

**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND  
AUDITORS' REVIEW REPORT  
FOR THE THREE AND NINE MONTH PERIODS ENDED  
SEPTEMBER 30, 2012**

**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

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## REVIEW REPORT

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

### Scope of Review

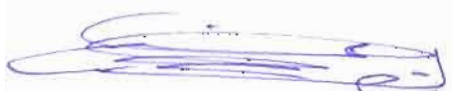
We have reviewed the accompanying interim consolidated balance sheet of **Etihad Etisalat Company** (a Saudi joint stock company) ("the Company") as of September 30, 2012, and the related interim consolidated statement of income for the three and nine month periods ended September 30, 2012 and interim consolidated statement of cash flows for the nine month period then ended including the notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and were submitted to us with all the information and explanation which we required.

We conducted our review in accordance with the standard of interim financial reporting issued by the Saudi Organization for Certified Public Accountants. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Review Results

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdoum  
License No. 358

Dhu al-Hijjah 1, 1433  
October 17, 2012



**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)**  
**AS AT SEPTEMBER 30, 2012**

	Notes	2012 SR'000	2011 SR'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalent		1,641,794	1,539,087
Short-term investments		-	250,000
Accounts receivable, net		4,872,057	4,488,078
Due from a related party		7,836	17,114
Inventories, net		483,382	406,299
Prepaid expenses and other assets		2,003,808	1,409,716
<b>Total current assets</b>		<b>9,008,877</b>	<b>8,110,294</b>
<b>Non-current assets</b>			
Property and equipment, net	3	16,780,443	14,462,058
Licenses' acquisition fees, net	4	9,508,195	9,726,329
Goodwill		1,529,886	1,529,886
<b>Total non-current assets</b>		<b>27,818,524</b>	<b>25,718,273</b>
<b>TOTAL ASSETS</b>		<b>36,827,401</b>	<b>33,828,567</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term loans	5	-	1,199,919
Current portion of long-term loans	5 and 6	703,567	1,901,683
Accounts payable		4,507,263	5,068,398
Due to related parties		27,068	54,696
Accrued expenses and other liabilities		4,080,552	4,016,145
<b>Total current liabilities</b>		<b>9,318,450</b>	<b>12,240,841</b>
<b>Non-current liabilities</b>			
Long-term loans	5 and 6	7,651,793	4,813,695
Provision for end-of-service benefits		128,920	83,296
<b>Total non-current liabilities</b>		<b>7,780,713</b>	<b>4,896,991</b>
<b>TOTAL LIABILITIES</b>		<b>17,099,163</b>	<b>17,137,832</b>
<b>SHAREHOLDERS' EQUITY</b>			
Authorized, issued and outstanding share capital	1	7,000,000	7,000,000
Statutory reserve	8	1,578,014	1,069,668
Retained earnings		11,150,224	8,621,067
<b>Total shareholders' equity</b>		<b>19,728,238</b>	<b>16,690,735</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>36,827,401</b>	<b>33,828,567</b>

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

**Chief Financial Officer:**  
**Thamer Mohammed Al Hosani**

**Managing Director and Chief Executive Officer:**  
**Khaled Omar Al Kaf**

**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

	Notes	For the three month ended		For the nine month ended	
		September 30, 2012 SR'000	September 30, 2011 SR'000	September 30, 2012 SR'000	September 30, 2011 SR'000
Revenues		6,183,147	4,639,694	16,870,270	14,250,634
Cost of services and sales		(3,197,090)	(2,167,414)	(8,315,270)	(7,011,469)
<b>Gross profit</b>		<b>2,986,057</b>	<b>2,472,280</b>	<b>8,555,000</b>	<b>7,239,165</b>
<b>Operating expenses</b>					
Selling and marketing expenses		(296,982)	(300,405)	(950,385)	(840,782)
General and administrative expenses		(489,369)	(358,963)	(1,554,671)	(1,248,673)
Depreciation and amortization	3 and 4	(630,608)	(538,864)	(1,759,613)	(1,598,672)
<b>Total operating expenses</b>		<b>(1,416,959)</b>	<b>(1,198,232)</b>	<b>(4,264,669)</b>	<b>(3,688,127)</b>
<b>Operating income</b>		<b>1,569,098</b>	<b>1,274,048</b>	<b>4,290,331</b>	<b>3,551,038</b>
Finance expenses	5 and 6	(41,877)	(37,982)	(125,874)	(120,849)
Other income		16,437	3,365	48,434	30,421
<b>Income before zakat</b>		<b>1,543,658</b>	<b>1,239,431</b>	<b>4,212,891</b>	<b>3,460,610</b>
Zakat		(32,250)	(15,663)	(72,776)	(74,539)
<b>NET INCOME FOR THE PERIOD</b>		<b>1,511,408</b>	<b>1,223,768</b>	<b>4,140,115</b>	<b>3,386,071</b>
<b>Basic earnings per share (in Saudi Riyals):</b>					
- From operating income for the period	9	2.24	1.82	6.13	5.07
- From net income for the period	9	2.16	1.75	5.91	4.84

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**Managing Director and Chief Executive Officer:**  
**Khaled Omar Al Kaf**



**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012**

	2012 SR'000	2011 SR'000
<b>OPERATING ACTIVITIES</b>		
Income before zakat	4,212,891	3,460,610
<b>Adjustments to reconcile income before zakat to net cash from operating activities:</b>		
Depreciation	1,340,654	1,201,275
Amortization of licenses' acquisition fees	418,959	397,397
Provision for doubtful debts	160,579	123,696
Finance expenses	125,874	120,849
<b>Operating income before changes in working capital</b>	<b>6,258,957</b>	<b>5,303,827</b>
<b>Changes in working capital:</b>		
Accounts receivable	1,290,726	1,136,347
Due from a related party	3,292	5,397
Inventories	(13,588)	(109,723)
Prepaid expenses and other assets	(604,377)	(172,947)
Accounts payable	(1,857,233)	(1,323,485)
Due to related parties	(166,457)	(226,343)
Accrued expenses and other liabilities	111,711	706,772
Provision for end-of-service benefits, net	39,889	17,649
Zakat paid	(52,817)	(72,275)
Finance expenses paid	(105,468)	(100,418)
<b>Net cash provided from operating activities</b>	<b>4,904,635</b>	<b>5,164,801</b>
<b>INVESTING ACTIVITIES</b>		
Short-term investments	-	200,139
Purchase of property and equipment	(3,236,015)	(3,048,138)
Disposals of property and equipment, net	83,318	8,083
Acquisition of licenses, net	(261,730)	(95,447)
<b>Net cash used in investing activities</b>	<b>(3,414,427)</b>	<b>(2,935,363)</b>
<b>FINANCING ACTIVITIES</b>		
Proceed from short-term loans	-	600,000
Payment of short-term loans	(1,203,273)	-
Proceed from long-term loans	7,415,000	270,000
Payment of long-term loans	(4,949,680)	(946,700)
Cash dividends	(2,800,000)	(2,275,000)
<b>Net cash used in financing activities</b>	<b>(1,537,953)</b>	<b>(2,351,700)</b>
Net change in cash and cash equivalent	(47,745)	(122,262)
Cash and cash equivalent, beginning of the period	1,689,539	1,661,349
<b>CASH AND CASH EQUIVALENT, END OF THE PERIOD</b>	<b>1,641,794</b>	<b>1,539,087</b>

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

**Chief Financial Officer:**  
**Thamer Mohammed Al Hosani**

**Managing Director and Chief Executive Officer:**  
**Khafed Omar Al Kaf**

**ETIHAD ETISALAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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**1. ORGANIZATION AND ACTIVITY**

EtiHAD Etisalat Company (the "Company/Mobily"), a Saudi joint stock company, is incorporated pursuant to the Council of Ministers' resolution number 189 dated Jumada Al Thani 23, 1425 H (corresponding to August 10, 2004) and Royal Decree number M/40 dated Rajab 2, 1425 H (corresponding to August 18, 2004) and 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's share capital amounting to SR 7 billion consists of 700 million shares of SR 10 each, paid in full as at September 30, 2012.

During year 2007, the Company invested in 99.99% of the share capital of a subsidiary company, Mobily InfoTech Limited incorporated in Bangalore, India which commenced its commercial activities during the year 2008. Early 2009, the remaining 0.01% of the subsidiary's share capital was acquired by National Company for Business Solutions, a subsidiary company.

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

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

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

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

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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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**1. ORGANIZATION AND ACTIVITY (Continued)**

The main activities of the subsidiaries are as follow:

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

These interim 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:

**Interim consolidated financial statements**

The Company prepares its interim consolidated financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public accountants. Each interim period is an integral part of the financial year. Revenues, expenses and provisions for a period are recorded and presented in the interim consolidated financial statements for that period. The results for the interim period may not give an accurate indication of the annual operating results.

**Basis of consolidation**

The accompanying interim 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.



**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company's equity share in the net income (losses) of the subsidiaries is computed at 100% based on direct investment in the share capital of the subsidiaries and indirect investment by certain subsidiaries as at September 30, 2012:

<b>Name</b>	<b>Country of incorporation</b>	<b>Ownership percentage</b>	
		<b>Direct</b>	<b>Indirect</b>
Mobily Info Tech Limited Company	India	99.99%	0.01%
Bayanat Al-Oula for Network Services Company	Saudi Arabia	99.00%	1.00%
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%

**Accounting convention**

The interim 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 interim 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 interim consolidated financial statements and the reported amounts of revenues and expenses for the period. Although these estimates are based on management's best available information and knowledge of current events at the interim consolidated financial statement date; however, actual final results may differ from those estimates.

**Cash and cash equivalent**

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

**Short term investments**

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

**Accounts receivable**

Accounts receivable are stated at estimated net realizable value after establishing appropriate allowances 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.

**Inventories**

Inventories comprise of mobile phones' sim cards, pre-paid 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Provisions**

Provisions are recognized in the interim 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 on property and equipment is charged to the interim 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 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 interim consolidated statement of income.

**Impairment of assets**

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

**Licenses' acquisition fees**

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 period and reported in the interim 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 end-of-service benefits**

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

**Zakat and income tax**

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

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

**Foreign currency transactions**

Transactions denominated in foreign currencies are translated to Saudi Riyals at the rates of exchange prevailing at the dates of the respective transactions. At interim 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 interim consolidated statement of income.

For the purpose of consolidating the interim financial statements, the interim financial statements denominated in foreign currencies are translated into Saudi Riyals at rates of exchange prevailing at the interim balance sheet date for assets and liabilities, and the average of exchange rates for the period 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.

**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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental charges**

Governmental charges represent government contribution fees in trade earnings, license fees, frequency waves fees and costs charged to the Company against the rights to use telecommunications and data services in the Kingdom of Saudi Arabia as stipulated in the license agreements. These fees are recorded in the related periods during which they are used and are included under cost of services in the interim consolidated statement of income.

**Financial instruments**

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

**Interconnection costs**

Interconnection costs represent connection charges to national and international telecommunication networks. Interconnection costs are recorded in the period when relevant calls are made and are included in the cost of services caption in the interim consolidated statement of income.

**Revenue recognition**

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

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

**Operating and capital leases**

Lease agreements are classified as capital leases if the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. Other leases are classified as operating leases whereby the expenses and the revenues associated with the operating leases are recognized in the interim consolidated statement of income on a straight-line basis over the terms of the leases.

**Derivative financial instruments and hedge accounting**

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

**ETIHAD ETISALAT COMPANY**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012**

**3. PROPERTY AND EQUIPMENT, NET**

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Telecomm- unication network 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
<b>Cost</b>									
January 1, 2012	224,751	184,771	603,261	16,796,859	1,621,374	403,631	1,633	2,272,607	22,108,887
Additions	33,304	-	101,327	1,419,960	181,143	9,522	1,118	45,929	1,792,303
Disposals	-	-	(3,747)	(148,725)	(15)	(3)	(962)	-	(153,452)
Transfers	-	12,119	20,022	977,587	46,920	783	-	(1,057,431)	-
September 30, 2012	<b>258,055</b>	<b>196,890</b>	<b>720,863</b>	<b>19,045,681</b>	<b>1,849,422</b>	<b>413,933</b>	<b>1,789</b>	<b>1,261,105</b>	<b>23,747,738</b>
<b>Accumulated depreciation</b>									
January 1, 2012	-	21,766	258,728	4,244,909	876,750	293,166	1,456	-	5,696,775
Depreciation for the period	-	6,060	52,816	1,044,051	208,368	29,304	55	-	1,340,654
Disposals	-	-	(2,258)	(67,007)	(3)	(3)	(863)	-	(70,134)
September 30, 2012	-	<b>27,826</b>	<b>309,286</b>	<b>5,221,953</b>	<b>1,085,115</b>	<b>322,467</b>	<b>648</b>	-	<b>6,967,295</b>
<b>Net book value</b>									
September 30, 2012	<b>258,055</b>	<b>169,064</b>	<b>411,577</b>	<b>13,823,728</b>	<b>764,307</b>	<b>91,466</b>	<b>1,141</b>	<b>1,261,105</b>	<b>16,780,443</b>
September 30, 2011	147,386	150,410	325,967	11,246,366	649,894	116,667	202	1,825,166	14,462,058

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2012

4. LICENSES' ACQUISITION FEES, NET

	Mobile Telecommunication services license SR'000	3G services license SR'000	Other SR'000	Total licenses' acquisition fees SR'000
Cost at January 1, 2012	12,210,000	753,750	511,106	13,474,856
Additions	-	-	265,752	265,752
Disposals	-	-	(4,294)	(4,294)
Cost at September 30, 2012	<u>12,210,000</u>	<u>753,750</u>	<u>772,564</u>	<u>13,736,314</u>
<b>Less:</b>				
Accumulated amortization at January 1, 2012	3,523,094	216,859	69,479	3,809,432
Amortization for the period	<u>361,954</u>	<u>22,370</u>	<u>34,635</u>	<u>418,959</u>
Disposals	-	-	(272)	(272)
Accumulated amortization at September 30, 2012	<u>3,885,048</u>	<u>239,229</u>	<u>103,842</u>	<u>4,228,119</u>
<b>Balance at September 30, 2012</b>	<u><b>8,324,952</b></u>	<u><b>514,521</b></u>	<u><b>668,722</b></u>	<u><b>9,508,195</b></u>
Balance at September 30, 2011	<u>8,807,558</u>	<u>544,348</u>	<u>374,423</u>	<u>9,726,329</u>

5. SHORT AND LONG-TERM LOANS

During the first quarter of year 2012, the Company signed a sharia-compliant long-term refinancing facility agreement with local banks for a total amount of SR 10 billion. The proceeds were used to settle the outstanding balances of loans previously obtained by Etihad Etisalat Company (Mobily) which amounted to SR 5.8 billion as at December 31, 2011 (SR 1.2 billion for short-term loans and SR 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 outstanding balance of the loan amounted to SR 7.35 billion as at September 30, 2012. During the third quarter of the year 2012, an amount of SR 150 million was paid.

The above long-term loan period is seven years and is repayable through semi-annual scheduled installments, with the first installment was settled in August 2012. The last installment is due on February 12, 2019.

During the first quarter of 2010, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a long-term sharia-complaint financing agreement with a local bank amounting to SR 370 million which was used to settle the outstanding short-term loans and notes payable as at December 31, 2009. The outstanding balance of the loan amounted to SR 185 million as at September 30, 2012 (September 30, 2011: SR 308 million). During the period 2012, an amount of SR 123 million was paid.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
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**5. SHORT AND LONG-TERM LOANS (Continued)**

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

On October 19, 2009, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a sharia-compliant financing agreement with a local bank to finance its capital expenditure requirements for a total amount of SR 900 million. The total balance utilized from the mentioned facility amounted to SR 900 million as at September 30, 2012 (September 30, 2011: SR 900 million).

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

**6. DERIVATIVES**

During the year 2008, the Company entered into interest rate hedging agreements with several local and international banks to hedge the cash flow risks from the fluctuation in loans Murabaha rates resulting from the financing activities for a notional amount of US \$ 333 million (equivalent to SR 1.25 billion). The hedging agreements are based on the swap of fixed rates against floating rates between the Company and the banks. The change in the fair value of derivative financial instruments is recorded under finance expenses caption in the interim consolidated statement of income. These agreements mature on December 31, 2012.

**7. DIVIDENDS**

Based on the mandate of the Company's Ordinary General Assembly, the Company's Board of Directors in its meeting held on July 16, 2012 (corresponding to Sha'ban 26, 1433) resolved to distribute interim cash dividends for the second quarter of year 2012 of SR 1 for each outstanding share, in addition to interim cash dividends that were distributed of SR 1 for each outstanding share for the first quarter of year 2012.

The Company's General Assembly in its meeting held on March 11, 2012 (corresponding to Rabi Al Thani 18, 1433 H) approved the Company's Board of Directors' recommendation to distribute cash dividends for the second half of the year ended December 31, 2011 of SR 2 for each outstanding share in addition to the interim cash dividends that were distributed of SR 1.25 for each outstanding share for the first half of the year ended December 31, 2011 to reach a total distribution for year 2011 of SR 3.25 for each outstanding share (for year 2010: SR 2 for each outstanding share).

**8. STATUTORY RESERVE**

In accordance with the Regulations for Companies in 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
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**9. EARNINGS PER SHARE**

Earnings per share from operating income and from net income for the period is calculated by dividing operating income and net income for the period by the outstanding number of ordinary shares as at September 30, 2012 amounting to 700 million shares.

**10. CAPITAL COMMITMENTS 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 interim consolidated balance sheet date in the amount of SR 6.7 billion as at September 30, 2012 (September 30, 2011: SR 3.18 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 120 million and SR 62 million, respectively as at September 30, 2012 (September 30, 2011: SR 106 million and SR 574 million respectively).

**11. 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 September 30, 2012, the Company's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

**12. RISK MANAGEMENT**

**Financial instruments**

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

**Credit risk**

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

**Foreign exchange risk**

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks. Financial commitments are established to minimize foreign exchange risks when management believes it is deemed necessary.



**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
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**12. RISK MANAGEMENT (Continued)**

**Murabaha rate risk**

The Company does not have any significant murabaha rate risk. Cost of Murabaha with banks and short/long-term loans are predetermined based on prevailing market rates. Financial commitments are made to minimize the risk when management believes it is deemed necessary (Note 6).

**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 Company monitors the actual cash flows and matches the maturity dates of its financial assets and its financial liabilities. The Company believes that it is not exposed to significant risk with respect to liquidity.

**13. FAIR VALUE**

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

**14. COMPARATIVE FIGURES**

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