

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND
AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008

INDEX	PAGE
Auditors' report	1
Consolidated balance sheet	2
Consolidated statement of income	3
Consolidated statement of cash flows	4
Consolidated statement of changes in shareholders' equity	5
Notes to the consolidated financial statements	6 – 23

AUDITORS' REPORT

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants - License No. 96
P.O. Box 213, Riyadh 11411
Kingdom of Saudi Arabia

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

Tel : +966 (1) 4630018
Fax : +966 (1) 4630865
www.deloitte.com
Head Office: Riyadh

Scope of Audit

We have audited the accompanying consolidated balance sheet of Etihad Etisalat Company (a Saudi Joint Stock Company) as of December 31, 2008, 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 generally accepted auditing standards. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Etihad Etisalat Company as of December 31, 2008, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards 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.



Bakr A. Abulkhair
License No. 101

Muharram 22, 1430
January 19, 2009

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2008

	Note	2008 SR'000 (Consolidated)	2007 SR'000 (Unconsolidated)
ASSETS			
Current assets			
Cash and cash equivalents	3	1,263,995	703,198
Short term investments		1,049,999	-
Accounts receivable, net	4	3,098,248	1,459,656
Due from a related party	5	38,452	71,061
Inventories		107,563	69,190
Prepaid expenses and other assets	6	1,063,075	810,372
Total current assets		6,621,332	3,113,477
Non-current assets			
Property and equipment, net	7	8,117,399	5,478,552
Licenses acquisition fees, net	8	10,922,932	11,286,694
Goodwill	9	1,529,886	-
Investment in unconsolidated subsidiary	1	-	1,836
Total non-current assets		20,570,217	16,767,082
TOTAL ASSETS		27,191,549	19,880,559
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term loans	10 and 11	1,861,878	-
Current portion of long term loan	10 and 11	1,286,250	1,010,625
Accounts payable	12	4,365,130	3,142,017
Due to related parties	5	78,171	111,485
Accrued expenses and other liabilities	13	3,157,437	1,765,200
Total current liabilities		10,748,866	6,029,327
Non-current liabilities			
Long term loan	10 and 11	6,642,086	7,912,356
Provision for employees' end-of-service indemnities		46,287	26,349
Total non-current liabilities		6,688,373	7,938,705
TOTAL LIABILITIES		17,437,239	13,968,032
SHAREHOLDERS' EQUITY			
Authorized, issued and outstanding share capital	1	7,000,000	5,000,000
Statutory reserve	15	347,133	137,955
Retained earnings		2,407,177	774,572
Total shareholders' equity		9,754,310	5,912,527
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		27,191,549	19,880,559

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

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 SR'000 (Consolidated)	2007 SR'000 (Unconsolidated)
Services revenue	16	10,794,539	8,440,432
Cost of services	17	(4,773,485)	(3,778,838)
Gross profit		6,021,054	4,661,594
Operating expenses:			
Selling and marketing expenses	18	(816,080)	(641,040)
General and administrative expenses	19	(1,410,795)	(1,073,287)
Depreciation and amortization	7 and 8	(1,298,264)	(1,030,919)
Total operating expenses		(3,525,139)	(2,745,246)
Operating income		2,495,915	1,916,348
Finance charges	10	(438,183)	(555,849)
Other income		41,238	43,251
Income before zakat		2,098,970	1,403,750
Zakat	14	(7,187)	(24,202)
NET INCOME		2,091,783	1,379,548
Earnings per share (in Saudi Riyals):			
From operating income	21	4.77	3.66
From net income	21	4.00	2.64

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

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 SR'000 (Consolidated)	2007 SR'000 (Unconsolidated)
OPERATING ACTIVITIES		
Income before zakat	2,098,970	1,403,750
Adjustments to reconcile income before zakat to net cash from operating activities:		
Depreciation	779,149	513,466
Amortization of licenses acquisition fees	519,115	517,453
Provision for employees' end-of-service indemnities	20,194	15,006
Provision for doubtful debts	121,727	251,478
Finance charges	417,420	540,700
Operating income before changes in working capital	3,956,575	3,241,853
Changes in working capital:		
Accounts receivable	(1,734,219)	(977,068)
Due from a related party	32,609	(65,073)
Inventories	(25,443)	(31,142)
Prepaid expenses and other assets	(225,943)	(94,512)
Accounts payable	608,376	507,078
Due to related parties	(41,314)	(67,849)
Accrued expenses and other liabilities	1,371,613	746,997
Provision for employees' end-of-service indemnities paid	(2,660)	(1,753)
Zakat paid	(7,517)	-
Finance charges paid	(386,061)	(938,311)
Net cash provided from operating activities	3,546,016	2,320,220
INVESTING ACTIVITIES		
Short term investments	(1,049,999)	-
Acquisition/formation of subsidiaries	(52,050)	-
Purchase of property and equipment	(2,953,024)	(2,043,359)
Acquisition of licenses	(240)	-
Disposal of property and equipment, net	536	-
Investment in unconsolidated subsidiary	1,836	(1,836)
Goodwill from acquisition of subsidiaries	(1,529,886)	-
Net cash used in investing activities	(5,582,827)	(2,045,195)
FINANCING ACTIVITIES		
Proceed from short term loans	1,846,499	-
Payment of founding shareholders' long term loan	-	(1,600,000)
Proceed from long term loan	-	9,187,500
Payment of long term loan	(1,010,625)	(7,706,850)
Cash dividends	(250,000)	-
Increase in share capital	2,000,000	-
Net cash provided from (used in) financing activities	2,585,874	(119,350)
Net change in cash and cash equivalents	549,063	155,675
Cash acquired from acquisition/establishment of subsidiaries (Note 1)	11,734	-
Cash and cash equivalents, beginning of the year	703,198	547,523
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,263,995	703,198

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

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Note	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
January 1, 2007		5,000,000	-	(467,021)	4,532,979
Net income for the year		-	-	1,379,548	1,379,548
Transferred to statutory reserve	15	-	137,955	(137,955)	-
December 31, 2007		5,000,000	137,955	774,572	5,912,527
Cash dividends	20	-	-	(250,000)	(250,000)
Increase in share capital	1	2,000,000	-	-	2,000,000
Net income for the year		-	-	2,091,783	2,091,783
Transferred to statutory reserve	15	-	209,178	(209,178)	-
December 31, 2008		7,000,000	347,133	2,407,177	9,754,310

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, 2008

1. ORGANIZATION AND ACTIVITIES

Etihad Etisalat Company (the "Company/Mobily"), a Saudi joint stock company is incorporated pursuant to the Council of Ministers' resolution number 189 dated Jumad 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 was 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 was incorporated with a share capital of SR 5 billion divided into 100 million shares at par value of SR 50 each. In accordance with the Capital Market Authority's resolution number 4-154-2006 dated March 27, 2006 the share was split, effective April 8, 2006, into five shares at par value of SR 10 each and accordingly the Company's issued shares became 500 million shares. The founding shareholders were the Emirates Telecommunications Corporation - Etisalat, UAE holding 35% of the share capital and six Saudi shareholders holding 45% of the share capital, while the remaining 20% of the share capital was held by the public.

In compliance with the Royal Decree referred to above, pertaining to the incorporation of Etihad Etisalat Company (Mobily), the founding shareholders are required to issue a further 20% of their shares into the Saudi stock market during the third year from the Company's date of incorporation. Consequently, during the second quarter of year 2008, the founding shareholders sold 25% of their shares in the Company's share capital, representing 100 million shares, to the public after which the new shareholding became; The Emirates Telecommunications Corporation-Etisalat, UAE 26.25% of the share capital, six Saudi shareholders 33.75% of the share capital while the remaining 40% of the share capital is held by the public.

The general assembly also approved in its extra-ordinary meeting held on October 19, 2008, a capital increase from SR 5 billion to SR 7 billion, by issuing new rights issue shares of 200 million and the subscription rights are for shareholders registered in the shareholders' record according to each shareholder's share in equity, with the allocation of 60% of share capital increase to the founding shareholders and 40% of the share capital increase to all the other non-founding shareholders. The issuance of shares is at par value of SR 10 without premium. The legal procedures relating to the share capital increase represented the issuance of the Company's new commercial registration are still in process.

During 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.

During the second quarter of 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 includes the company's rights' assets, liabilities, obligations, commercial name and current and future trademarks for a total price of SR 1.5 billion, resulting in a goodwill of SR 1.47 billion on acquisition date.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

During the second quarter of year 2008, the Company invested in 95% of the share capital of a subsidiary, Etihad Etisalat for Commercial Investment Company, a Saudi limited liability company, which has not yet commenced its commercial activities.

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

For the purpose of the preparation of the consolidated statement of cash flows for the year ended December 31, 2008, the assets and liabilities net book values of the above mentioned subsidiaries at the acquisition/formation date are as follows:

	Mobily InfoTech Limited Company SR'000	Bayant Al- Oula for Network Services Co. SR'000	Etihad Etisalat for Commercial Investment Company SR'000	Zajil International Network for Telecommunication SR'000	Total SR'000
Assets					
Cash and cash equivalents	9,836	-	100	1,798	11,734
Accounts receivable	-	4,280	-	21,820	26,100
Inventories	-	11,884	-	1,046	12,930
Prepaid expenses and other assets	-	25,257	-	1,503	26,760
Property and equipment, net	-	345,118	-	11,648	356,766
Licenses acquisition fees, net	-	155,113	-	-	155,113
Total assets	9,836	541,652	100	37,815	589,403
Liabilities					
Accounts payable	-	(490,844)	-	(15,151)	(505,995)
Accrued expenses and other liabilities	-	(16,677)	-	(4,277)	(20,954)
Provision for employees' end-of-service indemnities	-	(996)	-	(1,408)	(2,404)
Due to a related party	(8,000)	-	-	-	(8,000)
Total liabilities	(8,000)	(508,517)	-	(20,836)	(537,353)
NET ASSETS	1,836	33,135	100	16,979	52,050

The Company's main activity is to establish and operate mobile wireless telecommunications network in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on May 25, 2005.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

The main activities of the subsidiaries are as following:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for maintenance of wire and wireless telecommunications networks and installation and maintenance of related computer systems.
- Wholesale and retail trade in equipment and machinery, electronic and electrical devices, wire and wireless telecommunications equipment and import and export to third parties.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment and provision of related services.

2. SIGNIFICANT ACCOUNTING POLICIES

These 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 presentation

The consolidated financial statements for the year ended December 31, 2008 include the financial statements of the Company and its subsidiaries, which were consolidated during the year then ended. The consolidated financial statements cover the year from January 1, 2008 to December 31, 2008, while the comparative figures for the year ended December 31, 2007 represent the stand-alone (i.e. unconsolidated) financial statements of the Company.

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.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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 and by one of the shareholders in a subsidiary who assigned his shareholdings in favour of the Company as at December 31, 2008:

Name	Country of incorporation	Ownership percentage	
		Direct	Indirect
Mobily InfoTech 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	Saudi Arabia	96.00%	4.00%
Etihat Etisalat for Commercial Investment Company	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 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. 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 equivalents

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

Short term investments

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

Accounts receivable

Accounts receivable are stated at estimated net realizable value after allowances have been made 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 collections.

Inventories

Inventories comprise of mobile phones' sim cards, pre-paid cards, scratch cards, mobile phones and other telecom 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.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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 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:

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

Major renewals and improvements are capitalized if they increase the productivity or the operating useful life of the assets, direct costs are also capitalized. Minor repairs and improvements are expensed when incurred. Gain or loss on disposal of property and equipment represent the difference between the sale proceeds and the carrying amount of these assets and is recognized in the consolidated statement of income.

Impairment

The carrying amounts of the Company's assets are reviewed at each 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 whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses, if any, are charged to the consolidated statement of income.

Licenses acquisition fees

Licenses acquisition fees are amortized over 25 years, which is the regulatory life of the licenses. Amortization is charged to the consolidated statement of income. The capitalized licenses fees are reviewed at each year end to determine any permanent decline in their values. In case a permanent impairment is identified in the capitalized licenses fees, such permanent impairment is recorded in the consolidated statement of income.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

Goodwill

The excess of consideration paid for the acquisition of a subsidiary, over the fair value of net assets acquired at the acquisition date, is recorded as goodwill and is measured at the end of each financial period 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 for amounts to be paid in the future for equipment and goods/services received/rendered.

Provision for employees' end-of-service indemnities

The provision for employees' end-of-service indemnities is calculated in accordance with the Saudi Arabia labor law based on the employee years of service in the Company.

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 subsidiary, Mobily InfoTech Limited Co. (India), enjoys a three years period tax exemption commencing from the date of operations and ends in year 2010.

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.

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, advertisements and employees' salaries and other benefits. All other expenses other than cost of services are classified as general and administrative expenses.

Government charges

Government charges represent government contribution fees in trade earnings, license fees, frequency waves fees and costs charged to the Company against the rights of using telecommunications 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.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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.

Revenue recognition

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

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

Operating leases

Payments made under operating leases are recognized in the consolidated statement of income on a straight-line basis over the terms of the leases. Lease incentives received are recognized in the consolidated statement of income as a deduction from lease expense.

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 provide 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 at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated as effective hedges of future cash flows are recognized directly in equity and the ineffective portion is recognized immediately in the consolidated statement of income.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

3. CASH AND CASH EQUIVALENTS

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Cash on hand and at banks	213,770	288,011
Short-term Murabaha	1,050,225	415,187
	<u>1,263,995</u>	<u>703,198</u>

4. ACCOUNTS RECEIVABLE, NET

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Accounts receivable	3,471,861	1,788,827
Less: Provision for doubtful debts	(373,613)	(329,171)
	<u>3,098,248</u>	<u>1,459,656</u>

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

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Balance, January 1	331,168	77,693
Provision for the year	121,727	251,478
Bad debts written off	(79,282)	-
Balance, December 31	<u>373,613</u>	<u>329,171</u>

5. RELATED PARTIES TRANSACTIONS

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

Party	Relation
Emirates Telecommunication Corporation - Etisalat	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Net telecommunication services	<u>121,710</u>	<u>133,861</u>
Management fees	<u>37,500</u>	<u>37,500</u>
Seconded staff cost	<u>48,428</u>	<u>40,221</u>
Other management cost	<u>69,311</u>	<u>76,963</u>
Roaming services	<u>4,864</u>	<u>2,795</u>

Due from a related party comprises of the following as of December 31:

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Emirates Telecommunication Corporation	<u>38,452</u>	<u>71,061</u>

Due to related parties comprise of the following as of December 31:

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Emirates Telecommunication Establishment	<u>75,907</u>	<u>106,641</u>
Emirates Data Clearing House	<u>2,264</u>	<u>4,844</u>
	<u>78,171</u>	<u>111,485</u>

6. PREPAID EXPENSES AND OTHER ASSETS

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Accrued revenues	<u>291,039</u>	<u>196,163</u>
Advance payments to suppliers of telecommunication equipment	<u>212,573</u>	<u>238,366</u>
Prepaid expenses	<u>193,725</u>	<u>186,483</u>
Advance payments to trade suppliers	<u>17,564</u>	<u>43,676</u>
Other	<u>348,174</u>	<u>145,684</u>
	<u>1,063,075</u>	<u>810,372</u>

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008	47,822	8,233	242,154	4,554,708	408,521	193,727	684	945,197	6,401,046
Acquisition of subsidiaries' property and equipment (Note 1)	-	-	2,174	100,313	15,125	3,243	938	248,181	369,974
Additions	24,620	10	98,291	610,279	118,879	90,175	24	2,119,488	3,061,766
Transfers	-	4,736	86,657	1,881,089	35,615	5,397	-	(2,013,494)	-
Disposals	-	-	-	(438)	(178)	(140)	(7)	-	(763)
December 31, 2008	72,442	12,979	429,276	7,145,951	577,962	292,402	1,639	1,299,372	9,832,023
Accumulated depreciation:									
January 1, 2008	-	309	54,282	658,520	140,932	68,024	427	-	922,494
Acquisition of subsidiaries' property and equipment (Note 1)	-	-	294	6,872	4,636	1,047	359	-	13,208
Charge for the year	-	570	45,002	562,425	108,562	62,396	194	-	779,149
Disposals	-	-	-	(110)	(66)	(44)	(7)	-	(227)
December 31, 2008	-	879	99,578	1,227,707	254,064	131,423	973	-	1,714,624
Net book value									
December 31, 2008 (Consolidated)	72,442	12,100	329,698	5,918,244	323,898	160,979	666	1,299,372	8,117,399
December 31, 2007 (Unconsolidated)	47,822	7,924	187,872	3,896,188	267,589	125,703	257	945,197	5,478,552

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

8. LICENSES ACQUISITION FEES, NET

	Mobile Telecommunication services license SR'000	3G services license SR'000	Other licenses SR'000	Total licenses acquisition fees SR'000
Cost as of January 1, 2008	12,210,000	753,750	15,489	12,979,239
Subsidiary's acquired license (Note 1)	-	-	171,735	171,735
Additions	-	-	240	240
	12,210,000	753,750	187,464	13,151,214
Less:				
Accumulated amortization as of January 1, 2008	1,592,670	97,551	2,324	1,692,545
Subsidiary's acquired license (Note 1)	-	-	16,622	16,622
Amortization for the year	482,606	29,827	6,682	519,115
Accumulated amortization as of December 31, 2008	2,075,276	127,378	25,628	2,228,282
Balance as of December 31, 2008 (Consolidated)	10,134,724	626,372	161,836	10,922,932
Balance as of December 31, 2007(Unconsolidated)	10,617,330	656,199	13,165	11,286,694

9. GOODWILL

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

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Bayanat Al-Oula for Network Services Company	1,466,865	-
Zajil International Network for Telecommunication	63,021	-
	1,529,886	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

10. SHORT AND LONG TERM LOANS

On April 14, 2008, the Company signed a short term financing agreement with a group of local banks to finance the Company with a Sharia-compliant short term loan for SR 1.5 billion to finance the acquisition of a subsidiary.

On March 14, 2007, the Company signed a long term financing agreement with a group of local, regional and international 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 granting of the loan is scheduled 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\$ 200 million (equivalent to SR 750 million).
- (c) Murabaha financing amounting to US\$ 225 million (equivalent to SR 843.75 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, utilized to settle the previous loan amounting to SR 7.1 billion, and to settle the loan of the founding shareholders. Neither the Murabaha loan to finance the working capital nor the Murabaha financing were utilized as at December 31, 2008.

The above term loan period is 6 years and repayable through semi-annual scheduled instalments, with a repayment of Murabaha on a quarterly basis. The last instalment being due on December 31, 2012.

The subsidiary, Bayanat Al-Oula for Network Services Company has bank facilities in the form of bank overdraft, short term loans and notes payable to finance its working capital amounting to SR 380 million as of December 31, 2008. These bank facilities are subject to finance charges at prevailing market rates. The subsidiary's management is currently in the process of transferring the above mentioned facilities to sharia-compliant facilities.

The subsidiary, Zajil International Network for Telecommunication has sharia-compliant bank facilities in the form of short term loans to finance its working capital.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

11. DERIVATIVES

During the last quarter of year 2008, the Company entered into interest rate hedging agreements with several local and international banks to hedge the cash flow risks from the fluctuation in loans Murabaha rates resulting from the financing activities for a notional amount of US \$ 343 million (equivalent to SR 1.29 billion). The hedging agreements are based on the swap between the Company and the banks of fixed rates against floating rates.

12. ACCOUNTS PAYABLE

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Trade payables	2,216,666	1,102,296
Capital expenditures payables	2,148,464	2,039,721
	<u>4,365,130</u>	<u>3,142,017</u>

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Accrued expenses for telecommunication companies	1,294,973	374,092
Deferred revenues	590,330	553,558
Government share in revenue	361,873	283,490
Accrued selling and marketing expenses	177,131	142,514
License fees	24,125	19,185
Zakat (Note 14)	23,900	24,202
Other	685,105	368,159
	<u>3,157,437</u>	<u>1,765,200</u>

14. ZAKAT

The Company and its subsidiaries in the Kingdom of Saudi Arabia file their financial statements and zakat returns and pay the zakat dues to the Department of Zakat and Income Tax (DZIT) on an individual basis.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

The principal elements of the Company's zakat base are as follows:

	2008 SR'000	2007 SR'000
Capital	5,000,000	5,000,000
Adjusted net income	1,386,454	969,599
Due to related parties	78,171	2,344
Provisions – beginning of the year	397,570	90,789
Liabilities against financing of property and equipment	2,148,293	2,039,721
Short and long term loans	9,443,715	8,922,981
Less:		
Property and equipment	(14,690,545)	(14,978,278)
Advance payments to suppliers of property and equipment	(212,552)	(238,366)
Goodwill	(1,512,696)	-
Capital work in progress	(914,438)	-
Investments	(20,401)	(1,836)
Adjusted accumulated losses – beginning of the year	(792,703)	(1,471,854)
Spare parts for network equipment	(11,875)	-

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

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

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Balance, January 1	24,230	-
Provision for the year	7,187	24,202
Payments during the year	(7,517)	-
Balance, December 31	23,900	24,202

The Company has filed its financial statements and zakat returns for the years up to 2007 and paid the zakat dues accordingly, which are currently under review by the Department of Zakat and Income Tax. The Company has received the final assessment for 2005.

The subsidiary, Bayanat Al-Oula for Network Services has filed its financial statements and zakat returns for the years up to 2007 and paid the zakat dues accordingly. The Company did not receive any final assessments to date.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

The subsidiary, Zajil International Network for Telecommunication has filed its financial statements and zakat returns for the years up to 2007 and paid the zakat dues accordingly. The Company has received the final zakat assessment for 2006.

The subsidiary, Etihad Etisalat for Commercial Investments Company has no zakat obligation since it has not completed one year.

15. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia, the Company has established 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. SERVICES REVENUE

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Usage	10,232,971	8,042,567
Activation and subscription fees	437,969	318,733
Other services	123,599	79,132
	<u>10,794,539</u>	<u>8,440,432</u>

17. COST OF SERVICES

	2008 SR'000	2007 SR'000
	(Consolidated)	(Unconsolidated)
Interconnect and roaming costs and international telecommunication passages	2,439,016	2,080,336
Government contribution fees in trade earnings	1,206,535	947,594
Cost of used inventories	205,486	173,096
Rental of network equipment	179,715	143,203
Transmission costs	150,802	86,833
License fees	79,511	63,135
Frequency waves fees	76,482	39,313
Other	435,938	245,328
	<u>4,773,485</u>	<u>3,778,838</u>

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

18. SELLING AND MARKETING EXPENSES

	2008	2007
	SR'000	SR'000
	(Consolidated)	(Unconsolidated)
Advertisement, promotion and sales commissions	467,639	433,338
Other	348,441	207,702
	816,080	641,040

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	SR'000	SR'000
	(Consolidated)	(Unconsolidated)
Salaries, wages and employees' benefits	550,590	392,079
Consulting and professional services	148,339	73,448
Other administrative costs	69,311	51,600
Rent expenses	55,013	38,881
Seconded expenses	48,428	29,858
Management fees to Emirates Telecommunication Establishment	37,500	37,500
Travel and transport	21,367	16,012
Board of Directors' remunerations and allowances	5,429	4,464
Other	474,818	429,445
	1,410,795	1,073,287

20. DIVIDENDS

The Company's General Assembly in its meeting held on Rabi Al Awal 23, 1429 H (corresponding to March 30, 2008) approved the Company's Board of Directors' recommendation to distribute dividends for the year ended December 31, 2007 of SR 0.5 for each outstanding share.

21. EARNINGS PER SHARE

Earnings per share from operating income and from net income for the year are calculated by dividing operating income and net income for the year by the weighted average of outstanding number of ordinary shares amounting to 523 million as of December 31, 2008. Earnings per share from operating income and from net income for 2007 were re-calculated to reflect the effect of the share capital increase during 2008 retroactively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

22. RISK MANAGEMENT

Financial instruments

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

Credit risk

Financial assets that subject to concentration of credit risk consist primarily of cash and cash equivalents, short term investments, accounts receivable and other assets. The cash and cash equivalents are deposited with high credit rated banks, therefore 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 their experience. The management does not believe it is necessary to use derivatives financial instruments to minimize the effect of foreign exchanges risks. Hedging arrangements are made to minimize foreign exchanges risks when management believes they are necessary to do so.

Murabaha rate risk

The Company does not have any significant murabaha rate risk. Murabaha rates on bank deposits and long/short term loans are determined based on prevailing market rates. Hedging arrangements are made to minimize the risk, when management believes it is necessary to do so (Note 11).

Liquidity risk

Liquidity risk is closely and continuously monitored by performing regular review of available funds and present value of future commitments. Moreover, the Company monitors the actual cash flows and whether its financial assets meet its financial liabilities requirements. The Company believes that it is not exposed to significant risk in relation to liquidity.

23. FAIR VALUE

The fair values of the Company's consolidated financial assets and liabilities, approximate their carrying amounts. The Company's management believes that it is not exposed to any significant risk in relation to the aforementioned.

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2008

24. CAPITAL COMMITMENTS AND CONTINGENCIES

The Company had capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the consolidated balance sheet date amounting to SR 2.22 billion as of December 31, 2008 (2007: SR 2.65 billion).

The Company and its subsidiary, Bayanat Al-Oula for Network Services Company entered into a strategic partnership project ("Saudi National Fiber Optics Network Project") with a local company at a total cost of SR 1 billion to build, deploy, and operate fiber optics network with a range of 12,600 kilometre by using 7 network rings around the Kingdom of Saudi Arabia. The Company and its subsidiary own 67% of the total project value.

The Company and its subsidiary referred to above entered into this project to support and complete its mobile network services by providing highly sophisticated technology services. Network rings 1, 2 and 7 were completed in June, July and December 2007, respectively. Network rings 4, 5 and 6 were completed during 2008, while network ring 3 with a cost of SR 234 million is expected to be completed during the first quarter of 2009.

The Company and its subsidiaries had contingent liabilities in the form of letters of guarantee amounting to SR 87 million as of December 31, 2008 (2007: SR nil).

25. SEGMENT INFORMATION

The Company's management believes that operational segment information disclosure for the Company and its subsidiaries is not required, due to the fact that the Company has only one major operating sector and operates mainly in the Kingdom of Saudi Arabia.

26. SUBSEQUENT EVENTS

The Company's Board of Directors in their annual meeting held on Muharram 22, 1430 H (corresponding to January 19, 2009) proposed to distribute cash dividends to the shareholders amounting to SR 525 million for the year ended December 31, 2008 of SR 0.75 for each outstanding share.

27. COMPARATIVE FIGURES

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