

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

**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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## AUDITORS' REPORT

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

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### Scope of Audit

We have audited the consolidated balance sheet of Etihad Etisalat Company (a Saudi Joint Stock Company) as at December 31, 2010, 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 statements 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 at December 31, 2010, 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.



Ehsan A. Makhdom  
License No. 358

Safar 12, 1432  
January 16, 2011

Audit. Tax. Consulting. Financial Advisory.

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

**CONSOLIDATED BALANCE SHEET**  
**AS AT DECEMBER 31, 2010**

	Note	2010 SR'000	2009 SR'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalent	3	1,661,349	933,407
Short-term investments		450,139	600,000
Accounts receivable, net	4	5,736,056	5,481,035
Due from a related party	5	22,511	69,357
Inventories, net		296,576	132,396
Prepaid expenses and other assets	6	1,248,834	1,256,485
<b>Total current assets</b>		<b>9,415,465</b>	<b>8,472,680</b>
<b>Non-current assets</b>			
Property and equipment, net	7	12,456,817	10,369,515
Licenses' acquisition fees, net	8	10,028,279	10,449,714
Goodwill	9	1,529,886	1,529,886
<b>Total non-current assets</b>		<b>24,014,982</b>	<b>22,349,115</b>
<b>TOTAL ASSETS</b>		<b>33,430,447</b>	<b>30,821,795</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Short-term loans	10	599,350	376,632
Current portion of long-term loans	10 & 11	1,843,129	1,776,602
Accounts payable	12	6,197,662	6,167,343
Due to related parties	5	281,039	210,868
Accrued expenses and other liabilities	13	3,334,869	3,552,327
<b>Total current liabilities</b>		<b>12,256,049</b>	<b>12,083,772</b>
<b>Non-current liabilities</b>			
Long-term loans	10 & 11	5,529,087	6,448,324
Provision for end-of-service benefits		65,647	46,517
<b>Total non-current liabilities</b>		<b>5,594,734</b>	<b>6,494,841</b>
<b>TOTAL LIABILITIES</b>		<b>17,850,783</b>	<b>18,578,613</b>
<b>SHAREHOLDERS' EQUITY</b>			
Authorized, issued and outstanding share capital	1	7,000,000	7,000,000
Statutory reserve	15	1,069,668	648,520
Retained earnings		7,509,996	4,594,662
<b>Total shareholders' equity</b>		<b>15,579,664</b>	<b>12,243,182</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>33,430,447</b>	<b>30,821,795</b>

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, 2010**

	Note	2010 SR'000	2009 SR'000
Services revenues	16	16,013,138	13,058,256
Cost of services	17	(7,229,717)	(5,511,706)
<b>Gross profit</b>		<b>8,783,421</b>	<b>7,546,550</b>
<b>Operating expenses:</b>			
Selling and marketing expenses	18	(1,095,975)	(1,092,626)
General and administrative expenses	19	(1,522,827)	(1,617,173)
Depreciation and amortization	7 & 8	(1,809,830)	(1,628,867)
<b>Total operating expenses</b>		<b>(4,428,632)</b>	<b>(4,338,666)</b>
<b>Operating income</b>		<b>4,354,789</b>	<b>3,207,884</b>
Finance expenses	10	(146,471)	(204,305)
Other income		70,452	41,049
<b>Income before zakat</b>		<b>4,278,770</b>	<b>3,044,628</b>
Zakat	14	(67,288)	(30,756)
<b>NET INCOME</b>		<b>4,211,482</b>	<b>3,013,872</b>
<b>Basic earnings per share (in Saudi Riyals):</b>			
From operating income	21	6.22	4.58
From net income	21	6.02	4.31

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, 2010**

	2010 SR'000	2009 SR'000
<b>OPERATING ACTIVITIES</b>		
Income before zakat	4,278,770	3,044,628
<b>Adjustments to reconcile income before zakat to net cash from operating activities:</b>		
Depreciation	1,284,101	1,104,604
Amortization of licenses' acquisition fees	525,729	524,263
Provision for doubtful debts	130,465	120,009
Finance expenses	146,471	204,305
<b>Operating income before changes in working capital</b>	<b>6,365,536</b>	<b>4,997,809</b>
<b>Changes in working capital:</b>		
Accounts receivable	(385,486)	(2,502,796)
Due from a related party	46,846	(30,905)
Inventories	(164,180)	(24,833)
Prepaid expenses and other assets	7,651	(193,410)
Accounts payable	(68,996)	1,731,299
Due to related parties	70,171	132,697
Accrued expenses and other liabilities	(252,472)	380,415
Provision for end-of-service benefits, net	19,130	230
Zakat paid	(32,274)	(7,810)
Finance expenses paid	(135,945)	(237,099)
<b>Net cash provided from operating activities</b>	<b>5,469,981</b>	<b>4,245,597</b>
<b>INVESTING ACTIVITIES</b>		
Short-term investments	149,861	449,999
Purchase of property and equipment	(3,287,613)	(3,292,113)
Disposal of property and equipment, net	15,525	4,205
Acquisition of licenses	(104,294)	(51,045)
<b>Net cash used in investing activities</b>	<b>(3,226,521)</b>	<b>(2,888,954)</b>
<b>FINANCING ACTIVITIES</b>		
Proceed from short-term loans	1,026,957	26,019
Payment of short-term loans	(797,475)	(1,502,000)
Proceed from long-term loans	900,000	1,600,000
Payment of long-term loans	(1,770,000)	(1,286,250)
Cash dividends	(875,000)	(525,000)
<b>Net cash used in financing activities</b>	<b>(1,515,518)</b>	<b>(1,687,231)</b>
<b>Net change in cash and cash equivalent</b>	<b>727,942</b>	<b>(330,588)</b>
Cash and cash equivalent, beginning of the year	933,407	1,263,995
<b>CASH AND CASH EQUIVALENT, END OF THE YEAR</b>	<b>1,661,349</b>	<b>933,407</b>

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, 2010**

	Note	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2009		7,000,000	347,133	2,407,177	9,754,310
Cash dividends	20	-	-	(525,000)	(525,000)
Net income for the year		-	-	3,013,872	3,013,872
Transferred to statutory reserve	15	-	301,387	(301,387)	-
Balance at December 31, 2009		7,000,000	648,520	4,594,662	12,243,182
Cash dividends	20	-	-	(875,000)	(875,000)
Net income for the year		-	-	4,211,482	4,211,482
Transferred to statutory reserve	15	-	421,148	(421,148)	-
Balance at December 31, 2010		7,000,000	1,069,668	7,509,996	15,579,664

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, 2010**

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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 is registered in Riyadh under commercial registration number 1010203896 dated December 14, 2004. The Company is the second authorized provider of mobile telecommunication services in the Kingdom of Saudi Arabia.

The Company's share capital amounting to SR 7 billion consists of 700 million shares of SR 10 each, paid in full as at December 31, 2010.

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 (formerly known as Etihad Etisalat for Commercial Investment Company), a subsidiary company.

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

During year 2008, the Company invested in 95% of the share capital of a subsidiary company, National Company for Business Solutions (formerly known as Etihad Etisalat for Commercial Investment Company), a Saudi limited liability company. It should be noted that the shareholders of the aforementioned subsidiary resolved in 2010 to change the subsidiary's name from Etihad Etisalat for Commercial investment Company to National Company for Business Solutions. The shareholders also resolved to increase the subsidiary's share capital to be SR 10 million through cash contributions deposited in the subsidiary's bank account. The legal formalities pertaining to the change in the subsidiary's name and the increase of its share capital were completed during year 2010.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

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

The main activities of the subsidiaries are as follow:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for maintenance of wire and wireless telecommunications networks, installation and maintenance 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 service and providing consultation services in the telecommunication domain.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of consolidation**

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

**ETIHAD ETISALAT COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

The Company's equity share in the net income (losses) of the subsidiaries is computed at 100% based on direct investment in the share capital of the subsidiaries and indirect investment by certain subsidiaries as follows as at December 31, 2010:

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 (Formerly known as Etihad 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 equivalent**

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

**Short-term investments**

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

**Accounts receivable**

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

**ETIHAD ETISALAT COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**Inventories**

Inventories comprise of mobile phones' sim cards, prepaid cards, scratch cards, mobile phones and other telecommunication equipment. Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the difference between the estimated selling price in the ordinary course of business and selling expenses. Cost is determined by using the weighted average method.

**Provisions**

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

**Property and equipment**

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

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

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

**Impairment of assets**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**Licenses' acquisition fees**

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

**Goodwill**

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

**Accounts payable**

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

**Provision for end-of-service benefits**

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

**Zakat and income tax**

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

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

**Foreign currency transactions**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**Expenses**

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

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

**Governmental charges**

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

**Financial instruments**

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

**Interconnection costs**

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

**Revenue recognition**

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

Revenues from sale of handsets equipment and accessories are recognized when they 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.

**ETIHAD ETISALAT COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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

**Derivative financial instruments and hedge accounting**

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

**3. CASH AND CASH EQUIVALENT**

	2010 SR'000	2009 SR'000
Cash on hand and at banks	961,212	633,273
Short-term Murabaha	700,137	300,134
	<u>1,661,349</u>	<u>933,407</u>

**4. ACCOUNTS RECEIVABLE, NET**

	2010 SR'000	2009 SR'000
Accounts receivable	6,020,464	5,634,978
Less: Provision for doubtful debts	(284,408)	(153,943)
	<u>5,736,056</u>	<u>5,481,035</u>

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

	2010 SR'000	2009 SR'000
Balance at January 1	153,943	373,613
Provision for the year	130,465	120,009
Bad debts written off	-	(339,679)
Balance at December 31	<u>284,408</u>	<u>153,943</u>

**ETIHAD ETISALAT COMPANY**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**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	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

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

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

	<u>2010</u> <u>SR'000</u>	<u>2009</u> <u>SR'000</u>
Net interconnection services and roaming	<u>41,710</u>	<u>38,725</u>
Management fees	<u>37,504</u>	<u>37,500</u>
Other management expenses	<u>124,756</u>	<u>105,290</u>
Telecommunications services	<u>20,400</u>	<u>19,423</u>

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

	<u>2010</u> <u>SR'000</u>	<u>2009</u> <u>SR'000</u>
Emirates Telecommunication Corporation	<u>22,511</u>	<u>69,357</u>

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

	<u>2010</u> <u>SR'000</u>	<u>2009</u> <u>SR'000</u>
Emirates Telecommunication Corporation	<u>276,712</u>	<u>199,406</u>
Emirates Data Clearing House	<u>4,327</u>	<u>11,462</u>
	<u>281,039</u>	<u>210,868</u>

**6. PREPAID EXPENSES AND OTHER ASSETS**

	<u>2010</u> <u>SR'000</u>	<u>2009</u> <u>SR'000</u>
Prepaid expenses	<u>341,073</u>	<u>280,287</u>
Accrued revenues	<u>313,677</u>	<u>450,470</u>
Advance payments to suppliers of network equipment	<u>312,378</u>	<u>141,480</u>
Advance payments to trade suppliers	<u>25,102</u>	<u>21,370</u>
Other	<u>256,604</u>	<u>362,878</u>
	<u>1,248,834</u>	<u>1,256,485</u>

**ETHAD ETISLAT COMPANY**  
(A SAUDI JOINT STOCK COMPANY)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**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
<b>Cost:</b>									
January 1, 2010	138,956	96,574	508,787	10,001,362	807,612	327,257	1,639	1,304,033	13,186,220
Additions	8,430	26,517	2,947	2,068,040	261,525	38,301	2,251	978,917	3,386,928
Disposals	-	-	-	(24,989)	(9,190)	-	(5)	-	(34,184)
Transfers	-	61,380	28,205	275,934	53,238	266	-	(419,023)	-
December 31, 2010	147,386	184,471	539,939	12,320,347	1,113,185	365,824	3,885	1,863,927	16,538,964
<b>Accumulated depreciation:</b>									
January 1, 2010	-	6,440	146,518	2,058,932	427,139	176,396	1,280	-	2,816,705
Depreciation for the year	-	8,950	53,283	938,639	217,553	65,490	186	-	1,284,101
Disposals	-	-	-	(10,023)	(8,631)	-	(5)	-	(18,659)
December 31, 2010	-	15,390	199,801	2,987,548	636,061	241,886	1,461	-	4,082,147
<b>Net book value</b>									
December 31, 2010	147,386	169,081	340,138	9,332,799	477,124	123,938	2,424	1,863,927	12,456,817
December 31, 2009	138,956	90,134	362,269	7,942,430	380,473	150,861	359	1,304,033	10,369,515

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**8. 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, 2010	12,210,000	753,750	238,509	13,202,259
Additions	-	-	104,294	104,294
<b>Cost at December 31, 2010</b>	<b>12,210,000</b>	<b>753,750</b>	<b>342,803</b>	<b>13,306,553</b>
<b>Less:</b>				
Accumulated amortization at January 1, 2010	2,557,882	157,205	37,458	2,752,545
Amortization for the year	482,606	29,827	13,296	525,729
Accumulated amortization at December 31, 2010	3,040,488	187,032	50,754	3,278,274
<b>Balance at December 31, 2010</b>	<b>9,169,512</b>	<b>566,718</b>	<b>292,049</b>	<b>10,028,279</b>
Balance at December 31, 2009	9,652,118	596,545	201,051	10,449,714

**9. GOODWILL**

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

	2010 SR'000	2009 SR'000
Bayanat Al-Oula for Network Services Company	1,466,865	1,466,865
Zajil International Network for Telecommunication Company	63,021	63,021
	<b>1,529,886</b>	<b>1,529,886</b>

**10. SHORT AND LONG-TERM LOANS**

During the fourth quarter of year 2010, the Company signed a short-term sharia-compliant financing agreement for a total amount of SR 1.2 billion arranged by a local bank and the participation of other local banks to finance its capital expenditures and working capital requirements. The total balance utilized amounted to SR 600 million as at December 31, 2010.

During the first quarter of year 2010, the Company signed a sharia-compliant financing agreement with a local bank for a total amount of SR 250 million in the form of notes payable to finance its working capital requirements. The outstanding balance amounting to SR 221 million was fully paid as at December 31, 2010.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**10. SHORT AND LONG-TERM LOANS (Continued)**

During the first quarter of year 2010, the Company signed a sharia-compliant financing agreement with a foreign bank for a total amount of US\$ 55 million (equivalent to SR 206 million) which was fully utilized to finance its working capital requirements. The outstanding balance was fully paid as at December 31, 2010.

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

The above long-term loan period is four years and it is repayable through semi-annual scheduled installments, with the repayment of Murabaha is made on a quarterly basis. The last installment is due on October 14, 2013.

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

The loan is scheduled to be received as follows:

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

On March 29, 2007, the Company received the loan related to the sale and re-distribution of minutes amounting to SR 9.19 billion, and utilized it to settle a previous loan amounting to SR 7.1 billion, and to settle the loans of the founding shareholders. The Murabaha loan to finance the working capital expired since the facility was not withdrawn by the Company and the Murabaha financing was not utilized as at December 31, 2010.

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

The above term loan period is six years and it is repayable through semi-annual scheduled installments, with the repayment of Murabaha is made on a quarterly basis. The last installment is due on December 31, 2012. The outstanding balance of the loan amounted to SR 5.2 billion. During 2010, the amount of SR 1.470 million was paid.

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 requirements of which the total utilized balance amounted to SR 370 million as at December 31, 2009. During the first quarter of year 2010, the subsidiary signed a long-term sharia compliant financing agreement with a local bank amounting to SR 370 million which was used to settle short-term loans and notes payable mentioned above.

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

On October 19, 2009, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a sharia-compliant financing agreement with a local bank to finance the subsidiary's capital expenditure requirements for a total amount of SR 900 million. The total balance utilized from the mentioned facility amounted to SR 630 million as at December 31, 2010 (2009: SR 100 million).

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

**11. DERIVATIVES**

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

**12. ACCOUNTS PAYABLE**

	2010 SR'000	2009 SR'000
Trade payable	3,557,597	3,739,877
Capital expenditures payable	2,640,065	2,427,466
	<u>6,197,662</u>	<u>6,167,343</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**13. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2010 SR'000	2009 SR'000
Accrued expenses for telecommunication companies	889,832	996,874
Government's share in trade earnings	546,166	392,579
Deferred revenues	440,651	619,319
Accrued selling and marketing expenses	182,534	262,296
License fees	35,712	25,928
Zakat (Note 14)	81,860	46,846
Other	1,158,114	1,208,485
	<u>3,334,869</u>	<u>3,552,327</u>

**14. ZAKAT**

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

The principal elements of the Company's zakat base related to the Company's consolidated accounts for the year ended December 31, 2010 are as follows:

	2010 SR'000	2009 SR'000
Share capital	7,000,000	7,000,000
Adjusted net income	3,518,191	2,583,559
Due to related parties	199,406	78,171
Provisions – beginning of the year	561,255	248,668
Liabilities against financing of property and equipment	2,640,065	2,422,870
Short and long-term loans	7,372,216	8,224,671
Adjusted accumulated earnings – beginning of the year	1,422,316	4,127
<b>Less:</b>		
Property and equipment	(16,152,416)	(15,813,395)
Advance payments to suppliers of property and equipment	(312,378)	(141,480)
Goodwill	(1,529,886)	(1,529,886)
Capital work in progress	(1,863,927)	(1,304,033)

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

**14. ZAKAT (Continued)**

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

	2010 SR'000	2009 SR'000
Balance at January 1	46,846	23,900
Provision for the year	67,288	30,756
Payments during the year	(32,274)	(7,810)
Balance at December 31	81,860	46,846

The Company received the final assessment for year 2005. The Company filed its financial statements and zakat returns for all the years until year 2009 and paid the zakat dues accordingly. The Company received the final zakat assessments for the years 2006, 2007 and 2008 which showed additional charges that were objected by the Company's management. The management believes that adequate provisions were provided to meet any liability that might arise against any probable settlement to the DZIT.

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

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

The subsidiary, National Company for Business Solution (formerly known as Etihad Etisalat for Commercial Investment Company) filed its financial statements and zakat return for the year 2008. The Company did not receive any final zakat assessment for the year 2008 to date.

**15. STATUTORY RESERVE**

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

**16. SERVICES REVENUES**

	2010 SR'000	2009 SR'000
Usage	12,527,978	10,974,874
Activation and subscription fees	745,704	465,748
Other services	2,739,456	1,617,634
	16,013,138	13,058,256

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**17. COST OF SERVICES**

	2010 SR'000	2009 SR'000
Networks access charges	3,947,989	3,080,135
Government contribution fees in trade earnings	1,190,637	1,072,332
Cost of utilized inventories	925,684	368,419
Rental and maintenance of network equipment expenses	782,509	564,558
Frequency waves fees	98,187	94,220
National transmission and interconnection links	97,408	171,385
License fees	79,859	71,022
Other	107,444	89,635
	<u>7,229,717</u>	<u>5,511,706</u>

**18. SELLING AND MARKETING EXPENSES**

	2010 SR'000	2009 SR'000
Advertisement, promotion and sales commissions	576,301	602,071
Other	519,674	490,555
	<u>1,095,975</u>	<u>1,092,626</u>

**19. GENERAL AND ADMINISTRATIVE EXPENSES**

	2010 SR'000	2009 SR'000
Salaries, wages and employees' benefits	465,959	572,429
Provision for doubtful debts (Note 4)	130,465	120,009
Consulting and professional services	128,146	96,498
Rents	79,753	65,125
Management fees to Emirates Telecommunication Corporation	37,504	37,500
Travel and transportation	18,223	13,993
Board of Directors' remunerations and allowances	7,684	5,632
Other	655,093	705,987
	<u>1,522,827</u>	<u>1,617,173</u>

**20. DIVIDENDS**

The Company's General Assembly in its meeting held on Rabi Al Thani 1, 1431 H (corresponding to March 17, 2010) approved the Company's Board of Directors' recommendation to distribute cash dividends for the year ended December 31, 2009 of SR 1.25 for each outstanding share (2008: SR 0.75 for each outstanding share).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**21. EARNINGS PER SHARE**

Basic earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by the outstanding number of ordinary shares as at December 31, 2010 and amounting to 700 million shares.

**22. RISK MANAGEMENT**

**Financial instruments**

Financial assets of the Company comprised of cash and cash equivalent, short-term investments, accounts receivable, due from a related party 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, 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 its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks. Financial commitments are made to minimize foreign exchanges risks when management believes it is deemed necessary.

**Murabaha rate risk**

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

**Liquidity risk**

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

**23. FAIR VALUE**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**24. CAPITAL COMMITMENTS AND CONTINGENCIES**

The Company had capital commitments resulting from contracts for the supply of property and equipment, which were entered into and not yet executed at the consolidated balance sheet date in the amount of SR 1.65 billion as at December 31, 2010 (2009: SR 1.65 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 kilometers 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 year 2008, while network ring 3 with a cost of SR 245 million has not been completed to date.

The Company and its subsidiaries had contingent liabilities in the form of letters of guarantee and letters of credit in the amount of SR 110 million and SR 118 million respectively as at December 31, 2010 (2009: SR 122 million and SR 165 million respectively).

**25. SEGMENT INFORMATION**

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments. 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, 2010, the Company's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

**26. SUBSEQUENT EVENTS**

The Company's Board of Directors in their meeting held on Safar 12, 1432 H (corresponding to January 16, 2011) proposed to distribute cash dividends of SR 1.4 billion for the year ended December 31, 2010 representing SR 2 on each outstanding share.

**27. COMPARATIVE FIGURES**

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