ETIHAD ETISALAT COMPANY
(A Saudi Joint Stock Company)
Interim Consolidated
Financial Statements (Unaudited)
For the three-month and six-month period ended 30 June 2016
together with
Independent Auditors' Review Report

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND SIX MONTH PERIOD ENDED 30 JUNE 2016

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REVIEW REPORT
ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To: **The Shareholders of Etihad Etisalat Company**
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

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 June 2016, the related interim consolidated statement of income for the three and six month periods then ended, cash flows and changes in equity for the six months period then ended and the attached notes from 1 to 12 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 provide a conclusion on the review of these interim consolidated financial statements.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Group's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our 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 matter

We draw attention to note 2.1 to the accompanying interim consolidated financial statements; as at 30 June 2016, the Group's net current liabilities amounted to SR 12 billion (30 June 2015: SR 19.4 billion) which indicate that the Group's ability to meet its obligations as they become due depends on its ability to enhance its results of operations and its cash flows performance. The Group's management expects to continue to meet its obligations as they become due in the normal course of operation. Accordingly, the accompanying interim consolidated financial statements have been prepared under the going concern basis.

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No. 371

Riyadh on: 21 Shawwal 1437H
Corresponding to: 26 July 2016

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

	Notes	As at 30 June 2016	As at 30 June 2015
ASSETS			
Current assets			
Cash and cash equivalents		557,209	664,681
Short-term investments		1,200,000	1,750,000
Accounts receivable	3	3,713,273	3,740,856
Due from a related party		68,606	25,251
Inventories		247,314	654,703
Prepaid expenses and other assets		1,863,828	1,672,886
Total current assets		7,650,230	8,508,377
Non-current assets			
Property and equipment	4	24,678,255	23,716,983
Licenses' acquisition fees	5	7,739,540	8,294,983
Capital advances		978,588	1,877,739
Goodwill		1,466,865	1,466,865
Investments		19,003	11,301
Total non-current assets		34,882,251	35,367,871
TOTAL ASSETS		42,532,481	43,876,248
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term loans and notes payable	6	8,409,925	15,626,941
Accounts payable		5,338,306	6,936,692
Due to related parties		241,710	166,119
Accrued expenses and other liabilities		5,657,960	5,172,112
Zakat provision		35,558	46,136
Total current liabilities		19,683,459	27,948,000
Non-current liabilities			
Long-term loans and notes payable	6	6,993,335	-
Provision for end-of-service benefits		259,499	219,784
Total non-current liabilities		7,252,834	219,784
TOTAL LIABILITIES		26,936,293	28,167,784
EQUITY			
Share capital	1	7,700,000	7,700,000
Statutory reserve	7	2,648,971	2,648,971
Retained earnings		5,245,717	5,357,993
Total shareholders' equity		15,594,688	15,706,964
Non-Controlling interest		1,500	1,500
Total equity		15,596,188	15,708,464
TOTAL LIABILITIES AND EQUITY		42,532,481	43,876,248

The accompanying notes from page 6 to page 31 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 INCOME (UNAUDITED)
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2016	2015	2016	2015
Revenues		3,288,884	3,556,258	6,729,159	7,236,391
Cost of services and sales		(1,201,456)	(1,674,804)	(2,716,508)	(3,437,314)
Gross profit		2,087,428	1,881,454	4,012,651	3,799,077
Operating expenses:					
Selling and marketing expenses		(382,822)	(404,985)	(704,628)	(794,945)
General and administrative expenses		(574,645)	(1,399,874)	(1,062,293)	(1,995,996)
Depreciation and amortization	4, 5	(984,360)	(893,596)	(1,961,040)	(1,775,152)
Total operating expenses		(1,941,827)	(2,698,455)	(3,727,961)	(4,566,093)
Income/ (loss) from main operations		145,601	(817,001)	284,690	(767,016)
Finance expenses		(140,797)	(58,256)	(262,824)	(125,778)
Other income		34,774	69,949	48,002	84,707
Income / (loss) before zakat		39,578	(805,308)	69,868	(808,087)
Zakat		(20,761)	(95,597)	(34,446)	(137,340)
NET INCOME / (LOSS) FOR THE PERIOD		18,817	(900,905)	35,422	(945,427)
Earnings / (loss) per share (in Saudi Riyals) from:					
Income/(loss) from main operations	8	0.19	(1.06)	0.37	(1.00)
Net income / (loss) for the period	8	0.02	(1.17)	0.05	(1.23)

The accompanying notes from page 6 to page 31 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)

	For the six-month period ended 30 June	
	2016	2015
OPERATING ACTIVITIES		
Net income / (loss) for the period	35,422	(945,427)
Adjustments to reconcile net income / (loss) to net cash from operating activities:		
Depreciation	1,661,311	1,476,812
Amortization of licenses' acquisition fees	299,729	298,340
Provision for doubtful debts	152,172	1,004,305
Finance expenses	262,824	125,778
Investment write off	-	7,380
Provision for inventory obsolescence	(14,648)	(50,275)
Zakat Provision	34,446	137,340
Changes in working capital:		
Accounts receivable	(441,355)	(272,630)
Due from a related party	(32,098)	31,143
Inventories	253,193	213,646
Prepaid expenses and other assets	(351,654)	(52,450)
Accounts payable	434,542	214,894
Due to related parties	30,740	20,845
Accrued expenses and other liabilities	197,600	339,880
Finance expenses paid	(260,787)	(106,725)
Zakat paid	(76,599)	(104,521)
Provision for end-of-service benefits, net	19,645	19,863
Net cash provided by operating activities	2,204,483	2,358,198
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,466,462)	(1,612,862)
Disposals of property and equipment	259	336
Acquisition of licenses	(13,056)	(27,571)
Proceeds from sale of other intangible assets	-	12,390
Investment in an associate	-	5,432
Short-term investment	50,000	(650,000)
Net cash used in investing activities	(3,429,259)	(2,272,275)
FINANCING ACTIVITIES		
Proceeds from long-term loans	2,697,172	17,179
Payment of long-term loans	(1,412,757)	(1,402,753)
Net cash provided by (used in) financing activities	1,284,415	(1,385,574)
Net change in cash and cash equivalents	59,639	(1,299,651)
Cash and cash equivalents at beginning of the period	497,570	1,964,332
Cash and cash equivalents at end of the period	557,209	664,681
Supplemental non-cash information:		
Property and equipment purchases credited to capital expenditures payable	(1,632,102)	(1,084,132)

The accompanying notes from page 6 to page 31 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 SIX-MONTH PERIOD ENDED 30 JUNE 2016
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total Shareholder's equity	Non-controlling interest	Total
Balance at 1 January, 2016	7,700,000	2,648,971	5,210,295	15,559,266	1,500	15,560,766
Net income for the period	-	-	35,422	35,422	-	35,422
Balance at 30 June, 2016	7,700,000	2,648,971	5,245,717	15,594,688	1,500	15,596,188
Balance 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	-	-	(945,427)	(945,427)	-	(945,427)
Balance at 30 June, 2015	7,700,000	2,648,971	5,357,993	15,706,964	1,500	15,708,464

The accompanying notes from page 6 to page 31 form an integral part of these interim consolidated financial statements.

Chief Financial Officer   Chief Executive Officer   Authorized Board Member

(All amounts in Saudi Riyals thousands unless otherwise stated)

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 authorized, issued and paid up share capital of the Company is SR 7,700 million divided into 770 million shares of SR 10 each.

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.

1.2 Subsidiary companies

Below is the summary of Group's subsidiaries' and ownership percentage as at 30 June 2016:

		Ownership percentage	
Name	**Country of incorporation**	**Direct**	**Indirect**
Mobily Ventures Holding SPC	Bahrain	100%	-
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	-	100.00%

1. ORGANIZATION AND ACTIVITY (CONTINUED)

1.2 Subsidiary companies (continued)

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.

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. ORGANIZATION AND ACTIVITY (CONTINUED)

1.2 Subsidiary companies (continued)

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 31 December 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 (Under liquidation)

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.

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 periods 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 going concern concept 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 annual consolidated financial statements for the year ended 31 December 2015.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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.

During the period ended 30 June 2016, the Group’s net current liabilities amounted to SR 12 billion (30 June 2015: SR 19.4 billion) which indicates that the Group's ability to meet its obligations as they become due depends on its ability to enhance its results of operations and its cash flows performance. The Group based on its cash flows forecasts expects to continue to meet its obligations as they become due in the normal course of operation. Accordingly, the Management and Directors believe that it is appropriate to prepare these interim consolidated financial statements under the going concern basis.

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 six months period ended 30 June 2016 amounted to SR 152 million (30 June 2015: SR 1,004 million).

b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.10. These calculations require the use of estimates and recoverable amounts of cash generating units have been determined based on value-in-use calculations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Critical accounting estimates and judgments (continued)

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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Critical accounting estimates and judgments (continued)

(f) Revenues

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 interim 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 consolidated balance sheet.

(All amounts in Saudi Riyals thousands unless otherwise stated)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 cost of services and sales in the interim consolidated statement of income.

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.

Depreciation on property and equipment is charged to the interim consolidated statement of income using the straight line method over their estimated useful lives at the following annual depreciation rates.

	Depreciation rate
Buildings	5 %
Leasehold improvements	10 %
Telecommunication network equipment	4 % - 20 %
Computer equipment and software	16 % - 20 %
Office equipment and furniture	14 % - 33 %
Vehicles	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 interim 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Acquisition-related costs are recognised in the interim consolidated statement of income as incurred. 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) Associates

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its associate's post-acquisition income or losses is recognized in the interim consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising from investments in associates are recognized in the interim consolidated statement of income.

(c) 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.

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 higher of an asset’s fair value less cost to sell or 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.

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 over full as revenue in the period in which the underlying obligation is fulfilled. 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 replaced sim cards is recognized upon delivery of the products to the customers in the period during which the sale transaction took place.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Revenues (continued)

(h) 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 services and sales

Represent the cost of services and sales 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 interim consolidated financial statements in the period in which they are approved by the Shareholders of the Group.

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 "SR", 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 related period end, are recognized in the 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 to customers and third parties. 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 transactions and on points purchased by third parties 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 and is net of awards credit which are expected to expire (breakage). 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

	2016	2015
Accounts receivables	**6,226,217**	5,953,892
Less: provision for doubtful debts	**(2,512,944)**	(2,213,036)
	3,713,273	3,740,856

During Q4 of 2014, the Company started an arbitration process in relation to the amounts receivable arising from a Service Agreement signed with Mobile Telecommunications Company Saudi Arabia ("Zain KSA") on May 6, 2008 (corresponding to Jumada Al-Awal 1, 1429H). This agreement covers the 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) in which the Arbitral Tribunal agreed on the arbitration procedures, and the Company's statement of claim was submitted.

The second arbitration session was held before the Arbitral Tribunal on February 7, 2015 (corresponding to Rabi Al-Thani 18, 1436H). During this arbitration session, the Company submitted documents canceling the engagement of its previous legal representative who was handling this case and affirmed the appointment of its new representative. The Arbitral Tribunal decided to schedule the next arbitration 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 Arbitral Tribunal held the third session in this case and confirmed the Company's appointment of its new legal representative. Also, the Company submitted in this session its statement of defense No. (1) responding to the statement of defense submitted by Zain KSA. Furthermore, Zain KSA submitted its counter response to the Company allegation during the same session.

3. ACCOUNTS RECEIVABLES (CONTINUED)

On May 23, 2015 (corresponding to Shaban 5, 1436H), the Company prepared and submitted to the secretary general of the Arbitral Tribunal a detailed legal brief consisting of the required statement of claim and other supporting annexes. Zain KSA acknowledged the receipt of these documents from the secretary general and was granted two and a half months from the date of receipt of these documents to respond back.

On June 27, 2015 (corresponding to Ramadan 10, 1436H), the Company announced through Tadawul that it has allocated additional provision amounting to SR 800 million against the amount due from Zain KSA following a prudent review of the outstanding receivables.

On July 13, 2015 (corresponding to Ramadan 26, 1436H), Zain KSA announced in Tadawul the submission of its response along with the supporting documents to the secretary general of the Arbitral Tribunal. The Company acknowledged the receipt of Zain KSA's response and its supporting documents and affirmed that it would respond back in accordance with the arbitration procedures.

On August 27, 2015 (corresponding to Dul Qeda 12, 1436H), the Company submitted its counter response to Zain KSA's latest reply along with the supporting documents to the secretary general of the Arbitral Tribunal. Zain KSA acknowledged receipt of the documents on August 30, 2015 (corresponding to Dul Qeda 15, 1436H).

On October 6, 2015 (corresponding to Dul Heja 23, 1436H), Zain KSA announced in Tadawul the submission of its response along with the supporting documents to the secretary general of the Arbitral Tribunal. Whereas, the Company acknowledged the receipt of Zain KSA's response and the supporting documents thereto.

On October 24, 2015 (corresponding to Muharam 11, 1437H), the fourth arbitration session was held before the Arbitral Tribunal. Upon the Arbitral Tribunal's request, the Company's representative and Zain KSA's representative presented oral arguments about the case and answered the questions that were raised by the Arbitral Tribunal. Afterwards, the Arbitral Tribunal requested the Company to submit a legal brief in relation to the case within a maximum of 30 days of the date of this session and requested Zain KSA to be prepared to respond back to the Company's legal brief within a maximum of 30 days of receipt for such a legal brief. The Arbitral Tribunal thereafter informed both parties that it had decided to appoint a financial expert in this case and would finalize the process of such an appointment soon. Furthermore, it had notified the parties that it would set a date for another session and request the presence of both parties as well as the selected financial expert to discuss the latest results.

On November 23, 2015 (corresponding to Safar 11, 1437H), the Company submitted its second response memorandum along with the supporting documents and invoices to the secretary general of the Arbitral Tribunal. Zain KSA acknowledged receipt of the memorandum on November 24, 2015 (corresponding to Safar 12, 1437H).

On December 23, 2015 (corresponding to Rabi Al-Awwal 12, 1437H), Zain KSA announced in Tadawul the submission of its reply memorandum accompanying with the supporting documents to the secretary general of the Arbitral Tribunal. The Company acknowledged the receipt of Zain KSA's memorandum and the supporting annexes thereto on December 24, 2015 (corresponding to Rabi Al-Awal 13, 1437H).

On December 26, 2015 (corresponding to Rabi Al-Awwal 15, 1437H), the Arbitral Tribunal held the fifth arbitration session, which was a procedural one, in which the tribunal decided to extend the case duration for another 12 months starting from December 10, 2015 (corresponding to Safar 28, 1437H).

3. ACCOUNTS RECEIVABLES (CONTINUED)

On March 1, 2016 (corresponding to Jamadi Al-Awwal 21, 1437H), the Arbitral Tribunal informed the parties of its decision to appoint the expert in this case to provide financial and technical opinion and instructed them to cooperate and support such financial expert in order to enable him to successfully complete his mission.

The accounts receivable balance that is subject to the arbitration proceedings amounted to SR 2.1 billion as of 30 June 2016. The Company now has a provision of Saudi Riyals 2.2 billion against total receivables due from Zain KSA as of 30 June 2016.There is no provision for doubtful debts charged during the period ended 30 June 2016 relating to Zain balances (SR 779 million charged during period ended 30 June 2015).

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 has not been decided yet, the Management and the directors believe that sufficient and adequate provision has been made as of 30 June 2016.

The Group 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.

(All amounts in Saudi Riyals thousands unless otherwise stated)

4. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold Improvements	Telecomm-unications Equipment	Computer Equipment and Software	Office Equipment and Furniture	Vehicles	CWIP	Total
Cost									
January 1, 2016	274,710	1,221,544	833,648	32,938,344	4,359,270	499,024	3,046	811,810	40,941,396
Additions	-	1,497	928	1,195,358	363,936	862	-	311,047	1,873,628
Reclassifications	-	(75,019)	(7,545)	82,564	-	-	-	-	-
Transfers	-	6,403	-	331,118	9,641	-	-	(347,162)	-
Disposals	-	-	-	(1,001)	(72)	-	-	-	(1,073)
June 30, 2016	**274,710**	**1,154,425**	**827,031**	**34,546,383**	**4,732,775**	**499,886**	**3,046**	**775,695**	**42,813,951**
Accumulated depreciation									
January 1, 2016	-	143,334	542,517	12,715,107	2,634,938	437,682	1,621	-	16,475,199
Depreciation for the period	-	21,528	32,927	1,314,238	282,035	10,368	215	-	1,661,311
Reclassification	-	(2,706)	(950)	3,656	-	-	-	-	-
Disposals	-	-	-	(749)	(65)	-	-	-	(814)
June 30, 2016	**-**	**162,156**	**574,494**	**14,032,252**	**2,916,908**	**448,050**	**1,836**	-	**18,135,696**
Net book value									
June 30, 2016	**274,710**	**992,269**	**252,537**	**20,514,131**	**1,815,867**	**51,836**	**1,210**	**775,695**	**24,678,255**
June 30, 2015	274,710	879,107	289,585	19,622,310	1,712,180	73,473	1,236	864,382	23,716,983

The Group has capitalized borrowing costs amounting to SR 36 million (period ended 30 June 2015: SR 23.47 million) and internal technical salaries amounting to SR 91 million (period ended 30 June 2015: SR 72.51 million) during the six months ended 30 June 2016

(All amounts in Saudi Riyals thousands unless otherwise stated)

5. LICENSES' ACQUISITION FEES

	Mobile Telecom-munication services license	**3G services license**	**Other**	**Total**
Cost				
January 1, 2016	12,210,000	753,750	1,180,075	14,143,825
Additions	-	-	13,056	13,056
June 30, 2016	**12,210,000**	**753,750**	**1,193,131**	**14,156,881**
Accumulated amortization				
1 January 2016	5,453,518	336,169	327,925	6,117,612
Amortization for the period	241,303	14,914	43,512	299,729
June 30, 2016	**5,694,821**	**351,083**	**371,437**	**6,417,341**
Net book value				
June 30, 2016	**6,515,179**	**402,667**	**821,694**	**7,739,540**
June 30, 2015	6,997,786	432,496	864,701	8,294,983

6. LOANS AND NOTES PAYABLE

	2016	2015
Long-term loans	**15,403,260**	15,626,941
Less: current portion	**(8,409,925)**	(15,626,941)
Non-current	**6,993,335**	-

The Group was in default due to non-compliance of certain financial covenants starting Q4, 2014 and consequently the entire loan was classified under current liabilities. Following its discussions with banks, on 29 December 2015 and during Q1 2016 the Group had reached an agreement to reset the financial covenants in connection with certain banks.

On 16 May 2016, the Group had signed waiver and amendment agreements with Export Credit Agencies (ECAs) related to Export Credit Finance arranged from EKN, Finnvera and EDC. As a result of this amendment the covenants with ECAs have been reset and the Group has now obtained waiver from all the banks and is in compliance with all the financial covenants related to its financing agreements.

As a result of the reset of all financial covenants, the classification and maturity profile of loans and notes payable as at 30 June 2016 is as explained below. The comparative figures are based on the assumption had the Group completed the rest of financial covenants as at 30 June 2015.

a) Classification of loans and notes payable:

	2016	2015
Loans and notes payable	**15,403,260**	15,626,941
Less: current portion	**(8,409,925)**	(2,038,300)
Non-current	**6,993,335**	13,588,641

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. LOANS AND NOTES PAYABLE (CONTINUED)

b) Maturity profile of loans and notes payable:

	2016	2015
Less than one year	**8,409,925**	2,038,300
Between one to five years	**6,243,542**	10,321,440
Over five years	**749,793**	3,267,201
	15,403,260	15,626,941

(All amounts in Saudi Riyals thousands unless otherwise stated)

6. LOANS AND NOTES PAYABLE (CONTINUED)

c) The details of loans and notes payable as at 30 June 2016 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 Syndicated	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 installments, with the first installment settled in August 2012. The last installment is due on 12 February 2019 .	Divided to five and seven years	Saudi Riyals 6,350 million	Saudi Riyals 1,136 million	Saudi Riyals 7,486 million	
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 competitivenes s in the business segment	Q3, 2013	US Dollars	USD 644 million (Saudi Riyals 2.4 billion)	USD 512 million (Saudi Riyals 1,920 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 232 million	Saudi Riyals 1,254 million	Saudi Riyals 1,486 million	Utilization period of 1.5 years, repayment period of 8.5 years

(All amounts in Saudi Riyals thousands unless otherwise stated)

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) & 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	Q1, 2014	USD Dollars	USD 451 million (Saudi Riyals 1,691 million)	USD 174 million (Saudi Riyals 652 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 86 million	Saudi Riyals 483 million	Saudi Riyals 569 million	Utilization period of 1.5 years, 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.	Scheduled installments	7.5 years	Saudi Riyals 140 million	Saudi Riyals 1,272 million	Saudi Riyals 1,412 million	
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q1, 2014	US Dollars	USD 135 Million (Saudi Riyals 506.8 million)	USD 93.69 million (Saudi Riyals 351.34 million)	Fixed rate	Semi-annual repayments	3 years	Saudi Riyals 158 million	Saudi Riyals 72 million	Saudi Riyals 230 million	

(All amounts in Saudi Riyals thousands unless otherwise stated)

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-munication devices and equipment from Alcatel-Lucent	Q2, 2014	US Dollars	USD 122 million (Saudi Riyals 458 million)	USD 101 million (Saudi Riyals 377 million)	Fixed rate per annum	Semi-annual repayments	10.5 years	Saudi Riyals 44 million	Saudi Riyals 307 million	Saudi Riyals 351 million	Utilization period of 2 years, and 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 (Finnvera) and the Swedish Export Credit Corporation (EKN) and Export Development of Canada (EDC)	Q2, 2014	US Dollars	USD 116 million (Saudi Riyals 436 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 435 million	-	Saudi Riyals 435 million	
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	Semi-annual scheduled installments	7 years	Saudi Riyals 80 million	Saudi Riyals 442 million	Saudi Riyals 522 million	

(All amounts in Saudi Riyals thousands unless otherwise stated)

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	Semi-annual scheduled installments	7 years	Saudi Riyals 51 million	Saudi Riyals 412 million	Saudi Riyals 463 million	
Other debts (promissory notes and discounted invoices)	Mobily	Vendor Financing	Vendor financing Ericson, Huawei, Thales, CCS		Saudi Riyals	Saudi Riyals 1,067 million	Saudi Riyals 1,067 million		Sporadic payments	3 years	Saudi Riyals 534 million	Saudi Riyals 533 million	Saudi Riyals 1,067 million	
Al-Rajhi Bank	Mobily	Mid-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q1, 2016	Saudi Riyals	Saudi Riyals 400 million	Saudi Riyals 400 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled payments	3.5 years	Saudi Riyals 100 million	Saudi Riyals 298 million	Saudi Riyals 398 million	
Local banks Syndicated	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 installments where the last installment is due on 17 June 2018	5 years	Saudi Riyals 200 million	Saudi Riyals 784 million	Saudi Riyals 984 million	
Total											Saudi Riyals 8,410 million	Saudi Riyals 6,993 million	Saudi Riyals 15,403 million	

7. STATUTORY RESERVE

In accordance with the Group's By-Laws, the Group 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 June 2016 and 2015.

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 flow and, where appropriate, places any excess cash on short-term investments. The Group has two major customers representing 33 % of total accounts receivables as at 30 June 2016 (36% as at 30 June 2015). 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.

The 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.

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 Group 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.

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 June 2016.

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.

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 3.3 billion as at 30 June 2016 (30 June 2015: Saudi Riyals 8.2 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 673 million as at 30 June 2016 (30 June 2015 Saudi Riyals 436 million).

The CITC's violation committee has issued several penalty resolutions against the Group which the Group has opposed to in accordance with the Telecom regulations. The reasons of issuing these resolutions vary between the manner followed in issuing prepaid SIM Cards and providing promotions that have not been approved by CITC and/or other reasons.

Multiple lawsuits were filed by the Group against CITC at the Board of Grievances in order to oppose to such resolutions of the CITC's violation committee in accordance with the Telecom regulations, as follows:

- There are (351) lawsuits filed by the Group against CITC amounting to Saudi Riyals 647 million as of 30 June 2016.

- The Board of Grievance has issued (180) preliminary verdicts in favor of the Group voiding (180) resolutions of the CITC's violation committee with a total penalties amounting to Saudi Riyals 454 million as of 30 June 2016.

- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to Saudi Riyals 326 million as of 30 June, 2016.

In addition, 17 legal cases were filed by the Group against CITC in relation to the mechanism of calculating the governmental fees and other subjects in which (11) of them are specifically related to the governmental fees as of 30 June 2016. The Group received final judgments in its favor in four of these cases and a preliminary judgment in another case. The remaining cases are still being adjudicated before the Board of Grievance.

The Group received additional claims from CITC during 2016 for which it has provided additional Saudi Riyals 88 million during the period ended 30 June 2016 believing that to be an appropriate estimate of the amounts that it may ultimately have to pay to settle such claims.

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 June 2016.

Furthermore, there are 167 lawsuits filed by some of the shareholders against the Group before the Committee for the Resolutions of Security Disputes and still being adjudicated by such committee. The Company has received (43) preliminary verdicts and (102) final verdicts in its favor in these lawsuits as of 30 June 2016.

The Group has filed its zakat returns with DZIT for the years through 2015 and settled its zakat thereon. The Group intends to submit an adjusted zakat returns for 2013 and 2014 as a result of restatements for the year 2013 and 2014.

(All amounts in Saudi Riyals thousands unless otherwise stated)

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

10.2 Contingent liabilities (Continued)

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 assessments 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. During the period, the Preliminary Appeal Committee issued its ruling on certain zakat and withholding tax matters and those decisions issued against the Group have been objected at the Higher Appeal Committee. 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.

11. SEGMENT INFORMATION

The Group's operations are substantially comprised of mobile telecommunication services of which the consumer, business and other segments represent 83.01% and 16.99 % respectively, of the Group's revenues for the year ended 30 June 2016 (30 June 2015: 79.22% and 20.78% , 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. RECLASSIFICATIONS

The following comparative amounts have been reclassified to conform to the current period's presentation:

	Balances previously reported 30 June 2015	**Balances reclassified 30 June 2015**
Balance sheet		
Prepaid expenses and other assets	3,653,848	**1,672,886**
Property and equipment, net	23,613,760	**23,716,983**
Capital advances	-	**1,877,739**
Accounts payable	6,950,467	**6,936,692**
Accrued expenses and other liabilities	5,204,473	**5,172,112**
Zakat provision	-	**46,136**

	Amounts for three-month period ended 30 June 2015		**Amounts for six-month period ended 30 June 2015**	
Income statement	previously reported	**Reclassified**	previously reported	**Reclassified**
Revenues	3,568,387	**3,556,258**	7,211,608	**7,236,391**
Cost of services and sales	1,619,205	**1,674,804**	3,361,840	**3,437,314**
Selling and marketing expenses	427,239	**404,985**	794,936	**794,945**
General and administrative expenses	1,445,348	**1,399,874**	2,046,696	**1,995,996**
Other income	70,001	**69,949**	84,758	**84,707**
Company's share in loss of an associate	52	**-**	51	**-**

The Group's management believes that the reclassifications shown above more accurately reflect the Company's financial position and results of operations for the previous periods.