>30 September 2015</b>	<b>-</b>	<b>128,151</b>	<b>514,705</b>	<b>12,065,678</b>	<b>2,507,066</b>	<b>430,555</b>	<b>1,493</b>	<b>-</b>	<b>15,647,648</b>
<b>Net book value</b>									
September 30, 2015	274,710	773,880	268,909	19,572,408	1,666,468	67,536	1,149	1,052,893	23,677,953
September 30, 2014	275,360	864,159	302,233	20,183,185	1,680,557	88,165	1,497	874,091	24,269,247

The Group has capitalized borrowing costs amounting to Saudi Riyals 32 million (period ended 30 September 2014: Saudi Riyals 7 million) and internal technical salaries amounting to Saudi Riyals 103 million (period ended 30 September, 2014: Saudi Riyals 118 million) during the nine-month period ended 30 September 2015.



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**5. LICENSES' ACQUISITION FEES, NET**

	<b>Mobile Telecommunication services license</b>	<b>3G services license</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>				
January 1, 2015	12,210,000	753,750	1,135,059	14,098,809
Additions	-	-	29,953	29,953
Disposals	-	-	(13,092)	(13,092)
<b>September 30, 2015</b>	<b>12,210,000</b>	<b>753,750</b>	<b>1,151,920</b>	<b>14,115,670</b>
<b>Accumulated amortization</b>				
January 1, 2015	4,970,912	306,340	243,415	5,520,667
Amortization for the period	361,954	22,370	63,164	447,488
Disposals	-	-	(703)	(703)
<b>September 30, 2015</b>	<b>5,332,866</b>	<b>328,710</b>	<b>305,876</b>	<b>5,967,452</b>
<b>Balance at September 30, 2015</b>	<b>6,877,134</b>	<b>425,040</b>	<b>846,044</b>	<b>8,148,218</b>
Balance at September 30, 2014	7,359,740	454,867	755,803	8,570,410

**6. LOANS AND NOTES PAYABLE**

	<u>2015</u>	<u>2014</u>
Long-term loans	14,607,053	17,020,515
Less: current portion	<u>(14,607,053)</u>	<u>(2,185,812)</u>
Non-current	-	<u>14,834,703</u>

The Group is unable to meet a certain financial covenant as at 30 September 2015 under its long-term financing facilities with various lenders. The Group is currently in negotiations with its lenders to obtain a reset of the relevant covenant with effect from Quarter 1, 2015 such that, based on its current financial forecasts, it will be able to meet the relevant financial covenant with each of its facilities, on a quarterly basis, going forward. These discussions are on-going and are expected to be finalised during Quarter 4, 2015. Management is confident that the outcome of such discussions will be successful.

The Group has met all its loan repayment obligations under these financing facilities during the three-month period ended 30 September 2015 and is expected to continue to comply with its short-term repayment obligations as disclosed in Note 6 (a) and 6 (b) on the assumption that its negotiations with the lenders to reset the relevant covenant are successful.

If such negotiations are successful and reset of the financial covenant is obtained, the proforma classification and maturity profile of loans and notes payable and proforma summarized consolidated balance sheet would have been as follows:

a) Classification of loans and notes payable (excluding the reclassification)

	<u>2015</u>	<u>2014</u>
Loans and notes payable	14,607,053	17,020,515
Less: current portion	<u>(2,290,300)</u>	<u>(2,185,812)</u>
Non-current	<u>12,316,753</u>	<u>14,834,703</u>

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**6. LOANS AND NOTES PAYABLE (CONTINUED)**

## b) Maturity profile of loans and notes payable (excluding the reclassification)

	<u>2015</u>	<u>2014</u>
Less than one year	2,290,300	2,185,812
Between one to five years	9,847,250	11,634,136
Over five years	2,469,503	3,200,567
	<u>14,607,053</u>	<u>17,020,515</u>

## c) The proforma summarized interim consolidated balance sheet at 30 September 2015 (excluding the reclassification).

	<u>2015</u>
Total current assets	9,826,495
Total non-current assets	33,311,791
Total assets	<u>43,138,286</u>
Total current liabilities	15,042,063
Total non-current liabilities	12,546,047
Total liabilities	<u>27,588,110</u>
Total equity	15,550,176
Total liabilities and equity	<u>43,138,286</u>

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**6. LOANS AND NOTES PAYABLE (CONTINUED)**

d) The details of loans and notes payable as at September 30, 2015 (excluding reclassification) are as follows:

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Local banks	Mobily	Long-term refinancing facility agreement Sharia' compliant	Settling the outstanding loan balances, previously obtained by Mobily, and financing the Company's capital expenditures and working capital requirements.	Q1, 2012	Saudi Riyals	Saudi Riyals 10 billion	Saudi Riyals 10 billion	Murabaha rate based on SIBOR plus a fixed profit margin	Semi-annual scheduled instalments, with the first instalment settled in August 2012. The last instalment is due on 12 February 2019	Divided to five and seven years	Saudi Riyals 1,200 million	Saudi Riyals 6,634 million	Saudi Riyals 7,834 million	None
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013	US Dollars	USD 644 million (Saudi Riyals 2.4 billion)	USD 442 million (Saudi Riyals 1,657 million)	Fixed rate per annum	Scheduled instalments	10 years	Saudi Riyals 220 million	Saudi Riyals 1,093 million	Saudi Riyals 1,313 million	Utilization period of 1.5 years, and an extended repayment period of 8.5 years

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**6. LOANS AND NOTES PAYABLE (CONTINUED)**

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q1, 2014	US Dollars	USD 560 million (Saudi Riyals 2.1 billion)	USD 51 million (Saudi Riyals 192 million)	Fixed rate per annum	Scheduled instalments	10 years	-	Saudi Riyals 181 million	Saudi Riyals 181 million	Utilization period of 1.5 years, and an extended repayment period of 8.5 years
Saudi Investment Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing the Company's working capital requirements	Q1, 2014	Saudi Riyals	Saudi Riyals 1.5 billion	Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin.	One bulk amount due on 28 June 2020	7.5 years	-	Saudi Riyals 1,498 million	Saudi Riyals 1,498 million	None
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q1, 2014	US Dollars	USD 100 Million (Saudi Riyals 372.2 million)	USD 93.69 million (Saudi Riyals 351.34 million)	Fixed competitive rate	Semi-annual repayments	3 years	Saudi Riyals 173 million	Saudi Riyals 95 million	Saudi Riyals 268 million	None

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**6. LOANS AND NOTES PAYABLE (CONTINUED)**

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Export Development of Canada (EDC)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring a telecom-communication devices and equipment from Alcatel-Lucent	Q2, 2014	US Dollars	USD 200 million (Saudi Riyals 750 million)	USD 29 million (Saudi Riyals 109 million)	Fixed competitive rate per annum	Semi-annual repayments	10.5 years	Saudi Riyals 6 million	Saudi Riyals 103 million	Saudi Riyals 109 million	Utilization period of 2 years, and an extended repayment period of 8.5 years
Societe Generale Banque	Mobily	Bilateral long-term financing agreement Sharia' compliant	Financing the uncovered portion of the agreements with the Export Credit Agency of Finland (Finvera) and the Swedish Export Credit Corporation (EKN) and Export Development of Canada (EDC)	Q2, 2014	US Dollars	USD 200 million (Saudi Riyals 750 million)	USD 116 million (Saudi Riyals 436 million)	Murabaha rate is based on LIBOR plus a fixed profit margin	One bulk payment due on 26 June 2017	3 years	--	Saudi Riyals 436 million	Saudi Riyals 436 million	None
Samba	Mobily	Long-term financing agreement Sharia' compliant	Financing its working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 600 million	Saudi Riyals 600 million	Murabaha rate is based on SIBOR plus a fixed profit margin	20% on instalments and 80% on, one bulk payment due in 2021	7 years	Saudi Riyals 18 million	Saudi Riyals 559 million	Saudi Riyals 577 million	None

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**6. LOANS AND NOTES PAYABLE (CONTINUED)**

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Other terms
Banque Saudi Fransi	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 500 million	Saudi Riyals 500 million	Murabaha rate is based on SIBOR plus a fixed profit margin	One bulk payment in 2017	7 years	-	Saudi Riyals 500 million	Saudi Riyals 500 million	None
Local & International banks	Mobily	Short-term financing agreement Sharia' compliant	Vendor financing	Q2, 2013	Saudi Riyals	Saudi Riyals 1,654 million	Saudi Riyals 1,654 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Sporadic payments	5 years	Saudi Riyals 473 million	Saudi Riyals 325 million	Saudi Riyals 798 million	None
Local banks	Bayanat	Long-term financing agreement Sharia' compliant	Settling outstanding long-term loans in addition to financing the subsidiary's working capital requirements	Q2, 2013	Saudi Riyals	Saudi Riyals 1.5 billion	Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled instalments where the last instalment is due on 17 June 2018	5 years	Saudi Riyals 200 million	Saudi Riyals 893 million	Saudi Riyals 1,093 million	None
Total											Saudi Riyals 2,290 million	Saudi Riyals 12,317 million	Saudi Riyals 14,607 million	

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#### **7. STATUTORY RESERVE**

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-Laws, the Company establishes at every financial year end a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

#### **8. EARNINGS / (LOSS) PER SHARE**

Earnings / (loss) per share from income / (loss) from main operations and from net income / (loss) for the period is calculated by dividing income / (loss) from operations and net income / (loss) for the period by the average outstanding number of ordinary shares amounting to 770 million shares as at 30 September 2015 and 2014.

#### **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

##### **9.1 Financial instruments**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow commission rate risks and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow commission rate risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term investments, accounts receivable, due from a related party, short-term and long-term loans and notes payable, accounts payable, due to related parties and accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Significant accounting policies for financial assets and liabilities are set out in Note 2.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

##### **9.2 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. Cash is placed with banks with sound credit ratings. The Group regularly updates its cash forecast and, where appropriate, places any excess cash on short-term investments. The Group has two major customers representing 35% of total accounts receivables as at 30 September 2015 (49% at 30 September 2014). The rest of the balances do not have significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group continues to review its credit policy in line with developments of its liquidity risk.

See also Note 9.5 A credit assessment is being made to check the credit worthiness of major customers prior to signing the contract/accepting their purchase order. Accounts receivable are carried net of provision for doubtful debts.

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## **9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

### **9.2 Credit risk (continued)**

The credit quality of financial assets that are neither past due nor impaired are being assessed by reference to customers with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past. The Company recognizes provision for impairment of accounts receivables that are assessed to have a significant probability of becoming uncollectible and considering historical write-offs. Credit and Collection Operations provide inputs on the aging of the financial assets on a periodic basis.

### **9.3 Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars.

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks as most of the transactions are in Saudi Riyals and US Dollars.

### **9.4 Fair value and cash flow commission rate risk**

Fair value and cash flow commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Group's financial positions and cash flows. The Group's exposure to market risk for changes in commission rates relates primarily to the Group's borrowings which were acquired to finance working capital requirements and capital expenditures. These borrowings are re-priced on a periodic basis and expose the Group to cash flows commission rate risk. The Group's practice is to manage its commission cost through optimizing available cash and minimizing borrowings. When borrowing is necessary, tenor of borrowings is matched against the expected receipts. There is regular review of commission rates to ensure that the impact of such risk is mitigated.

### **9.5 Liquidity risk**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The management closely and continuously monitors the liquidity risk by performing regular review of available funds, present and future commitments, operating and capital expenditure. Moreover, the Group monitors the actual cash flows and matches the maturity dates of its financial assets and its financial liabilities (see note 6).

### **9.6 Price risk**

The Group is not exposed to equity securities price risk as it does not currently have significant investments in equity securities as at 30 September 2015.

### **9.7 Fair value**

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. As the Group's financial instruments are compiled under the historical cost convention differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.



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## **10. COMMITMENTS AND CONTINGENCIES**

### **10.1 Commitments**

The Group had capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the consolidated interim balance sheet date in the amount of Saudi Riyals 7.3 billion as at 30 September 2015 (September 30, 2014: Saudi Riyals 10.7 billion).

### **10.2 Contingent liabilities**

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to Saudi Riyals 434 million as at 30 September 2015 (30 September 2014: Saudi Riyals 573 million).

The Communication Information Technology Commission (CITC's) Violation Committee has issued several penalty resolutions against the Group which the Group has opposed in accordance with the Telecom regulations. These resolutions relate to various matters, including the manner of issuing prepaid SIM Cards and providing promotions that have not been approved by CITC.

Multiple lawsuits were filed by the Company against CITC at the Board of Grievances to oppose such resolutions of the CITC's committee in accordance with the Telecom regulations. The status of these lawsuits as at 30 September 2015 is as follows:

- There are 332 lawsuits filed by the Company against CITC amounting to Saudi Riyals 630 million;
- The Board of Grievance has issued 159 preliminary verdicts in favor of the Company voiding 159 resolutions of the CITC's violation committee with total penalties amounting to Saudi Riyals 329 million; and
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) resulting in cancellation of penalties with a total amount of Saudi Riyals 145 million.

The Group received additional claims from CITC during 2015 for which it has provided additional Saudi Riyals 93 million during the nine-month period ended 30 September 2015 believing that to be an appropriate estimate of the amounts that it may ultimately have to pay to settle such claims.

In addition, there are 15 lawsuits filed by the Company against CITC, specifically 9 of them in relation to the mechanism of calculating the government contribution fees in trade earnings as of 30 September 2015 of which 2 lawsuits have been preliminary ruled in favor of the Company. Subsequently, the Company received final verdict on one of the cases in favor of the Company and two preliminary judgments in favor of the Company. The remaining cases are still being adjudicated before the Board of Grievance. Management and Directors believe that the likelihood of additional material liabilities arising from these lawsuits is remote and has adequate and sufficient provision based on the appropriate estimate of the likely payable fees. The external lawyers have also previously reaffirmed that the expected outcome of these lawsuits would be favorable to the Company.

The Group is subject to litigation in the normal course of business. Management and Directors believe that it has adequate and sufficient provision based on the status of these litigations as of 30 September 2015.

The Group has filed its zakat returns with DZIT for the years through 2014 and settled its zakat thereon. The Group intends to submit an adjusted zakat return for 2013 and 2014 as a result of restatements for the year ended December 31, 2013. The expected result of such filing is a lower zakat expense.

The Group has finalized its zakat status and obtained the final zakat assessments for the years until 2006. The Group has received zakat assessments for the years 2007 through 2011 that showed additional zakat and withholding tax differences of Saudi Riyals 317 million and Saudi Riyals 237 million, respectively, which have been objected by the Group at the preliminary and higher appeal committees. Management believes that it has sufficient grounds to contest the matters included in the assessments and the eventual outcome of the appeal process will not result in any significant liability.

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**10. COMMITMENTS AND CONTINGENCIES (CONTINUED)****10.2 Contingent liabilities (continued)**

Furthermore subsequent to 31 December, 2014, there are 163 lawsuits filed by a number of shareholders against the Company before the Committee for the Resolutions of Security Disputes and are currently being adjudicated by the said committee. Management and Directors believe that the likelihood of additional material liabilities arising from these lawsuits is remote.

**11. SEGMENT INFORMATION**

The Group's operations are substantially comprised of mobile telecommunication services of which the consumer, business and other segments represent 79.13% and 20.87% respectively, of the Group's revenues for the nine-month period ended 30 September 2015 (2014: 80.85% and 19.15% respectively). The Group views its assets and liabilities on an integrated basis without segregation for each operational segment. Furthermore, all of the Group's operations are principally conducted in the Kingdom of Saudi Arabia.

**12. RECLASSIFICATION**

Certain comparative figures as at and for the three-month and nine-month periods ended September 30, 2014 have been reclassified to conform to the presentation adopted as at and for the three-month and nine-month period ended 30 September 2015 are as follows:

<b>Balance sheet as at 30 September 2014:</b>	<b>Balance as previously reported</b>	<b>Reclassification</b>	<b>Balance after reclassification</b>
Accounts receivable, net	6,899,374	(75,469)	6,823,905
Prepaid expenses and other assets *	4,732,964	369,143	5,102,107
Current portion of long-term loans	1,082,124	1,103,688	2,185,812
Accounts payable*	7,500,543	(1,749,323)	5,751,220
Accrued expenses and other liabilities*	4,126,033	371,813	4,497,846
Long-term loans	14,267,207	567,496	14,834,703
<b>Income statement for the three-month period ended 30 September 2014:</b>			
Cost of revenues*	(1,673,613)	(5,626)	(1,679,239)
General and administrative expenses	(759,268)	9,738	(749,530)
Selling and marketing expenses	(421,233)	(4,111)	(425,344)
<b>Income statement for the nine-month period ended 30 September 2014:</b>			
Cost of revenues*	(5,034,063)	(10,347)	(5,044,410)
General and administrative expenses	(1,809,296)	14,459	(1,794,837)
Selling and marketing expenses	(1,235,434)	(4,110)	(1,239,544)

\*See Note 13 in relation to restated amounts.

Reclassification of certain amounts related to CITC. These relate to amounts payable to CITC which are recoverable from other telecoms providers and a gross presentation has therefore been adopted.

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**13. RESTATEMENT OF COMPARATIVE FIGURES**

In June 2015, the Group's consolidated financial statement has been restated to reflect:

- Allocation of revenue from the multiple element arrangement contracts in proportion to their relative stand-alone selling prices of the underlying services or products provided, which for such types of contracts, would have the effect of deferring revenue to be recognized to later periods.
- The capitalization of fixed assets and their associated depreciation charges that was not recorded and reflected in the relevant accounting period.

Accordingly, the annual consolidated financial statements for the year ending 31 December 2014 (including restating corresponding figures) and the interim consolidated financial statements for the 3 months period ended 31 March 2015 were reissued to reflect the impact of such restatements.

The interim consolidated financial statements for the 9 months period ended 30 September 2014 have also been restated to continue to reflect the impact of the above restatements.

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**13. RESTATEMENT OF COMPARATIVE FIGURES (CONTINUED)**

The tables below set out the impact of restatement on the three-month and nine-month periods ended 30 September 2014 as a result of revenue recognition for the multiple element arrangement contracts and the accounting for net property and equipment capitalization and depreciation for the previously reported periods as discussed above.

**Three month and nine-month periods ended 30 September 2014 (Unaudited)**

<b>Income statement for three-month period ended 30 September 2014:</b>	<b>Balance as at 30 September 2014 reported in previously issued financial statements</b>	<b>Impact of adjustments</b>	<b>Balance as at 30 September 2014 after all adjustments</b>
Revenues	4,158,873	(299,009)	3,859,864
Cost of revenues *	(1,679,239)	2,220	(1,677,019)
Depreciation and amortization	(835,405)	(45,552)	(880,957)
Net income for the period	471,799	(342,340)	129,459
Earnings per share (in Saudi Riyals) from:			
Income from operations	0.61	(0.44)	0.17
Net income for the period	0.61	(0.44)	0.17

\* Balances were reclassified (see Note 12).

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**13. RESTATEMENT OF COMPARATIVE FIGURES (CONTINUED)**

	<b>Balance as at 30 September 2014 reported in previously issued financial statements</b>	<b>Impact of adjustments</b>	<b>Balance as at 30 September 2014 after all adjustments</b>
<b>Income statement for nine-month period ended 30 September 2014:</b>			
Revenues	13,032,061	(1,750,615)	11,281,446
Cost of revenues *	(5,044,410)	11,301	(5,033,109)
Depreciation and amortization	(2,388,411)	(224,328)	(2,612,739)
Net income for the period	2,496,285	(1,963,640)	532,645
Earnings per share (in Saudi Riyals) from:			
Income from operations	3.33	(2.55)	0.78
Net income for the period	3.24	(2.55)	0.69

\* Balances were reclassified (see Note 12).

**ETIHAD ETISALAT COMPANY**  
(A Saudi Joint Stock Company)  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE AND NINE-MONTHS PERIOD ENDED 30 SEPTEMBER 2015**  
(All amounts in Saudi Riyals thousands unless otherwise stated)

**13. RESTATEMENT OF COMPARATIVE FIGURES (CONTINUED)**

**Balance sheet as at 30 September 2014**

	Balance as at 30 September 2014 reported in previously issued financial statements	Impact of adjustments	Balance as at 30 September 2014 after all adjustments
Accounts receivable, net *	6,823,905	(673,099)	6,150,806
Prepaid expenses and other assets *	5,102,107	102,341	5,204,448
Accounts payable *	5,751,220	2,703,803	8,455,023
Accrued expenses and other liabilities *	4,497,846	(6,084)	4,491,762
Property and equipment, net	22,910,816	1,358,431	24,269,247
Long-term accounts receivables, net	2,161,408	(2,161,408)	-
<b>Statement of changes in equity as at September 30, 2014:</b>			
Retained earnings	12,358,842	(3,946,972)	8,411,870
Statutory reserve	2,773,453	(124,482)	2,648,971

\* Balances were reclassified (see Note 12).