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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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

Opinion

We have audited the financial statements of Etihad Atheeb Telecommunication Company (the Company), which comprise the balance sheet as at 31 March 2017, and the statements of income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2017, and its financial performance and its cash flows for the year then ended in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2b in the financial statements, which indicates that the Company incurred a net loss of SAR 138.6 million during the year ended 31 March 2017 and, as of that date, the Company's current liabilities exceeded its total assets by SAR 439 million. As stated in Note 2b, these events or conditions, along with other matters as set forth in Note 2b, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

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Description of the Key Audit Matter	How our audit addressed the Key Audit Matter
Going concern	
Going concern remains a key area of focus during the FY2016-17 audit of the Company. The Company faces challenges as a result of operating in a highly competitive market, with increased competition and pricing pressures from customers having had a direct effect on revenue, profit margins and cash flows. Refer to the Balance Sheet (page no 1), the Statement of Cash Flows (page no 3) and the Basis of Preparation (page no 6), as of 31 March 2017, the Company's current liabilities exceeded its current assets by SAR 439 million (2016: SAR 385 million). Moreover, the Company has accumulated losses amounting to SAR 1,234 million as of 31 March 2017 which approximate 78% of the Company's share capital. In April 2017, the management has undertaken a capital reduction as a measure to comply with the requirements of the new Companies Regulations in order to avoid a breach of the accumulated losses threshold. The cash flow forecasts and future business plans depend upon maintaining good relations with the key suppliers and continued financial and technical support from them. The cash flow forecasts assume that cash payments to certain key suppliers are deferred. Judgment is required by the directors in assessing whether any material uncertainties exist which cast significant doubt as to the Company's ability to meet its liabilities and whether the mitigating actions identified by management are achievable. Judgment is also required in assessing whether the disclosures provided in the financial statements adequately describe the risks and underlying assumptions.	• We evaluated the directors' assessment of the Company's ability to continue as a going concern. In particular, we reviewed and challenged the cash flow forecasts and future business plans prepared by the management and approved by the Board of Directors, including key assumptions to assess the risk of the inability to meet liabilities as they fall due. • We tested the financial forecasts to ensure the integrity of the model, that they reflected an accurate starting position and that they were consistent with the budget. We challenged the assumptions used in building the revenue and costs forecast by considering historical accuracy of forecasts, latest information available in FY2016-17 and latest market trends. As part of this, we discussed at length the budgets with the CEO and CFO. This also included the assessment of working capital assumptions in light of the FY2016-17 actuals and periods 1 of FY2017-18 performance. • We also performed sensitivity analysis by including reasonably plausible downside scenarios in the model. • We made inquiries of management and obtained support to understand any mitigating actions identified by the directors in the event that a downside scenario occurs and to evaluate whether these were achievable. • We have made enquiries from the Audit Committee regarding the Company's relations with its key suppliers and their continued financial support to the Company. • We have checked that the Company delays payments to these suppliers and has large payable balances against them. The suppliers have not raised demands for payments in the past and often work with the Company to settle liabilities. • We have considered the past history of significant new arrangements entered into in the year with key suppliers (such as Fiber to the Home (FTTH) and Long Term Evolution Indefeasible Right of Use (LTE IRU), SAWA cards agreement and marketing support agreements) and we have reviewed correspondence with key suppliers. • We have reviewed the Company's Tower Sale agreement to sell the passive structure of its 500 towers to STC against a total consideration of SAR 230 million and the Site Sharing Agreement with STC whereby the Company leased back 1/3rd of the available space on those Towers for a period of 07 years.

Description of the Key Audit Matter	How our audit addressed the Key Audit Matter
	• We have also reviewed management's report on capital reduction prepared by the management and have issued a separate report thereon.
Revenue recognition The accuracy of revenue amounts recorded is an inherent risk in the telecom industry. This is because telecom billing systems are complex and process large volumes of data with a combination of different product and combination of products sold and price changes in the year, through a number of different systems. The Company's revenue amounts to SAR 421 million. We considered the following three areas to be critical in relation to revenue: • Determining the revenue recognition point for products and services; • Accounting for contracts where the time period of the contract spans two accounting periods; and • Determining the accuracy of the systems used in calculating revenue. See note 3(l) to the financial statements for revenue recognition policy.	Our audit approach included controls testing and substantive procedures covering, in particular: • assessing the appropriateness of the revenue recognition policy that is applied to different products and combination of products to assess whether it is in accordance with the applicable accounting framework; • testing the relevant IT environment and application controls to place reliance on the design and the operating effectiveness of controls over the capture and recording of revenue transactions, authorization of rate changes and interface to the billing systems; • testing the end-to-end reconciliation from business support systems to billing and rating systems to the general ledger; • performing tests on the accuracy of customer invoice generation on a sample basis and testing the credits and discounts applied to customer invoices on a sample basis; • calculation of amounts billed to individual and corporate customers and testing cash receipts for a sample of customers back to the respective customer invoice; • testing a sample of non-systematic adjustments which are outside of the normal billing process and therefore carry higher levels of management judgment; and • reviewing the disclosures included in the financial statements in respect of revenue recognition.
Significant one-off transaction We identified a significant one-off transactions which occurred during the year. As disclosed in note 6.1 to the financial statements, the Company has received; i) various items of network equipment; and ii) a waiver of liability, under an agreement signed during the year with one of its main subcontractors. Accounting for these transactions and related disclosures required the exercise of significant judgment. The recognition of network equipment received free of cost was determined as an area of focus as there was a significant risk in determining the fair values at which this equipment was	• We reviewed the final settlement agreement between the Company and the sub-contractor and obtained an understanding of the significant management judgments and estimates in establishing the transfer of risks and rewards to the Company and the determination of the fair values of the equipment received. • We reviewed the process used by the management for the hiring of the independent valuer for determining the fair values of the equipment. In particular, while reviewing the valuer's report, we focused on the valuer's experience and independence, as well as the valuer's expertise in the provision of said

Description of the Key Audit Matter	How our audit addressed the Key Audit Matter
recognized under inventory. It required the use of significant management judgment and estimates to determine the fair values of the related equipment which depends on the factors such as; • Compatibility of the equipment with the current and future changes in technology; • The use of an independent valuer by the management to determine the fair values; • Physical condition of the equipment; and • Net realizable values of the equipment. In addition, significant judgment was required in determining the waiver of liability sanctioned by the subcontractor.	services. We also held telephonic discussions with the valuer and obtained an understanding of the methodology adopted and assumptions made by the valuer for determining the fair values of the equipment. • In order to obtain assurance over the existence of the equipment, we have performed physical verification of the equipment. • We had discussions with the senior management in order to assess the management's intention regarding the use of these items in the Company's business to determine whether any indicators of impairment existed. • We reviewed the disclosures included in the financial statements in respect of the receipt of free of cost equipment and the waiver of liability.
Impairment of non-financial assets We identified non-financial asset impairment on network infrastructure as a key audit matter due to significant judgments made by management in determining the recoverable amounts of the corresponding cash-generating units. The impairment assessment involves management's judgment in certain areas including the discount rate and the underlying cash flows projection based on the future use of the Company's network by the customers and continued financial and technical support from the key suppliers and continuity of long-term agreements with them. Any changes in management's assumptions may result in significant financial impact to the Company. The management concluded that the recoverable amount of each separate cash-generating unit was higher than their carrying value and no impairment provision was required for the current year. The recoverable amounts of each cash-generating unit were determined by the value in use method.	Our audit procedures focused on evaluating and challenging the key assumptions used by management in conducting the impairment review. These procedures included: • Identifying the appropriate cash generating unit. • Analyzing and challenging the reasonableness of significant judgments and estimates built into the underlying cash flows used in management's impairment tests based on our knowledge of the business and industry. • Analyzing the specific discount rates used by management in the impairment tests. • Evaluating management's accuracy in making forecasts by comparing the current year actual results with the forecast for 2016-17. • Evaluating the sensitivity analysis performed by management. • Reconciling the forecast to budget approved by the Board of Directors. • Assessing and validating the adequacy and appropriateness of the disclosures made in the financial statements.

Other Information included in the Company's Annual Report

Management is responsible for the other information. The other information comprises the information included in the Company's annual report but does not include the financial statements and our auditor's report thereon. The Company's annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Company's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and Regulations for Companies and Company's by-laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

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Riyadh on: 8 June 2017
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