

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

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AUDITORS' REPORT

To the shareholders
Etihad Etisalat Company
(A Saudi joint stock company)
Riyadh, Kingdom of Saudi Arabia

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Scope of Audit

We have audited the accompanying consolidated balance sheet of Etihad Etisalat Company (a Saudi Joint Stock Company) (the "Company") as at December 31, 2011, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes 1 to 27 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Etihad Etisalat Company as at December 31, 2011, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.



Ehsan A. Makhdoum
License No. 358

Safar 24, 1433
January 18, 2012



ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2011

	Note	2011 SR'000	2010 SR'000
ASSETS			
Current assets			
Cash and cash equivalent	3	1,689,539	1,661,349
Short-term investments		-	450,139
Accounts receivable, net	4	6,323,362	5,748,120
Due from related parties	5	11,128	22,511
Inventories, net		469,794	296,576
Prepaid expenses and other assets	6	1,399,431	1,236,770
Total current assets		9,893,254	9,415,465
Non-current assets			
Property and equipment, net	7	16,412,112	12,456,817
Licenses' acquisition fees, net	8	9,665,424	10,028,279
Goodwill	9	1,529,886	1,529,886
Total non-current assets		27,607,422	24,014,982
TOTAL ASSETS		37,500,676	33,430,447
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	10	1,200,514	599,350
Current portion of long-term loans	10 & 11	4,895,445	1,843,129
Accounts payable	12	7,808,208	6,225,422
Due to related parties	5	193,525	281,039
Accrued expenses and other liabilities	13	3,948,882	3,307,109
Total current liabilities		18,046,574	12,256,049
Non-current liabilities			
Long-term loans	10 & 11	976,948	5,529,087
Provision for end-of-service benefits		89,031	65,647
Total non-current liabilities		1,065,979	5,594,734
TOTAL LIABILITIES		19,112,553	17,850,783
SHAREHOLDERS' EQUITY			
Authorized, issued and outstanding share capital	1	7,000,000	7,000,000
Statutory reserve	15	1,578,014	1,069,668
Retained earnings		9,810,109	7,509,996
Total shareholders' equity		18,388,123	15,579,664
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		37,500,676	33,430,447

The accompanying notes form an integral part of these consolidated financial statements

Chief Financial Officer:
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:
Khaled Omar Al Kaf

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 SR'000	2010 SR'000
Revenues	16	20,052,254	16,013,138
Cost of services and sales	17	(9,727,832)	(7,229,717)
Gross profit		10,324,422	8,783,421
Operating expenses:			
Selling and marketing expenses	18	(1,086,069)	(1,059,392)
General and administrative expenses	19	(1,784,031)	(1,559,410)
Depreciation and amortization	7 & 8	(2,148,963)	(1,809,830)
Total operating expenses		(5,019,063)	(4,428,632)
Operating income		5,305,359	4,354,789
Finance expenses	10	(213,320)	(146,471)
Other income		45,721	70,452
Income before zakat		5,137,760	4,278,770
Zakat	14	(54,301)	(67,288)
NET INCOME		5,083,459	4,211,482
Basic earnings per share (in Saudi Riyals):			
From operating income	21	7.58	6.22
From net income	21	7.26	6.02

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ETIHAD ETISALAT COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011 SR'000	2010 SR'000
OPERATING ACTIVITIES		
Income before zakat	5,137,760	4,278,770
Adjustments to reconcile income before zakat to net cash from operating activities:		
Depreciation	1,617,805	1,284,101
Amortization of licenses' acquisition fees	531,158	525,729
Provision for doubtful debts	187,806	130,465
Finance expenses	213,320	146,471
Operating income before changes in working capital	7,687,849	6,365,536
Changes in working capital:		
Accounts receivable	(763,048)	(397,550)
Due from related parties	11,383	46,846
Inventories	(173,218)	(164,180)
Prepaid expenses and other assets	(162,661)	19,715
Accounts payable	(300,270)	(154,518)
Due to related parties	(87,514)	70,171
Accrued expenses and other liabilities	659,797	(280,232)
Provision for end-of-service benefits, net	23,384	19,130
Zakat paid	(72,325)	(32,274)
Finance expenses paid	(150,279)	(135,945)
Net cash provided from operating activities	6,673,098	5,356,699
INVESTING ACTIVITIES		
Short-term investments	450,139	149,861
Purchase of property and equipment	(3,700,297)	(3,174,331)
Disposal of property and equipment, net	10,253	15,525
Acquisition of licenses	(168,303)	(104,294)
Net cash used in investing activities	(3,408,208)	(3,113,239)
FINANCING ACTIVITIES		
Proceed from short-term loans	600,000	1,026,957
Payment of short-term loans	-	(797,475)
Proceed from long-term loans	270,000	900,000
Payment of long-term loans	(1,831,700)	(1,770,000)
Cash dividends	(2,275,000)	(875,000)
Net cash used in financing activities	(3,236,700)	(1,515,518)
Net change in cash and cash equivalent	28,190	727,942
Cash and cash equivalent, beginning of the year	1,661,349	933,407
CASH AND CASH EQUIVALENT, END OF THE YEAR	1,689,539	1,661,349

The accompanying notes form an integral part of these consolidated financial statements

Chief Financial Officer:
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:
Khaled Omar Al Kaf

The accompanying notes form an integral part of these consolidated financial statements

ETIHAD ETISALAT COMPANY
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2010		7,000,000	648,520	4,594,662	12,243,182
Cash dividends	20	-	-	(875,000)	(875,000)
Net income for the year		-	-	4,211,482	4,211,482
Transferred to statutory reserve	15	-	421,148	(421,148)	-
Balance at December 31, 2010		7,000,000	1,069,668	7,509,996	15,579,664
Cash dividends	20	-	-	(2,275,000)	(2,275,000)
Net income for the year		-	-	5,083,459	5,083,459
Transferred to statutory reserve	15	-	508,346	(508,346)	-
Balance at December 31, 2011		7,000,000	1,578,014	9,810,109	18,388,123

The accompanying notes form an integral part of these consolidated financial statements

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND ACTIVITY

Etihad Etisalat Company (the "Company/Mobily"), a Saudi joint stock company, is incorporated pursuant to the Council of Ministers' resolution number 189 dated Jumada Al Thani 23, 1425 H (corresponding to August 10, 2004) and Royal Decree number M/40 dated Rajab 2, 1425 H (corresponding to August 18, 2004) and is registered in Riyadh under commercial registration number 1010203896 dated December 14, 2004. The Company is the second authorized provider of mobile telecommunication services in the Kingdom of Saudi Arabia.

The Company's share capital amounting to SR 7 billion consists of 700 million shares of SR 10 each, paid in full as at December 31, 2011.

During year 2007, the Company invested in 99.99% of the share capital of a subsidiary company, Mobily InfoTech 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 company.

During year 2008, the Company acquired 99% of the partners' shares in Bayanat Al-Oula for Network Services Company, a Saudi limited liability company. The acquisition included the company's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of SR 1.5 billion, resulting in a goodwill of SR 1.47 billion on the acquisition date.

During year 2008, the Company invested in 95% of the share capital of a subsidiary company, National Company for Business Solutions, a Saudi limited liability company.

During year 2008, the Company acquired 96% of the partners' shares in Zajil International Network for Telecommunication Company, a Saudi limited liability company. The acquisition included the Company's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of SR 80 million, resulting in a goodwill of SR 63 million on the acquisition date.

The Company and its subsidiaries currently provide a variety of telecommunication services in the Kingdom of Saudi Arabia, which include wireless mobile telecommunication, data and internet services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

1. ORGANIZATION AND ACTIVITY (Continued)

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 May 25, 2005.

The main activities of the subsidiaries are as follow:

- 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 telecommunication 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

Basis of consolidation

The accompanying consolidated financial statements include the financial statements of the Company and its subsidiaries listed below, after elimination of significant inter-company balances and transactions, as well as gains (losses) arising from transactions with the subsidiaries. An investee company is classified as a subsidiary based on the degree of effective control exercised by the Company over these companies compared to other shareholders from the effective date on which control is transferred to the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's equity share in the net income (losses) of the subsidiaries is computed at 100% based on direct investment in the share capital of the subsidiaries and indirect investment by certain subsidiaries as follows as at December 31, 2011:

Name	Country of incorporation	Ownership percentage	
		Direct	Indirect
Mobily Info Tech Limited Company	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%

Accounting convention

The consolidated financial statements, expressed in Saudi Riyals, are prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the year. Although these estimates are based on management's best available information and knowledge of current events at the consolidated financial statements date; however, actual final results may differ from those estimates.

Cash and cash equivalent

Cash and cash equivalent include cash on hand, bank current accounts and Murabaha deals with original maturities of three months or less from its acquisition date.

Short-term investments

Short-term investments include Murabaha deals with original maturities of more than three months from its acquisition date.

Accounts receivable

Accounts receivable are stated at estimated net realizable value after establishing appropriate allowance for doubtful debts. Allowance for doubtful debts is calculated based on the aging of accounts receivable and based on the Company's previous experience in their collection.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories comprise of mobile phones' sim cards, prepaid cards, scratch cards, mobile phones and other telecommunication equipment. 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.

Provisions

Provisions are recognized in the consolidated financial statements when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Property and equipment

Property and equipment, except for land, are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost. Routine repair and maintenance costs are expensed as incurred. Depreciation of property and equipment is charged to the consolidated statement of income using the straight line method over their estimated useful lives at the following depreciation rates:

	<i>Percentage</i>
Buildings	5%
Leasehold improvements	10%
Telecommunication network equipment	5% – 20%
Computer equipment and software	20%
Office equipment and furniture	20% - 25%
Vehicles	20% - 25%

Major renovations and improvements are capitalized if they increase the productivity or the operating useful life of the assets as well as direct costs. Minor repairs and improvements 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 consolidated statement of income.

Impairment of assets

The carrying amounts of the Company's assets are reviewed at each consolidated balance sheet date to check whether there is an indication of permanent impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is incurred and charged to the consolidated statement of income whenever the carrying amount of the assets exceeds its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Licenses' acquisition fees

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

Goodwill

Goodwill represents the excess of consideration paid for the acquisition of a subsidiary over the fair value of the net assets acquired at the acquisition date and is measured at the end of each financial year and reported in the consolidated financial statements at carrying value after adjustments for impairment in value, if any.

Accounts payable

Liabilities related to trade and capital expenditures are recognized at the amounts to be paid in the future for equipment and goods/services received/rendered.

Provision for end-of-service benefits

The provision for employees' end-of-service benefits is calculated in accordance with the Saudi Arabia labor law, as well as the Company's policies for employees and the regulations applicable in the countries invested in.

Zakat and income tax

Zakat is provided for in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accrual basis and is computed on the zakat base at year-end. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

The tax relating to the subsidiary operating outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in its country.

Foreign currency transactions

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

For the purpose of consolidating the financial statements, the financial statements denominated in foreign currencies are translated into Saudi Riyals at the rates of exchange prevailing at the balance sheet date for assets and liabilities, and the average exchange rate for the year for revenues and expenses. Components of equity, other than retained earnings, are translated using the rates prevailing of the date of their occurrence. Translation adjustments, if significant, are recorded in a separate component of shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenses

Selling and marketing expenses are those expenses which specifically relate to selling and marketing of the Company's services, and include costs relating to commissions and advertisements. All other expenses other than cost of services are classified as general and administrative expenses.

Expenses are recorded when incurred as period expenses unless it is possible to determine the relevant periods upon which expenses are allocated to the relevant periods.

Governmental charges

Governmental charges represent government contribution fees in trade earnings, license fees, frequency waves fees and costs charged to the Company 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 they are used and are included under cost of services in the consolidated statement of income.

Financial instruments

Assets and liabilities related to financial instruments are recognized when the Company becomes a party to the contractual provisions of the instruments. The carrying value of all financial assets and liabilities reflected in the consolidated financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at the consolidated balance sheet date.

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 consolidated statement of income.

Revenue recognition

Revenues from telecommunication services are accounted for in the year when the telecommunication services are rendered to the subscribers, using the rates approved by the Communications and Information Technology Commission ("CITC") and are stated net of discounts and rebates related to revenue recognition for the year.

Revenues from sale of handset equipment and accessories are recognized when they are delivered to the subscribers and customers.

Operating and capital leases

Lease agreements are classified as capital 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 consolidated statement of income on a straight-line basis over the terms of the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge the exposure to certain portions of interest rate risks arising from financing activities. The Company designates these as cash flow hedges of interest rate risk. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors, which provides written principles on the use of financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date and are re-measured at fair value in the subsequent reporting dates. If the financial instruments do not qualify for hedge accounting in accordance with generally accepted accounting standards, the change in the fair value of the derivative financial instruments is recorded under finance expenses caption in the consolidated statement of income.

3. CASH AND CASH EQUIVALENT

	2011 SR'000	2010 SR'000
Cash on hand and at banks	1,439,539	961,212
Short-term Murabaha	250,000	700,137
	<u>1,689,539</u>	<u>1,661,349</u>

4. ACCOUNTS RECEIVABLE, NET

	2011 SR'000	2010 SR'000
Accounts receivable	6,616,432	6,032,528
Less: Provision for doubtful debts	(293,070)	(284,408)
	<u>6,323,362</u>	<u>5,748,120</u>

The movement of the provision for doubtful debts during the year ended December 31 is as follows:

	2011 SR'000	2010 SR'000
Balance at January 1	284,408	153,943
Provision for the year	187,806	130,465
Bad debts written off	(179,144)	-
Balance at December 31	<u>293,070</u>	<u>284,408</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

5. RELATED PARTIES TRANSACTIONS

During the year, the Company transacted with the following related parties:

<u>Party</u>	<u>Relation</u>
Emirates Telecommunication Corporation – Etisalat and its subsidiaries	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

The terms of transactions with related parties are similar to trade transactions with external parties.

The following are the details of major transactions with related parties during the year ended December 31:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Net interconnection services and roaming	<u>49,305</u>	<u>11,342</u>
Management fees	<u>37,521</u>	<u>37,504</u>
Other management expenses	<u>118,756</u>	<u>124,756</u>
Telecommunications services	<u>29,704</u>	<u>20,400</u>

Due from related parties comprises of the following as at December 31:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Emirates Telecommunication Corporation and its subsidiaries	<u>11,128</u>	<u>22,511</u>

Due to related parties comprises of the following as at December 31:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Emirates Telecommunication Corporation and its subsidiaries	<u>180,986</u>	<u>276,712</u>
Emirates Data Clearing House	<u>12,539</u>	<u>4,327</u>
	<u>193,525</u>	<u>281,039</u>

6. PREPAID EXPENSES AND OTHER ASSETS

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Accrued revenues	<u>410,586</u>	<u>313,677</u>
Prepaid expenses	<u>278,753</u>	<u>341,073</u>
Advance payments to suppliers of network equipment	<u>241,878</u>	<u>312,378</u>
Advance payments to trade suppliers	<u>31,114</u>	<u>25,102</u>
Other	<u>437,100</u>	<u>244,540</u>
	<u>1,399,431</u>	<u>1,236,770</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

7. PROPERTY AND EQUIPMENT, NET

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Tele- communication equipment SR'000	Computer equipment and software SR'000	Office equipment and furniture SR'000	Vehicles SR'000	Capital work in progress SR'000	Total SR'000
Cost:									
January 1, 2011	147,386	162,345	540,035	12,344,629	1,113,185	365,824	1,633	1,863,927	16,538,964
Additions	77,365	18,637	62,650	3,604,825	343,102	37,773	-	1,439,001	5,583,353
Disposals	-	-	-	(13,257)	(94)	(79)	-	-	(13,430)
Transfers	-	3,789	576	860,662	165,181	113	-	(1,030,321)	-
December 31, 2011	224,751	184,771	603,261	16,796,859	1,621,374	403,631	1,633	2,272,607	22,108,887
Accumulated depreciation:									
January 1, 2011	-	14,115	199,793	2,989,129	636,061	241,886	1,163	-	4,082,147
Depreciation for the year	-	7,651	58,935	1,258,855	240,752	51,319	293	-	1,617,805
Disposals	-	-	-	(3,075)	(63)	(39)	-	-	(3,177)
December 31, 2011	-	21,766	258,728	4,244,909	876,750	293,166	1,456	-	5,696,775
Net book value									
December 31, 2011	224,751	163,005	344,533	12,551,950	744,624	110,465	177	2,272,607	16,412,112
December 31, 2010	147,386	148,230	340,242	9,355,500	477,124	123,938	470	1,863,927	12,456,817

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(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

8. LICENSES' ACQUISITION FEES, NET

	Telecommunication services license SR'000	Mobile services license SR'000	3G services license SR'000	Other SR'000	Total licenses' acquisition fees SR'000
Cost at January 1, 2011	12,210,000	753,750	342,803	13,306,553	
Additions	-	-	168,303	168,303	
Cost at December 31, 2011	12,210,000	753,750	511,106	13,474,856	
Less:					
Accumulated amortization at January 1, 2011	3,040,488	187,032	50,754	3,278,274	
Amortization for the year	482,606	29,827	18,725	531,158	
Accumulated amortization at December 31, 2011	3,523,094	216,859	69,479	3,809,432	
Balance at December 31, 2011	8,686,906	536,891	441,627	9,665,424	
Balance at December 31, 2010	9,169,512	566,718	292,049	10,028,279	

9. GOODWILL

Following are the details of goodwill resulting from the acquisition of the following subsidiaries as shown in Note 1:

	2011 SR'000	2010 SR'000
Bayanat Al-Oula for Network Services Company	1,466,865	1,466,865
Zajil International Network for Telecommunication Company	63,021	63,021
	1,529,886	1,529,886

10. SHORT AND LONG-TERM LOANS

During the fourth quarter of year 2011, the Company received commitment letters from a group of local banks by which the Company obtains a sharia-compliant long-term refinancing facility agreement amounting to SR 10 billion. The Company will use part of this financing facility to settle the outstanding loan balances amounting to SR 5.8 billion as at December 31, 2011 previously obtained by Etihad Etisalat Company (Mobily). The remaining part of the said facility will be used to finance the Company's capital expenditures and working capital requirements. Consequently, all the balances of the outstanding loans belonging to Etihad Etisalat Company (Mobily) were reclassified as current liabilities as at December 31, 2011.

The Company's management expects to receive the aforementioned facility during the first quarter of year 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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10. SHORT AND LONG-TERM LOANS (Continued)

During the fourth quarter of year 2010, the Company signed a short-term sharia-compliant financing agreement for a total amount of SR 1.2 billion arranged by a local bank and the participation of other local banks to finance its capital expenditures and working capital requirements. The total balance utilized amounted to SR 1.2 billion as at December 31, 2011 (2010: SR 600 million). At year-end 2011, the said financing agreement maturity date was extended for additional six months.

On October 11, 2009, the Company signed a long-term financing agreement with a group of local banks to finance the Company with sharia-compliant long-term loan for a total amount of SR 1.5 billion which was used to settle the short-term loan previously obtained to finance the acquisition of a subsidiary. The outstanding balance of the loan amounted to SR 900 million as at December 31, 2011 (2010: SR 1.2 billion). During 2011, an amount of SR 300 million was paid (2010: SR 300 million).

On March 14, 2007, the Company signed a long-term financing agreement arranged by a local bank and the participation of other banks to finance the Company with a Sharia-compliant long-term loan for US\$ 2.88 billion (equivalent to SR 10.78 billion). The loan agreement referred to above is based on the sale of airtime minutes to participating banks and re-distribution of these minutes to the Company's subscribers on behalf of the participating banks.

The loan is scheduled to be received as follows:

- (a) Proceeds from the sale and re-distribution of minutes amounting to US\$ 2.45 billion (equivalent to SR 9.19 billion).
- (b) Murabaha loan to finance the working capital amounting to US\$ 225 million (equivalent to SR 843.75 million).
- (c) Murabaha financing amounting to US\$ 200 million (equivalent to SR 750 million).

On March 29, 2007, the Company received the loan related to the sale and re-distribution of minutes amounting to SR 9.19 billion, and utilized it to settle a previous loan amounting to SR 7.1 billion, and to settle the loans of the founding shareholders. The Murabaha loan to finance the working capital expired since the facility was not withdrawn by the Company and the Murabaha financing was not utilized as at December 31, 2011.

The above term loan period is six years and it is repayable through semi-annual scheduled installments, with the repayment of Murabaha is made on a quarterly basis. The last installment is due on December 31, 2012. The outstanding balance of the loan amounted to SR 3.76 billion as at December 31, 2011 (2010: SR 5.2 billion). During 2011, an amount of SR 1.5 billion was paid (2010: SR 1.5 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

10. SHORT AND LONG-TERM LOANS (Continued)

During the first quarter of 2010, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a long-term sharia-compliant financing agreement with a local bank amounting to SR 370 million which was used to settle the outstanding short-term loans and notes payable as at December 31, 2009. The outstanding balance of the loan amounted to SR 308 million as at December 31, 2011 (2010: SR 370 million). During 2011, an amount of SR 62 million was paid.

The above long-term loan period is four years and is repayable through semi-annual scheduled installments, with the first installment is due after 18 months from the date of utilization. The last installment is due on February 28, 2014.

On October 19, 2009, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a sharia-compliant financing agreement with a local bank to finance its capital expenditure requirements for a total amount of SR 900 million. The total balance utilized from the mentioned facility amounted to SR 900 million as at December 31, 2011 (2010: SR 630 million).

The above long-term loan period is six years and is repayable through semi-annual scheduled installments, with the first installment is due after 36 months from the date of signing the agreement. The last installment is due on October 19, 2015.

11. DERIVATIVES

During the year 2008, the Company entered into interest rate hedging agreements with several local and international banks to hedge the cash flow risks from the fluctuations of loans Murabaha rates resulting from the financing activities for a notional amount of US\$ 333 million (equivalent to SR 1.25 billion). The hedging agreements are based on the swap of fixed rates against floating rates between the Company and the banks. The change in the fair value of the derivative financial instruments is recorded under finance expenses caption in the consolidated statement of income. The hedging agreements mentioned above will be terminated upon signing the refinancing agreement expected to be finalized during the first quarter of year 2012 (refer to Note 10).

ETIHAD ETISALAT COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

12. ACCOUNTS PAYABLE

	2011 SR'000	2010 SR'000
Capital expenditures payable	4,523,169	2,640,065
Trade payable	3,285,039	3,585,357
	<u>7,808,208</u>	<u>6,225,422</u>

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011 SR'000	2010 SR'000
Accrued expenses for telecommunication companies	1,326,039	889,832
Deferred revenues	587,678	440,651
Government's share in trade earnings	518,278	546,166
Accrued selling and marketing expenses	196,734	182,534
Zakat (Note 14)	63,836	81,860
License fees	36,485	35,712
Other	1,219,832	1,130,354
	<u>3,948,882</u>	<u>3,307,109</u>

14. ZAKAT

The Company and its subsidiaries in the Kingdom of Saudi Arabia filed their financial statements and zakat returns and paid the zakat dues to the Department of Zakat and Income Tax (DZIT) on an individual basis until year 2008. Starting from year 2009, the Company files a consolidated zakat return for the Company and its subsidiaries.

The principal elements of the Company's zakat base related to the Company's consolidated accounts for the year ended December 31 are as follows:

	2011 SR'000	2010 SR'000
Share capital	7,000,000	7,000,000
Adjusted net income	3,912,324	3,518,191
Due to related parties	97,230	199,406
Provisions – beginning of the year	794,978	561,255
Liabilities against financing of property and equipment	4,523,169	2,640,065
Short and long-term loans	5,872,392	7,372,216
Adjusted accumulated earnings – beginning of the year	2,735,612	1,422,316
Less:		
Property and equipment	(18,733,800)	(16,152,416)
Advance payments to suppliers of property and equipment	(241,878)	(312,378)
Goodwill	(1,529,886)	(1,529,886)
Capital work in progress	(2,272,607)	(1,863,927)

Some of these amounts have been adjusted in arriving to the zakat base.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

14. ZAKAT (Continued)

The movement of zakat provision for the Company and its subsidiaries for the year ended December 31, is as follows:

	2011	2010
	SR'000	SR'000
Balance at January 1	81,860	46,846
Provision for the year	54,301	67,288
Payments during the year	(72,325)	(32,274)
Balance at December 31	63,836	81,860

The Company received the final assessment for year 2005. The Company filed its financial statements and zakat returns for all the years until year 2010 and paid the zakat dues accordingly. The Company received the final zakat assessments for the years 2006, 2007 and 2008 which showed additional charges that were objected by the Company's management. The management believes that adequate provisions were provided to meet any liability that might arise against any probable settlement to the DZIT.

The subsidiary, Bayanat Al-Oula for Network Services Company, filed its financial statements and zakat returns up to year 2008 and paid the zakat dues accordingly. The Company did not receive any final assessments to date.

The subsidiary, Zajil International Network for Telecommunication Company, filed its financial statements and zakat returns up to year 2008 and paid the zakat dues accordingly. The Company received the final zakat assessment for year 2006.

The subsidiary, National Company for Business Solution filed its financial statements and zakat return for the year 2008. The Company did not receive the final zakat assessment for the year 2008 to date.

15. STATUTORY RESERVE

In accordance with Regulations for Companies in the Kingdom of Saudi Arabia and the bylaws of the Company, the Company establishes 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.

16. REVENUES

	2011	2010
	SR'000	SR'000
Usage	12,875,573	12,527,978
Activation and subscription fees	1,138,349	745,704
Other services	6,038,332	2,739,456
	20,052,254	16,013,138

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

17. COST OF SERVICES AND SALES

	2011 SR'000	2010 SR'000
Networks access charges	3,959,769	3,947,989
Cost of utilized inventories	3,194,748	925,684
Government contribution fees in trade earnings	1,346,501	1,190,637
Rental and maintenance of network equipment expenses	830,770	782,509
Frequency waves fees	115,339	98,187
National transmission and interconnection links	106,222	79,859
License fees	92,465	97,408
Other	82,018	107,444
	<u>9,727,832</u>	<u>7,229,717</u>

18. SELLING AND MARKETING EXPENSES

	2011 SR'000	2010 SR'000
Advertisement, promotion and sales commissions	569,505	576,301
Other	516,564	483,091
	<u>1,086,069</u>	<u>1,059,392</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2011 SR'000	2010 SR'000
Salaries, wages and employees' benefits	756,832	465,407
Consulting and professional services	238,648	165,281
Provision for doubtful debts (Note 4)	187,806	130,465
Rents	94,151	79,753
Management fees to Emirates Telecommunication Corporation	37,521	37,504
Travel and transportation	30,348	18,223
Board of Directors' remunerations and allowances	10,536	7,684
Other	428,189	655,093
	<u>1,784,031</u>	<u>1,559,410</u>

20. DIVIDENDS

Based on the mandate of the Company's Ordinary General Assembly, the Board of Directors in its meeting held on July 21, 2011 (corresponding to Shaban 20, 1432 H) resolved to distribute interim cash dividends for the first half of year 2011 of SR 1.25 for each outstanding share.

The Company's General Assembly in its meeting held on February 26, 2011 (corresponding to Rabi Al Awwal 23, 1432 H) approved the Company's Board of Directors' recommendation to distribute cash dividends for the year ended December 31, 2010 of SR 2 for each outstanding share (for year 2009: SR 1.25 for each outstanding share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

21. EARNINGS PER SHARE

Basic earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by the outstanding number of ordinary shares as at December 31, 2011 and amounting to 700 million shares.

22. RISK MANAGEMENT

Financial instruments

Financial assets of the Company comprised of cash and cash equivalent, short-term investments, accounts receivable, due from related parties and other assets, while financial liabilities of the Company comprised of short and long-term loans, accounts payable, due to related parties, provision for end-of-service benefits and other liabilities. Accounting policies for financial assets and liabilities are set out in Note 2.

Credit risk

Financial assets that are mainly subject to concentration of credit risk consist primarily of cash and cash equivalent, short-term investments, accounts receivable and other assets. The cash and cash equivalent and short-term investments are deposited with high credit rated banks, and consequently the credit risk is limited. The Company does not consider itself exposed to concentration of credit risk with respect to accounts receivable due to its diverse and large subscribers' base.

Foreign exchange risk

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. Financial commitments are established to minimize foreign exchanges risks when management believes it is deemed necessary.

Murabaha rate risk

The Company does not have any significant murabaha rate risk. Cost of murabaha with banks and short/long-term loans are determined based on prevailing market rates. Financial commitments are established to minimize the risk when management believes it is deemed necessary (Note 11).

Liquidity risk

The management closely and continuously monitors liquidity risk by performing regular review of available funds as well as present and future commitments. Moreover, the Company monitors the actual cash flows and matches the maturity dates of its financial assets and its financial liabilities. The Company believes that it is not exposed to significant risk with respect to liquidity.

23. FAIR VALUE

The fair value of the Company's consolidated financial assets and liabilities does not significantly differ from their carrying amounts. The Company's management believes that it is not exposed to any significant risk with respect to the aforementioned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2011

24. CAPITAL COMMITMENTS AND CONTINGENCIES

The Company had capital commitments resulting from contracts for the supply of property and equipment, which were entered into and not yet executed at the consolidated balance sheet date in the amount of SR 1.9 billion as at December 31, 2011 (2010: SR 1.65 billion).

The Company and its subsidiaries had contingent liabilities in the form of letters of guarantee and letters of credit in the amount of SR 111 million and SR 178 million respectively as at December 31, 2011 (2010: SR 110 million and SR 118 million respectively).

25. SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments, allocated based on the regulatory environment. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the concentration in the Company's operations, are not met as at December 31, 2011, the Company's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

26. SUBSEQUENT EVENTS

The Company's Board of Directors in their meeting held on January 18, 2012 (corresponding to Safar 24, 1433) proposed to distribute cash dividends of SR 1.4 billion for the second half of year 2011 representing SR 2 on each outstanding share.

27. COMPARATIVE FIGURES

Certain figures for the comparative year have been reclassified to conform with the presentation in the current year.