

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013**

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

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FOR THE YEAR ENDED DECEMBER 31, 2013

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AUDITORS' REPORT

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

Scope of audit

We have audited the accompanying consolidated balance sheet of Etihad Etisalat Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (the "Group") as of December 31, 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of and for the year ended December 31, 2012 were audited by other auditors whose unmodified audit report was dated Rabi Al Awal 5, 1434H (January 17, 2013).

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

Unqualified opinion

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Group; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's By-Laws with respect to the preparation and presentation of consolidated financial statements.

PricewaterhouseCoopers

By: _____
Khalid A. Mahdhar
License Number 368

January 14, 2014

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ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2013

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2013	2012
ASSETS			
Current assets			
Cash and cash equivalents	3	1,570,293	1,302,080
Accounts receivable, net	4	8,620,722	5,577,086
Due from a related party	5	33,270	6,112
Inventories, net		914,521	721,394
Prepaid expenses and other assets	6	4,195,031	2,493,179
Total current assets		15,333,837	10,099,851
Non-current assets			
Property and equipment, net	7	20,733,094	17,254,889
Licenses' acquisition fees, net	8	8,912,791	9,411,807
Goodwill	9	1,529,886	1,529,886
Investment in associate		5,631	-
Total non-current assets		31,181,402	28,196,582
TOTAL ASSETS		46,515,239	38,296,433
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term loans	10	782,124	752,546
Accounts payable	11	7,382,293	5,580,427
Due to related parties	5	112,289	132,308
Accrued expenses and other liabilities	12	4,147,044	3,282,703
Total current liabilities		12,423,750	9,747,984
Non-current liabilities			
Long-term loans	10	9,970,418	7,505,562
Employee termination benefits		157,742	137,111
Total non-current liabilities		10,128,160	7,642,673
TOTAL LIABILITIES		22,551,910	17,390,657
SHAREHOLDERS' EQUITY			
Share capital	1	7,700,000	7,000,000
Statutory reserve	14	2,847,434	2,179,779
Retained earnings		13,415,895	11,725,997
Total shareholders' equity		23,963,329	20,905,776
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		46,515,239	38,296,433

Chief Financial Officer:
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:
Khaled Omar Al Kaf

The accompanying notes from page 6 to page 19 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, 2013
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2013	2012
Revenues	15	25,190,853	23,585,300
Cost of services and revenues	16	(12,242,687)	(11,608,327)
Gross profit		12,948,166	11,976,973
Operating expenses:			
Selling and marketing expenses	17	(1,535,100)	(1,398,397)
General and administrative expenses	18	(2,222,759)	(2,044,580)
Depreciation and amortization	7 & 8	(2,501,877)	(2,398,949)
Total operating expenses		(6,259,736)	(5,841,926)
Income from main operations		6,688,430	6,135,047
Finance expenses	10	(190,634)	(169,166)
Other income		257,226	121,672
Income before zakat		6,755,022	6,087,553
Zakat	13	(78,469)	(69,900)
NET INCOME		6,676,553	6,017,653
Earnings per share (in Saudi Riyals) from:			
Income from main operations	20	8.69	7.97
Net income	20	8.67	7.82

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ETIHAD ETISALAT COMPANY
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2013	2012
OPERATING ACTIVITIES		
Net income	6,676,553	6,017,653
Adjustments to reconcile income before zakat to net cash from operating activities:		
Depreciation	1,928,051	1,835,679
Amortization of licenses' acquisition fees	573,826	563,270
Provision for doubtful debts	334,875	235,705
Finance expenses	190,634	169,166
Changes in working capital:		
Accounts receivable	(3,378,511)	265,291
Due from a related party	(27,158)	5,016
Inventories	(193,127)	(251,600)
Prepaid expenses and other assets	(822,210)	(2,185,143)
Accounts payable	(613,355)	(129,608)
Due to related parties	(20,019)	(61,217)
Accrued expenses and other liabilities	864,341	(339,514)
Employee termination benefits, net	20,631	48,080
Net cash provided from operating activities	5,534,531	6,172,778
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,888,867)	(3,850,235)
Disposal of property and equipment, net	18,190	83,616
Acquisition of licenses, net	(74,810)	(309,653)
Investment in associate	(5,631)	-
Net cash used in investing activities	(3,951,118)	(4,076,272)
FINANCING ACTIVITIES		
Payment of short-term loans	-	(1,203,273)
Proceed from long-term loans	3,852,487	7,415,000
Payment of long-term loans	(1,359,900)	(5,049,680)
Finance expenses paid	(188,787)	(146,012)
Cash dividends	(3,619,000)	(3,500,000)
Net cash used in financing activities	(1,315,200)	(2,483,965)
Net change in Cash and cash equivalents	268,213	(387,459)
Cash and cash equivalents, beginning of the year	1,302,080	1,689,539
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,570,293	1,302,080
Supplemental non-cash information:		
Transfer from retained earnings to share capital	700,000	-
Property and equipment purchases credited to capital expenditure payable	2,415,221	2,098,173

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ETIHAD ETISALAT COMPANY
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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at January 1, 2012		7,000,000	1,578,014	9,810,109	18,388,123
Net income for the year		-	-	6,017,653	6,017,653
Transfer to statutory reserve	14	-	601,765	(601,765)	-
Cash dividends	19	-	-	(3,500,000)	(3,500,000)
Balance at December 31, 2012		7,000,000	2,179,779	11,725,997	20,905,776
Net income for the year		-	-	6,676,553	6,676,553
Transfer from retained earnings to share capital	1	700,000	-	(700,000)	-
Transfer to statutory reserve	14	-	667,655	(667,655)	-
Cash dividends	19	-	-	(3,619,000)	(3,619,000)
Balance at December 31, 2013		7,700,000	2,847,434	13,415,895	23,963,329

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ETIHAD ETISALAT COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts in Saudi Riyals thousands unless otherwise stated)

1. ORGANIZATION AND ACTIVITY

1.1. Etihad Etisalat Company

Etihad Etisalat Company "Mobily" (the "Company"), a Saudi joint stock company, is registered in the Kingdom of Saudi Arabia under commercial registration number 1010203896 issued in Riyadh on Dhul Hijjah 2, 1425H (corresponding to December 14, 2004). The main address for the Company is P.O. Box 33088, Riyadh 11331, Kingdom of Saudi Arabia.

The Company was incorporated pursuant to the Royal decree number M/40 dated Rajab 2, 1425H (corresponding to August 18, 2004) approving the Council of Ministers resolution number 189 dated Jumada II 23, 1425H (corresponding to August 10, 2004) to approve the award of the license to incorporate a Saudi joint stock company under the name of "Etihad Etisalat Company".

Pursuant to the Council of Ministers resolution number 190 dated Jumada II 23, 1425H (corresponding to August 10, 2004), the Company obtained the licenses to install and operate 2G and 3G mobile telephone network including all related elements and the provision of all related services locally and internationally through its own network.

The Company's main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks and any extension thereof, manage, install and operate telephone networks, terminals and communication unit systems, in addition to sell and maintain mobile phones and communication unit systems in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on May 25, 2005.

The Extraordinary General Assembly decided in its meeting held on Safar 30, 1434H (corresponding to January 12, 2013) to approve the recommendation of the Board of Directors to increase the Company's share capital from Saudi Riyals 7 billion to Saudi Riyals 7.7 billion through a bonus share issue of one share for every ten shares owned by registered shareholders in the Company's shareholders register as at the end of the trading day on which the Extraordinary General Assembly meeting was held, and that the increase in share capital shall be effected by transferring Saudi Riyals 700 million from the retained earnings as of September 30, 2012. Accordingly, the total number of shares to increase by 70 million shares from 700 million shares to 770 million shares. The legal formalities related to the increase in the Company's share capital were completed during the first quarter in 2013.

The Company's share capital amounting to SR 7.7 billion consists of 770 million shares of SR 10 each, paid in full as at December 31, 2013. The Company's share capital amounted to SR 7 billion consists of 700 million shares of SR 10 each, paid in full as at December 31, 2012.

Etihad Etisalat Company (Mobily) and Etihad Jawraa Telecommunications and Information Technology Company (Etihad Jawraa) entered into Mobile Virtual Network Operator (MVNO) agreement, whereby Etihad Jawraa shall use Mobily's network infrastructure, to provide mobile services to its retail customers as a mobile virtual network operator, after obtaining the necessary license from the governmental authorities. Etihad Jawraa is still in the process to finalise the procedures for obtaining the necessary license from the governmental authorities.

1.2. Subsidiary companies

The consolidated financial statements of the Company include the financial information of the below subsidiaries (see also note 2.2).

1.2.1 Mobily Infotech India Private Limited

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

1.2.2 Bayanat Al-Oula for Network Services Company

During the 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 Saudi Riyals 1.5 billion, resulting in goodwill of Saudi Riyals 1.466 billion on the acquisition date.

ETIHAD ETISALAT COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(All amounts in Saudi Riyals thousands unless otherwise stated)

1.2.3 National Company for Business Solutions

During the 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.

1.2.4 Zajil International Network for Telecommunication Company

During the year 2008, the Company acquired 96% of the partners' shares in Zajil International Network for Telecommunication Company, 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 Saudi Riyals 80 million, resulting in goodwill of Saudi Riyals 63 million on the acquisition date.

1.2.5 Mobily Plug & Play LLC (under incorporation)

During the year 2013, the Company invested in 60% of Mobily Plug & Play LLC (under incorporation) which did not start its operations as of December 31, 2013 as the legal formalities related to the incorporation were not completed. It worth mentioning that the remaining 40% is owned by Plug & Play International, a company incorporated in USA.

The main activities of the subsidiaries are as follows:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for the installation and maintenance of wire and wireless telecommunications networks and the installation of computer systems and data services.
- Wholesale and retail trade in equipment and machinery, electronic and electrical devices, wire and wireless telecommunications' equipment, smart building systems and import and export to third parties, in addition to marketing and distributing telecommunication services and providing consultation services in the telecommunication domain.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- Providing television channels service over internet protocol (IPTV).
- Establishment, management and operation of, and investment in service and industrial projects.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 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 date on which control is transferred to the Company.

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 at December 31, 2013.

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.2 Accounting convention

The accompanying consolidated financial statements, have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by SOCPA.

2.3 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.

2.4 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 its acquisition date.

2.5 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.

2.6 Inventories

Inventories are comprised 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.

2.7 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.

2.8 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:

	<u>Percentage</u>
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.

2.9 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
FOR THE YEAR ENDED DECEMBER 31, 2013
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.10 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 fiscal 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.

2.11 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.

2.12 Investment in associate

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition income or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

2.13 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.

2.14 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated statement of income. The liability is calculated; as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.15 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 and is recorded under "general and administrative expenses".

2.16 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
FOR THE YEAR ENDED DECEMBER 31, 2013

(All amounts in Saudi Riyals thousands unless otherwise stated)

2.17 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.

2.18 Governmental charges

Governmental charges represent government contribution fees in trade earnings, license fees, frequency spectrum 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 licenses 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.

2.19 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.

2.20 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.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of trade discounts, promotions and volume rebates and after eliminating revenue within the Group. Revenue is recognised when the following conditions are met:

1. the amount of revenue can be measured reliably;
2. it is probably that the economic benefits associated with the transaction will flow to the Group;
3. the stage of completion of the transaction at the month-end date can be measured reliably; and
4. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Group's revenue comprises revenue from mobile telecommunications, data services, and sale of related equipment.

Revenue from mobile telecommunications comprises amounts charged to customers in respect of connection or activation, airtime usage, text messaging, the provision of other mobile telecommunications services including data services, and fees for connecting users of other fixed line and mobile networks to the Company's network.

Airtime, text messaging and data usage by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred and recognised as the customer uses the airtime.

Connection or activation fees are non-refundable, one-off, fees charged to customers when they connect to the network and are recognized in full as revenue in the period in which they are invoiced.

Subscription fees are monthly access fees that do not vary according to usage and are recognized as revenue on a straight-line basis over the service period.

Interconnect revenue is recognized on the basis of the gross value of invoices raised on other operators for termination charges based on the airtime usage, text messaging, and the provision of other mobile telecommunications services for the billing period as per the agreed rate.

Roaming revenue is recognized on the basis of the gross value of invoices raised on other roaming partners based on actual traffic delivered during the billing period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(All amounts in Saudi Riyals thousands unless otherwise stated)

Revenue from sale of mobile handsets and other devices is recognized on delivery in the period when the sale transaction occurs.

In arrangements involving the delivery of bundled products and services, those bundled products and services are separated into individual elements, each with its own separate revenue contribution. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

2.22 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.

3. CASH AND CASH EQUIVALENTS

	2013	2012
Cash on hand and at banks	1,570,293	802,080
Short-term Murabaha	-	500,000
	<u>1,570,293</u>	<u>1,302,080</u>

4. ACCOUNTS RECEIVABLE, NET

	2013	2012
Accounts receivable	9,312,452	6,007,347
Less: Provision for doubtful debts	(691,730)	(430,261)
	<u>8,620,722</u>	<u>5,577,086</u>

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

	2013	2012
Balance at January 1	430,261	293,070
Charge for the year (Note 18)	334,875	235,705
Bad debts written off	(73,406)	(98,514)
Balance at December 31	<u>691,730</u>	<u>430,261</u>

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(All amounts in Saudi Riyals thousands unless otherwise stated)

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

	2013	2012
Net interconnection services and roaming	53,482	41,853
Management fees (Note 18)	37,533	37,513
Other management expenses	114,115	77,384
Telecommunications services	7,659	22,893
Due from a related party comprises of the following as at December 31:	2013	2012
Emirates Telecommunication Corporation and its subsidiaries	33,270	6,112
Due to related parties comprises of the following as at December 31:	2013	2012
Emirates Telecommunication Corporation and its subsidiaries	106,111	123,773
Emirates Data Clearing House	6,178	8,535
	112,289	132,308

6. PREPAID EXPENSES AND OTHER ASSETS

	2013	2012
Advance payments to suppliers of network equipment	2,131,529	1,251,888
Accrued revenues	701,562	338,079
Prepaid expenses	388,534	374,070
Advance payments to trade suppliers	144,268	89,782
Other	829,138	439,360
	4,195,031	2,493,179

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7. PROPERTY AND EQUIPMENT, NET

Cost:	Land	Buildings	improvements	Leasehold	Tele- communication network equipment	Computer equipment and software	Office equipment and furniture	Vehicles	Capital work in progress	Total
January 1, 2013	275,361	228,834	637,411	19,977,541	2,010,650	426,736	1,789	1,157,860	24,716,182	
Additions	-	331,779	25,879	3,398,740	696,629	36,194	580	934,645	5,424,446	
Disposals	-	-	-	(26,261)	(2,826)	(168)	-	-	(29,255)	
Transfers	-	322,484	-	587,655	74,431	127	-	(984,697)	-	
December 31, 2013	275,361	883,097	663,290	23,937,675	2,778,884	462,889	2,369	1,107,808	30,111,373	
Accumulated depreciation:										
January 1, 2013	-	29,910	313,913	5,626,363	1,156,911	333,501	695	-	7,461,293	
Depreciation for the year	-	12,864	62,038	1,462,757	350,007	40,205	180	-	1,928,051	
Disposals	-	-	-	(8,481)	(2,459)	(125)	-	-	(11,065)	
December 31, 2013	-	42,774	375,951	7,080,639	1,504,459	373,581	875	-	9,378,279	
Net book value:										
December 31, 2013	275,361	840,323	287,339	16,857,036	1,274,425	89,308	1,494	1,107,808	20,733,094	
December 31, 2012	275,361	198,924	323,498	14,351,178	853,739	93,235	1,094	1,157,860	17,254,889	

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8. LICENSES' ACQUISITION FEES, NET

	Mobile Telecommu- cation services license	3G services license	Other	Total licenses' acquisition fees
Cost				
January 1, 2013	12,210,000	753,750	820,341	13,784,091
Additions	-	-	76,645	76,645
Disposals	-	-	(1,877)	(1,877)
December 31, 2013	<u>12,210,000</u>	<u>753,750</u>	<u>895,109</u>	<u>13,858,859</u>
Accumulated amortization				
January 1, 2013	4,005,700	246,686	119,898	4,372,284
Amortization for the year	482,606	29,827	61,393	573,826
Disposals	-	-	(42)	(42)
December 31, 2013	<u>4,488,306</u>	<u>276,513</u>	<u>181,249</u>	<u>4,946,068</u>
Net book value:				
December 31, 2013	<u>7,721,694</u>	<u>477,237</u>	<u>713,860</u>	<u>8,912,791</u>
December 31, 2012	<u>8,204,300</u>	<u>507,064</u>	<u>700,443</u>	<u>9,411,807</u>

9. GOODWILL

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

	2013	2012
Bayanat Al-Oula for Network Services Company	1,466,865	1,466,865
Zajil International Network for Telecommunication Company	63,021	63,021
	<u>1,529,886</u>	<u>1,529,886</u>

10. LONG-TERM LOANS

During the first quarter of the year 2012, the Company signed a sharia-compliant long-term refinancing facility agreement with local banks for a total amount of Saudi Riyals 10 billion. The proceeds were used to settle the outstanding balances of loans previously obtained by Etihad Etisalat Company ("Mobily") which amounted to Saudi Riyals 5.8 billion as at December 31, 2011 (Saudi Riyals 1.2 billion for short-term loans and Saudi Riyals 4.6 billion for long-term loans). The remaining balance of the said facility will be used to finance the Company's capital expenditures and working capital requirements. The utilized portion of the loan amounted to Saudi Riyals 9.25 billion as at December 31, 2013 (December 31, 2012: Saudi Riyals 7.35 billion).

The above long-term loan period is divided to five and seven years with murabaha rate based on SIBOR plus the market variable murabaha rate. This loan is repayable through semi-annual scheduled instalments, with the first instalment settled in August 2012. The last instalment is due on February 12, 2019.

During the third quarter of 2013, the Company signed a long term sharia-compliant financing agreement with the Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN) to arrange for a long term financing of approximately US Dollar 650 million (Saudi Riyals 2.4 billion) for the purpose of acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson. The total tenure of the facilities is 10 years, with a utilization period of 1.5 years, and an extended repayment period of 8.5 years. The conversion rate was agreed to be at 1.71% fixed rate. The investment will be used to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment. The utilized portion of this financing agreement amounted to US Dollars 161 million (Saudi Riyals 602 million) as at December 31, 2013.

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During the second quarter of 2013, the Company's subsidiary, Bayanat Al-Oula for Network Services Company, signed a long-term sharia-compliant financing agreement with local banks amounting to Saudi Riyals 1.5 billion (Fully utilized as of December 31, 2013) which was used to settle outstanding long-term loans amounting Saudi Riyals 923 million as at June 30, 2013 in addition to financing the subsidiary's working capital requirements

The above long-term loan period is five years and is repayable through semi-annual scheduled instalments, where the last instalment is due on June 17, 2018. The murabaha rate is based on SIBOR plus the market variable murabaha rate.

During the first quarter of 2010, the Company's subsidiary, Bayanat Al-Oula for Network Services Company, signed a long-term sharia-compliant financing agreement with a local bank amounting to Saudi Riyals 370 million (fully utilized as of December 31, 2013 and 2012) which was used to settle the outstanding short-term loans and notes payable as at December 31, 2009. The loan outstanding balance as of June 30, 2013 was paid during the third quarter of 2013.

On October 19, 2009, the Company's 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 Saudi Riyals 370 million (fully utilized as of December 31, 2013 and 2012). The loan outstanding balance as of June 30, 2013 was paid during the third quarter of 2013.

11. ACCOUNTS PAYABLE

	2013	2012
Capital expenditure payable	5,889,963	3,474,743
Trade accounts payable	1,492,330	2,105,684
	<u>7,382,293</u>	<u>5,580,427</u>

12. ACCRUED EXPENSES AND OTHER LIABILITIES

	2013	2012
Accrued telecommunication expenses	2,014,731	1,091,502
Deferred revenues	568,710	617,721
Accrued selling and marketing expenses	370,736	319,918
Accrued services and maintenance expenses	288,688	156,909
Zakat (Note 13)	104,697	80,310
Other	799,482	1,016,343
	<u>4,147,044</u>	<u>3,282,703</u>

13. ZAKAT

The Group is subject to zakat according to the regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia. The Group files its zakat returns on consolidated basis, starting from the financial year ended December 31, 2009 and thereafter, where it includes the Company and its subsidiaries due to the fact that the Group is one economic entity wholly by the Company. The following financial information pertains to the consolidated returns of the Group. Certain reclassifications were made to the financial information of 2012 based on the return filed with DZIT.

13.1 Calculation of adjusted net income

	2013	2012
Income before zakat	6,755,022	6,087,553
Depreciation	(1,555,065)	(1,401,610)
Provisions	278,750	357,006
Other	(22,490)	1,197
Adjusted net income	<u>5,456,217</u>	<u>5,044,146</u>

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13.2 Zakat base calculation

The significant components of the zakat base under zakat and income tax regulations are principally comprised of the following:

	Note	2013	2012
Adjusted net income for the year	13.1	5,456,217	5,044,146
Shareholder's equity at beginning of the year		17,286,775	14,888,123
Provisions as at beginning of the year		1,146,990	774,166
Loans		8,108,049	7,072,907
Other		2,989,616	2,424,979
Property and equipment, as adjusted		(28,671,780)	(25,265,087)
Goodwill		(1,529,886)	(1,529,886)
Other		(2,131,529)	(1,251,888)
Total approximate zakat base		2,654,452	2,157,460

Zakat is payable at 2.5 percent of zakat base.

13.3 Provision for zakat

	2013	2012
January 1	80,310	63,836
Charged during the year	78,469	69,900
Payments	(54,082)	(53,426)
December 31	104,697	80,310

13.4 Status of final assessments

The group has finalized its Zakat status and obtained the final Zakat assessments for the years until 2006. The Group has submitted its annual Zakat declarations for the years until 2012 and settled Zakat due thereon. The group has received Zakat assessments for the years 2007, 2008, and 2009 which showed additional differences which were objected by the group against the preliminary and appeal committees. Although the differences are material, management is unable to estimate the likelihood of unfavorable outcome and believes that it has adequate provisions to cover potential losses in the event of loss of these objections and appeals.

14. STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's bylaws, the Company establishes at every financial year end a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

15. REVENUES

	2013	2012
Usage	15,932,748	17,093,107
Activation and subscription fees	1,771,437	1,231,966
Other	7,486,668	5,260,227
	25,190,853	23,585,300

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16. COST OF SERVICES AND REVENUES

	2013	2012
Cost of utilized inventories	6,644,268	5,342,500
Network access charges	3,269,753	3,871,573
Government contribution fees in trade earnings	1,121,047	1,148,475
Rental and maintenance of network equipment expenses	700,882	839,874
Frequency wave fees	127,640	128,923
National transmission and interconnection costs	103,757	118,930
License fees	79,999	79,734
Other	195,341	78,318
	<u>12,242,687</u>	<u>11,608,327</u>

17. SELLING AND MARKETING EXPENSES

	2013	2012
Advertisement, promotion and sales commissions	670,153	647,187
Other	864,947	751,210
	<u>1,535,100</u>	<u>1,398,397</u>

Other selling and marketing expenses include flagships rental expense, salaries, wages, and benefits related to sales and marketing employees.

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Salaries, wages and employees' benefits	907,639	794,112
Maintenance	300,925	169,480
Provision for doubtful debts (Note 4)	334,875	235,705
Consulting and professional services	125,170	120,352
Rents	114,748	104,687
Travel and transportation	46,519	47,569
Management fees to Emirates Telecommunication Corporation (Note 5)	37,533	37,513
Board of Directors' remunerations and allowances	10,885	8,666
Other	344,465	526,496
	<u>2,222,759</u>	<u>2,044,580</u>

19. DIVIDENDS

The total cash dividends distributed during the financial year ended December 31, 2013 amounted to Saudi Riyals 3,619 million by SR 4.7 for each outstanding share (2012: Saudi Riyals 3,500 million by SR 4.55 for each outstanding share).

20. EARNINGS PER SHARE

Earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the period by the weighted average for the outstanding number of ordinary shares amounting to 770 million shares as at December 31, 2013 and 2012. Earnings per share from income from main operations and from net income for the year ended December 31, 2012 have been recalculated retroactively based on the new number of shares to reflect the increase in share capital amounting to SR 700 million (see Note 1).

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21. RISK MANAGEMENT

21.1 Financial instruments

Financial assets of the Group comprised of cash and cash equivalent, accounts receivable, due from a related party and other assets, while financial liabilities of the Group 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.

21.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

21.3 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 as most of the transactions are in Saudi Riyals and US Dollars. Financial commitments are made to minimize foreign exchange risks when management believes it is deemed necessary.

21.4 Murabaha rate risk

The Group 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 made to minimize the risk, when management believes it is deemed necessary.

21.5 Liquidity risk

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

21.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values.

22. CAPITAL COMMITMENTS AND CONTINGENCIES

The Company and its subsidiary Bayanat Al-Oula for Network Services 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 in the amount of SR 6.8 billion as at December 31, 2013 (December 31, 2012: SR 7 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 204 million and SR 75 million respectively as at December 31, 2012 (2011: SR 94 million and SR 127 million respectively).

23. 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, 2013, the Company's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

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24. SUBSEQUENT EVENTS

The Board of Directors in its meeting held on Rabi Al-Awwal 12, 1435H (corresponding to January 14, 2014), recommended a distribution of a cash dividend of Saudi Riyals 962.5 million for the fourth quarter of the financial year 2013 by SR 1.25 for each outstanding share.

25. COMPARATIVE FIGURES

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