Telecommunication Regulatory Commission

Commission That is Financially and Administratively Independent

Amman – The Hashemite Kingdom of Jordan

Financial Statements and Independent Auditors' Report

For The Year Ended December 31, 2015

Telecommunication Regulatory Commission

Commission That is Financially and Administratively Independent

Amman – The Hashemite Kingdom of Jordan

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Introduction

We have audited the accompanying financial statements of **Telecommunication Regulatory Commission** (Commission that is financially and administratively independent), which comprise the statement of financial position as of December 31, 2015, and the statement of comprehensive income, statement of changes in retained surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation based on disclosure No. (2), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing, those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing certain procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit qualified opinion.

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Basis of qualified opinion

As described in Disclosure number (15) of the Disclosures to the financial statements there are litigations by third parties against the commission and we have not been provided with the opinion of the commission's legal department about the amount of the potential liabilities of the commitment on the commission in order to determine the needed provision to be charged to the statement of comprehensive income.

Qualified opinion

In our opinion, except for the effect of the matters explained in the basis of qualified opinion, the financial statement present fairly in all material respects, the financial position of **Telecommunication Regulatory Commission** (Commission that is financially and administratively independent) as at December 31, 2015, and its performance and its cash flows for the year then ended in accordance with Disclosure number (2) to the Accompanying financial statements.

Emphasis of matter

The Telecommunications Regulatory Commission started from 2015, with the adoption of the application of the basis set out in Disclosure number (2) in the preparation of the financial statements.

Other matter

The commission's financial statements for the year ended December 31, 2014 were audited by another auditor, who issued a qualified opinion on those financial statements on April 23, 2015.

PKF – Jordan
Khattab & Co.

Mohammed Khattab
(License No.730)

PKF
Khattab & Co.

Amman– The Hashemite Kingdom of Jordan
23 May 2016

Telecommunication Regulatory Commission

Commission That is Financially and Administratively Independent

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Statement of Financial Position as of 31, December 2015

Exhibit – A

	Notes	2015	2014
		JD	JD
Assets			
Current assets			
Cash and cash equivalents	4	27,281,978	25,719,112
Accrued revenues	5	25,130,582	29,690,776
Accounts receivable	6	201,735	180,906
Other debit balances	7	594,093	358,943
Warehouses		29,303	24,139
Un-executed tenders - short term	8	17,229	9,485
Total current assets		53,254,920	55,983,361
Non-current assets			
Un-executed tenders - long term	8	2,397,744	1,175,780
Property and equipments	9	2,400,955	2,784,031
Total Non-current assets		4,798,699	3,959,811
Total assets		58,053,619	59,943,172
Liabilities and Retained Surplus			
Current liabilities			
Revenues received in advance		1,986,891	1,447,234
Unearned revenues from licenses and frequencies		43,370	69,682
Accounts payable		3,853,380	2,345,649
Deposits	10	20,637,171	22,484,928
Other credit balances		29,925	4,404
Total liabilities		26,550,737	26,351,897
Retained Surplus		31,502,882	33,591,275
Total liabilities and retained surplus		58,053,619	59,943,172

The accompanying notes from 1 to 18 constitute an integral part of these financial statements

Telecommunication Regulatory Commission

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Statement of Comprehensive Income for the year Ended 31, December 2015

Exhibit – B

	Notes	2015	2014
		JD	JD
Revenues			
Operating revenues	11	194,325,820	294,344,826
Other revenues	12	662,592	1,255,928
Total revenues		194,988,412	295,600,754
Expenditures			
Operating expenditures	13	(4,216,927)	(3,695,889)
Conversion expenditures	14	(329,681)	(252,170)
Studies and technical consultations expenditures		(663,353)	(407,259)
Doubtful receivables	6	(3,696,844)	(49,619,724)
Total expenditures		(8,906,805)	(53,975,042)
Surplus for the year		186,081,607	241,625,712

The accompanying notes from 1 to 18 constitute an integral part of these financial statements

Telecommunication Regulatory Commission

Commission That is Financially and Administratively Independent

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Statement of Changes in Retained Surplus for the year Ended 31, December 2015

Exhibit – C

	Retained Surplus
	JD
2014-	
Balance as of 1 January 2014	82,597,305
Surplus for the year	241,625,712
Transferred amounts to Ministry of Finance	(290,631,742)
Balance as of 31 December 2014	33,591,275
2015-	
Balance as of 1 January 2015	33,591,275
Surplus for the year	186,081,607
Transferred amounts to Ministry of Finance	(188,170,000)
Balance as of 31 December 2015	31,502,882

The accompanying notes from 1 to 18 constitute an integral part of these financial statements

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Statement of Cash Flows for the Year Ended 31, December 2015

Exhibit – D

	Notes	2015	2014
		JD	JD
Operating Activities			
Surplus for the year		186,081,607	241,625,712
Adjustments:			
Depreciation	9	427,423	438,283
Losses from disposal of property and equipments		-	159
Bad debts		1,024,653	-
Revenues from doubtful receivables		(261,525)	-
Doubtful receivables		3,696,844	49,619,724
Working capital changes			
Accrued revenues		4,560,194	2,190,307
Accounts receivable		(4,480,801)	(3,833,864)
Other debit balances		(235,150)	(152,888)
Warehouses		(5,164)	(1,864)
Revenues received in advance		539,657	473,040
Unearned revenues from licenses and frequencies		(26,312)	16,438
Accounts payable		1,507,731	(745,971)
Deposits		(1,847,757)	1,739,742
Other credit balances		25,521	3,729
Net cash flows from operating activities		191,006,921	291,372,547
Investing Activities			
Un-executed tenders		(1,229,708)	371,397
Purchase of property and equipments	9	(44,347)	(395,557)
Net cash flows used in investing activities		(1,274,055)	(24,160)
Financing Activities			
Transferred amounts to Ministry of Finance		(188,170,000)	(290,631,742)
Net cash flows used in financing activities		(188,170,000)	(290,631,742)
Net change in cash and cash equivalents during the year		1,562,866	716,645
Cash and cash equivalents at the beginning of the year		25,719,112	25,002,467
Cash and cash equivalents at the end of the year		27,281,978	25,719,112

The accompanying notes from 1 to 18 constitute an integral part of these financial statements

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Notes To The Financial Statements

1. General

The Commission was established according to the telecommunications Law No. (13) for the year 1995 under the name of (Telecmmunications Regulatory Commission), this law was amended by the law No. (21) for the year 2011. The Commission has a financialy and administratvely independent juridical personality, and it has the right to own movable and non-movable properties required to achieve the commission's objectives that includes the following:

- Regulating the Telecommunications Sector in the Kingdom through implementation the policies to provide the Telecommunications Services.
- Protecting the interests of beneficiaries of Telecommunications services and monitoring the performance of licensed agencies which provide such services.
- Publishing awareness of the importance of Telecommunications sector and working on providing all kind of Telecommunications services.

All Telecommunications Regulatory Commission's expenditures are being covered by licensed parties according to the instructions of regulating and calculating annual license's revenues in accordance with board of commissioners' resolution No. (6-9/2007) dated on May 3rd , 2007.

2. Basis of preparation

- The commission follows the modified accrual basis for financial statement preparation.
- The accompanying financial statements are prepared under the historical cost basis.
- The financial statements are presented in Jordanian Dinars which is the functional currency of the Commission.

3. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include deposits in banks and current banks accounts.

Accounts receivable and other debit balances

Accounts receivables are stated at original invoice amount less any allowance for any uncollectible amounts. An estimate for doubtful debts is made when there is material evidence indicating collection is no longer probable.
Other debit balances are recognized with the amounts paid to the service providers against services that will be received in the future, or payments made to external parties and will be refunded in the future.

Warehouses

Warehouses balance consists of stationary and office materials and communications and computers equipment.

Un-executed tenders

Un-executed tenders value is recognized when effectively executed and paid for, and therefore transferred to financial statements items related.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value, No depreciation is computed for land.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	Depreciation percentage
	%
Tools and equipments	15
Vehicles	15
Furniture and fixtures	9

When the property, plant and equipment are recorded at values exceeding their recoverable amounts, consequently, the assets are written down to their recoverable amounts, and impairment is recognized in the statement of comprehensive income.

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Lands

Lands are stated at cost.

Accounts payable and other credit balances

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

Revenue recognition

- Revenue is measured at the fair value of the consideration received or receivable.
- Other revenues are recognized according to accrual basis.

Rendering of services

- Revenue from a contract to provide services is recognized by reference to the stage of completion of the transaction at the statement of financial position date.
- The outcome of the transaction can be estimated reliably when all the following conditions are satisfied:
  - The amount of revenue can be measured reliably.
  - It is probable that relevant economic benefits will flow to the entity.
  - The stage of completion can be measured reliably at the statement of financial position date.
  - The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.
- When the above criteria are not met, revenue arising from the rendering of services is recognized only to the extent where the expenses recognized are recoverable.

Frequencies returns

Represents the revenues that the radio waves users should pay to the commission according to the rates set by the commission, those rates are amended or changed according to the instructions and decisions issued by the commission.

Share participation in the operators returns

Represent that amounts which should be paid annually by the commission licensed companies providing mobile telecommunication services, which amounts to 10% from the operating revenues of these companies, which is calculated according to the equation included in the licensing agreements of those companies and according to the initial financial data for the companies which is audited and reviewed subsequently, noting that these revenues are due to be collected in the following year

Annual license revenues

Represent what must be paid by the licensees based on percentage of operating revenues resulting from licensed activities and the ratio is determined by the commission without exceeding 1% of these revenues, these revenues are collected from the licensed companies to cover the commission costs in regulating the Jordanian telecommunication and information technology sector, as shown in detail in the licensing agreements and/or the regulating decision issued by the commission.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the year end. All differences are taken to the statement of comprehensive income.
All profits and losses arising from currency transfer are registered in the statement of comprehensive income.

4. Cash and cash equivalents

	2015	2014
	JD	JD
Deposit at CBJ	27,281,921	25,698,113
Current accounts at banks - JD	57	20,999
Total	27,281,978	25,719,112

5. Accrued revenues

This item represents the amount of accrued revenues not yet received arising from the commission's share by (10%) from the operating revenues generated by mobile Telecommunications services of mobile operators. The amount is to be received during next year, and it was computed according to the initial financial statements of those operators, the commission's shares are as follow:

	2015	2014
	JD	JD
Jordanian company for mobile services - Zain	13,980,288	15,860,137
Petra company for mobile services - Orange	6,860,278	8,321,577
Umniah company for mobile services	4,269,546	5,509,062
Connect Arabia Telecommunication	20,470	-
Total	25,130,582	29,690,776

The following is the statement of accrued revenue movement during the year:

	2015	2014
	JD	JD
Balance as at the beginning of the year	29,690,776	31,881,083
provided during the year	25,130,582	29,690,776
Transferred to companies receivables and that have been collected	(29,690,776)	(31,881,083)
Balance as at the ending of the year	25,130,582	29,690,776

6. Accounts receivable

	2015	2014
	JD	JD
Receivables revenues from licenses and frequencies	52,188,755	49,730,948
Receivables of Unearned licenses and frequencies revenues (6/A)	43,370	69,682
Provision for doubtful accounts (*)	(52,030,390)	(49,619,724)
Total	201,735	180,906

(*) The movement of the provision for doubtful accounts during the year as follows:

	2015	2014
	JD	JD
Balance as at the beginning of the year	49,619,724	-
provided during the year	3,696,844	49,619,724
Return of provision no longer required	(261,525)	-
Bad debts	(1,024,653)	-
Balance as at the ending of the year	52,030,390	49,619,724

(6/A) Receivables of Unearned licenses and frequencies revenues – Matching Unearned licenses and frequencies revenues

This item represents the value of receivables arising from the revenues of licenses and frequencies which pertain the upcoming year, for which claims and licenses were issued during the current year. The balance of these receivables as of December 31, 2015 amounted to 43,370 JD.

7. Other debit balances

	2015	2014
	JD	JD
Prepaid expenses	550,913	322,536
Restricted cash (Beneficiaries rights guarantees)	23,828	23,828
Employee receivable	14,667	12,433
Other	4,685	146
Total	594,093	358,943

8. Un-executed tenders

This item represents the value of tenders pertaining the purchase of property and equipments and other supplies which have been awarded to suppliers but not yet supplied as of December 31, 2015 which amounted to 2,414,973 JD.

9. Property and Equipments

	Lands	Tools and Equipments	Vehicles	Furniture and fixtures	Total
	JD	JD	JD	JD	JD
Cost					
Balance as of 1 January 2015	1,509,543	4,417,022	298,103	211,639	6,436,307
Additions during the year	-	32,562	-	11,785	44,347
Disposal during the year	-	-	(19,500)	-	(19,500)
Balance as of 31 December 2015	1,509,543	4,449,584	278,603	223,424	6,461,154
Accumulated Depreciation					
Balance as of 1 January 2015	-	3,236,185	235,064	181,027	3,652,276
Additions during the year	-	406,893	13,030	7,500	427,423
Disposal during the year	-	-	(19,500)	-	(19,500)
Balance as of 31 December 2015	-	3,643,078	228,594	188,527	4,060,199
Net book Value as of					
31 December 2015	1,509,543	806,506	50,009	34,897	2,400,955
31 December 2014	1,509,543	1,180,837	63,039	30,612	2,784,031

10. Deposits

	2015	2014
	JD	JD
Commission's share in telecommunication companies operating revenues deposits	19,217,600	16,199,600
Annual licenses fees deposits	950,809	5,860,935
Telecommunications companies deposits	434,829	368,525
Beneficiaries right guarantee deposits	23,828	23,828
Governmental associations and other parties deposits	10,047	790
Bank deposit Interests deposits	57	-
Accrued stamps fines	1	31,250
Total	20,637,171	22,484,928

11. Operating revenues

	2015	2014
	JD	JD
Frequencies license (*)	139,526,190	237,220,000
Frequencies fees	21,480,689	20,062,548
Commission's share in Telecommunications companies operating revenues	25,130,582	29,690,776
Delay interests	3,710,942	3,401,379
Annual licensing fees	3,880,979	3,370,272
Fees for testing tools and equipments	390,068	357,167
Postal licensing fees	203,220	253,934
Telecommunication licenses fees	-	30,000
Renewal of licenses fees	-	8,000
Licenses penalties (**)	3,150	(49,250)
Total	194,325,820	294,344,826

(*) The item represents as the following:

	2015	2014
	JD	JD
Frequencies licenses fees in range (1800 and 2100) M.H	137,800,000	185,095,000
Frequencies licenses fees in range (3500) M.H	1,726,190	-
Renewal of frequencies licenses from the frequencies range (900) M.H	-	52,125,000
Total	139,526,190	237,220,000

(**) Licenses penalties was reduced by 50,000 JD, which relates to Jordan Telecommunications company licenses penalties for the year 2009, and according to a court's verdict of not claiming the penalties amounts was issued in the year 2014.

12. Other revenues

	2015	2014
	JD	JD
Written-off provision	261,525	-
Bank interests	-	1,182,768
Miscellaneous	401,067	73,160
Total	662,592	1,255,928

13. Operating expenses

	2015	2014
	JD	JD
Salaries and wages and allowances	2,139,264	1,966,315
Depreciation	427,423	438,283
Rent	310,000	310,000
Agreements	200,000	200,000
Water and electricity	137,473	120,971
Programs	112,235	24,897
Professional fees	99,533	34,051
Bad debts	94,393	-
General maintenance	77,844	84,363
Promotional and awareness campaigns	75,176	48,568
Travel on official purposes	70,415	73,181
Cleaning	51,865	48,888
Printing and stationary	42,821	31,133
Subscriptions	33,764	19,429
Security	25,548	23,681
Technical consulting	20,653	24,000
Postage, phone and fax	17,067	16,822
Fuel	16,281	23,658
Hospitality	15,307	14,037
Engineering and economic consultation	8,170	8,183
Insurance	5,748	6,205
Ores and raw materials	4,165	7,543
Commissions	1,058	833
Stamps	799	650
Wages	564	40
Gifts	63	-
Loss on disposal of property and equipments	-	159
Miscellaneous	229,298	169,999
Total	4,216,927	3,695,889

14. Conversion expenditures

	2015	2014
	JD	JD
The commission contribution in social security	205,536	188,730
Scholarships and training courses	96,032	30,621
The commission contribution in Saving Fund	22,982	19,805
Rewards	5,131	13,014
Total	329,681	252,170

15. Lawsuits

Lawsuits against the commission amounted to 137,324,530 JD and (there is also 13 unvalued law suits) and the probability of the final verdict to be favorable or unfavorable wasn't decided by the legal department, in order to determine the needed provision to be charged to the statement of comprehensive income, those lawsuits pending before the judiciary system different courts.

Description	Total amounts for valued lawsuits	Valued lawsuits	Unvalued lawsuits
Prevent claim – unpaid	33,615,413	4	-
Malfunction and damage	-	-	2
Claim for abolishing organizational decision	-	-	10
Prevent claim	22,517	1	-
Refund paid amounts - claim for financial amount	32,256	1	-
Refund paid amounts	94,994,344	7	-
Claim financial amount (settled with the company)	6,950,000	1	-
Prevent claim of unpaid financial amounts and abolishing organizational decision	1,340,000	7	-
Prevent unpaid financial claim and prevent claim for stopping the services decision	200,000	1	-
Prevent unpaid financial claim and a claim to abolish an organizational decision and claim for compensation of malfunction and damage	170,000	1	-
Refund amounts and damage and malfunction claim	-	-	1
Grand total	137,324,530	23	13
Issues have been settled in the subsequent period of the issued financial statements (*)	(6,950,000)		
	130,374,530		

* The settlement of the lawsuit filed by the DRS ICAS - LLC Company which amounted to 6,950,000 JD this amount includes providing the commission with equipments that amounted to 5,680,000 JD.

16. Fair Value of Financial Instruments

- Financial instruments comprise of financial assets and financial liabilities.
- Financial assets consist of current accounts and deposits at banks, accounts receivable, other debit balances, accrued revenues, and un-executed tenders.
- Financial liabilities consist of accounts payable, revenues received in advance, deposits, unearned revenues from licenses and frequencies.
- The fair values of financial instruments are not materially different from their carrying values.

17. Risk Management

Interest rate risk

The Company is exposed to interest rate risk since there are material interest bearing financial assets or liabilities related to interest such as a deposit at bank.

Credit risk

The Commission seeks to limit its credit risk with respect to banks by only dealing with reputable banks.

Liquidity Risk

Is the risk that cause difficulty in meeting the obligations associated with financial liabilities that are settled by delivering cash or other financial assets, the Commission seeks to limit its liquidity risk by ensuring the availability of the necessary bank facilities.

Currency Risk

Is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate, most of the company's transactions are in Jordanian dinar, and U.S dollars. The Jordanian dinar is fixed against the U.S dollar (USD. 1.41 for each Jordanian dinar).

18. New International Financial Reporting Standards and Interpretations

Following the details of the new standards and revised and amended and new interpretations and amendments to International Financial Reporting Standards covered in this release.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.
IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement.

The IASB had always intended that IFRS 9 would replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the IASB divided its project to replace IAS 39 into three main phases. As the IASB completed each phase, it issued chapters in IFRS 9 that replaced the corresponding requirements in IAS 39.
In July 2014 that work culminated when the IASB issued the completed version of IFRS 9, which includes:

a) A model for classifying financial assets that is driven by an asset's cash flow characteristics and the business model in which it is held;
b) A model for classifying financial liabilities, including recognition in other comprehensive income, rather than in profit or loss, of gains (and losses) that are due to the deterioration (improvement) in an entity's own credit risk on financial liabilities that an entity has elected to measure at fair value;
c) A single, forward-looking 'expected loss' impairment model for financial assets not measured at fair value through profit or loss that requires entities to account for expected credit losses from when the financial assets are first recognized,[1] and to recognize full lifetime expected losses when credit risk has increased significantly since initial recognition; and
d) A hedge accounting model that more closely aligns the accounting treatment with the entity's risk management activities and (in IFRS 7 Financial Instruments: Disclosures) provides enhanced disclosures about risk management activity.
e) IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 Regulatory Deferral Accounts was issued in January 2014. It defines regulatory deferral account balances as amounts of expense or income that would not be recognized as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services, such as gas, electricity and water. The scope of IFRS 14 is limited to first-time adopters that recognized regulatory deferral account balances in their financial statements in accordance with their previous GAAP. The Standard permits such entities to continue to account for regulatory deferral account balances in their first and subsequent IFRS financial statements in accordance with their previous GAAP, but must present them separately. IFRS 14 is effective for entities whose first annual IFRS financial statements are for a period beginning on or after 1 January 2016. Earlier application is permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in May 2014. It establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Standard sets out five steps to follow: identify the contact(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognize revenue when (or as) the entity satisfies a performance obligation. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017. Earlier application is permitted. IFRS 15 replaces IAS 11 Constrution Contracts and IAS 18 Revenue, IFRS 13 Customer Loyalty Programmes. IFRS 15 Agreement for the Construction of Real Estate and IFRS 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.