Etihad Etisalat Company
(Joint Stock Company)
Financial Statements
31 December 2005
with
Auditor Report

KPMG

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AUDITOR'S REPORT

To The Shareholders
Etihad Etisalat Company (Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

We have audited the accompanying balance sheet of **Etihad Etisalat Company – Joint Stock Company,** ("the Company") as of 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the period then ended, and the attached notes from (1) through (27) which form an integral part of these financial statements. These financial statements have been prepared by the management in accordance with Article 123 of the Companies Regulations and submitted to us together with all the information and explanations which we required.

Our audit was conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

In our opinion, the financial statements, taken as a whole:

1) Present fairly the financial position of the **Etihad Etisalat Company – Joint Stock Company** at 31 December 2005 and the results of its operations, changes in cash flows and shareholders' equity for the year then ended in accordance with generally accepted accounting standards appropriate to the circumstances of the Company.

2) Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

Abdullah H. Al Fozan
License No. 348

كي بي ام جي الفوزان وبانقا
محاسبون ومراجعون قانونيون
س.ش.م رقم ٤٦
Certified Public Accountants
KPMG Al Fozan & Bannaga

28 Muharram 1427 H
Corresponding to 27 February 2006

Etihad Etisalat Company
(Joint Stock Company)
BALANCE SHEET
As of 31 December 2005
(Saudi Riyals '000)

ASSETS	*Notes*	2005
Current assets		
Cash and cash equivalents	*3*	185,172
Accounts receivable, net	*4*	175,802
Inventories		32,075
Advances, prepayments and other current assets	*5*	788,494
Total current assets		**1,181,543**
Non-current assets		
Property and equipment, net	*6*	2,757,207
License acquisition fees, net	*7*	12,313,626
Total non-current assets		**15,070,833**
Total assets		**16,252,376**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans	*8*	7,348,129
Accounts payable	*9*	821,167
Due to related parties	*10*	193,334
Deferred revenue	*11*	214,727
Accrued expenses and other current liabilities	*12*	2,112,284
Total current liabilities		**10,689,641**
Non-current liabilities		
Provision for employees' end of service benefits		2,650
Founding shareholders' loan	*13*	1,600,000
Total non-current liabilities		**1,602,650**
Total liabilities		**12,292,291**
Shareholders' equity		
Share capital	*1*	5,000,000
Accumulated loss		(1,039,915)
Total shareholders' equity		**3,960,085**
Total liabilities and shareholders' equity		**16,252,376**

Acting Chief Financial Officer:

Thamer Al Hosani

Date:

Chief Executive Officer – Member of the Board of Directors:

Khaled Al Kaf

Date:

The accompanying notes (1) through (27) form an integral part of these financial statements.

Etihad Etisalat Company
(Joint Stock Company)
STATEMENT OF INCOME
For the period from 14 December 2004 to 31 December 2005
(Saudi Riyals '000)

	Notes	From 14 December 2004 to 31 December 2005
Operating revenue	*14*	1,680,328
Operating expenses		
Annual license fee (CITC)	*15*	59,446
Interconnection expenses	*16*	361,716
Staff expenses	*17*	143,182
Depreciation	*6*	73,528
Amortization of license acquisition fees	*7*	665,613
Administrative and marketing expenses	*18*	591,428
Other operating expenses	*19*	512,040
Total operating expenses		2,406,953
Operating loss		(726,625)
Financial charges	*20*	(345,460)
Other income	*21*	32,170
Net loss for the period		**(1,039,915)**
Loss per share (annualized)	*22*	**(9.91)**

The accompanying notes (1) through (27) form an integral part of these financial statements.

Etihad Etisalat Company
(Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the period from 14 December 2004 to 31 December 2005
(Saudi Riyals'000)

	Share Capital	Accumulated loss	Total
Shares issued during the period	5,000,000	--	5,000,000
Net loss for the period	--	(1,039,915)	(1,039,915)
Balance as of 31 December 2005	5,000,000	(1,039,915)	3,960,085

The accompanying notes (1) through (27) form an integral part of these financial statements.

Etihad Etisalat Company
(Joint Stock Company)
STATEMENT OF CASH FLOWS
For the period from 14 December 2004 to 31 December 2005
(Saudi Riyals '000)

	Notes	**2005**
Cash flows from operating activities		
Net loss for the period		(1,039,915)
Adjustments to reconcile net loss to net cash from operating activities:		
Amortization of license acquisition fees	*7*	665,613
Depreciation on Property and equipment	*6*	73,528
Provision for employees end of service benefits		2,650
Allowance for doubtful accounts	*4*	50,000
Changes in working capital:		
Accounts receivable		(225,802)
Inventories		(32,075)
Advances, prepayments and other current assets		(788,494)
Accounts payable		821,167
Due to related parties		193,334
Deferred revenue		214,727
Accrued expenses and other current liabilities		2,112,284
Net cash from operating activities		**2,047,017**
Cash flows from investing activities		
Purchase of property and equipment	6	(2,830,735)
Payment for license acquisition fees	7	(12,979,239)
Net cash used in investing activities		**(15,809,974)**
Cash flows from financing activities		
Share capital		5,000,000
Short-term loans		7,788,620
Repayment of short-term loan		(440,491)
Founding shareholders' loan		1,600,000
Net cash provided by financing activities		**13,948,129**
Net cash flows during the period		**185,172**
Cash and cash equivalents at the end of the period	*3*	**185,172**

1. ORGANIZATION AND ACTIVITIES

Etihad Etisalat Company ("the Company"), a Saudi Joint Stock Company formed pursuant to the Council of Ministers resolution number 189 dated 23/6/1425H (corresponding to 10 August 2004G) and Royal Decree number M/40 dated 2/7/1425H (corresponding to 18 August 2004G) under commercial registration number 1010203896 dated 14 December 2004, is the second authorized provider of mobile telecommunication services in the Kingdom of Saudi Arabia.

The main activity of the Company is to establish and operate public wireless telecommunications network in the Kingdom of Saudi Arabia, which is based on GSM and 3G technologies. The Company has started its commercial operations on 25 May 2005.

The company issued 100 million shares at par value SR 50. 80% of which is held by the Emirates Telecommunications Corporation - Etisalat, UAE and 6 Saudi shareholders. The remaining 20% of the share capital is held by the public.

These financial statements are prepared for the period from 14 December 2004 to 31 December 2005 as this is the first financial reporting period of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Saudi generally accepted accounting standards appropriate to the circumstances of the Company. The significant accounting policies adopted are as follows:

a) Accounting convention

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

b) Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents represent cash in hand and balance with banks including time deposits having maturity of three months or less.

c) Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the selling expenses. Cost is determined by using the weighted average method.

d) Accounts receivable

Accounts receivable are stated at estimated net realizable value after allowances have been made for doubtful amounts.

e) Provisions

A provision is recognised in the 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.

f) Property and equipment

Property and Equipment, except freehold land are stated at cost less accumulated depreciation. Freehold 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 profit using straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given below for each class of assets.

	Rates
Telecommunication equipment	10 – 15%
Leasehold improvements	20%
Computer, office equipment and furniture	25 %
Vehicles	33.33%

Major renewals and improvements are capitalized if they increase useful life and efficiency of property and equipment. Minor repairs and renewals are expensed when incurred. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

g) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date whenever there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the income statement.

h) License acquisition fees

License acquisition fees are amortised over 20 years. Amortization is charged to income from the date of granting the license. The capitalized license acquisition fee is reviewed on each reporting date to determine any impairment in the recorded value.

i) Provision for employees' end of service benefits

The provision for Employees' end of service benefits are calculated and accrued in accordance with the Saudi Labor and Workmen's Regulation.

j) Zakat

Zakat is calculated in accordance with the Department of Zakat and Income Tax ("DZIT") regulations, and are accrued for in accordance with the Zakat and accounting standards and charged to income.

k) Foreign currency transactions

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

l) Revenue Recognition

Revenue, in respect to telecommunications services is accounted for in the period when the services are provided and is stated net of discounts and rebates allowed.

m) Operating leases

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

n) Interconnection costs

Interconnection costs are recognized in the periods of relevant calls when made.

o) Administrative and Marketing expenses

Expenses are classified as administrative and marketing expenses, which specifically relate to administrative and marketing function of the Company's products. These include costs relating to rentals, commissions and marketing staff costs. The operating expenses include expenses incurred prior to the commercial registration of the Company. These expenses are recorded when incurred on accrual basis.

p) Financial Instruments

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

(Saudi Riyals'000)

3. CASH AND CASH EQUIVALENT

	2005
Cash in hand	474
Cash at banks	184,698
	185,172

4. ACCOUNTS RECEIVABLE, NET

	2005
Subscribers	100,912
Distributors	124,890
	225,802
Allowance for doubtful accounts	(50,000)
	175,802

5. ADVANCES, PREPAYMENTS AND OTHER CURRENT ASSETS

	2005
Receivable from other telecommunication operators	331,226
Advances to	
- Suppliers	352,341
- Staff	2,423
Deferred expenses	7,083
Prepayments	87,696
Other current assets	7,725
	788,494

Other current assets include SR. 83,245 receivable from Riyadh Cables ("a related party").

(Saudi Riyals'000)

6. PROPERTY AND EQUIPMENT, NET

	Freehold Land	Leasehold improvements	Computer, Office Equipment and Furniture	Vehicles	Telecommunication equipment	Capital Work in Progress	2005 Total
Cost							
Additions during the period	3,182	17,549	50,839	220	19,681	2,739,264	2,830,735
Transfer during the period	--	--	--	--	1,987,732	(1,987,732)	--
Balance at the end of the period	**3,182**	**17,549**	**50,839**	**220**	**2,007,413**	**751,532**	**2,830,735**
Accumulated depreciation							
Charge for the period	--	607	4,241	55	68,625	--	73,528
Balance at the end of the period	--	**607**	**4,241**	**55**	**68,625**	--	**73,786**
Net book value at 31 December, 2005	**3,182**	**16,942**	**46,598**	**165**	**1,938,788**	**751,532**	**2,757,207**

(Saudi Riyals'000)

7. LICENSE ACQUISITION FEES, NET

License acquisition fees represent the amount paid to the Communications and Information Technology Commission ("CITC"), to obtain the operating licences of GSM and 3G technologies in the Kingdom of Saudi Arabia detailed as under:

	2005
GSM license fees (starting from 22 December 2004)	12,210,000
3G license fees (starting from 30 December 2004)	753,750
Other licenses	15,489
Total Licenses	**12,979,239**
Amortized during the period	(665,613)
Net License acquisition fees	**12,313,626**

8. SHORT-TERM LOANS

The Company has entered into a financing arrangement with a group of local and international banks (the "Syndicate"). According to the agreement, Islamic bridge financing facility equivalent to SR 8.8 billion has been granted in US Dollars and Saudi Riyals in two tranches. Tranch A, amounting to SR 5.99 billion which is secured by guarantees from the founding shareholders, has been fully used by the Company for the part payment of license fee referred in note 7. SR 0.54 billion from Tranch B has also been used by the Company for the part payment of the license acquisition fee as mentioned above. An amount of SR 0.78 billion of Tranch B has also been used to purchase the required material and equipment. The final maturity of this facility is April 2006. Furthermore, accrued profits payable to the Syndicate of SR 78 million is also included under short-term loan.

The Company has also obtained a loan from founding shareholders of SR 400 million to partially refinance the license acquisition fee referred in note 7. This loan will be repaid from proceeds of future capital increase.

The Company is in the final stages of arranging to refinance both of the above short term loans and does not expect to use its internal cash resources to settle these obligations.

9. ACCOUNTS PAYABLE

	2005
Trade payables	72,408
Capital expenditure payables	748,759
	821,167

(Saudi Riyals'000)

10. DUE TO RELATED PARTIES

The Company had entered into a management agreement with the Emirates Telecommunication Corporation ("ETC") as its operator effective from 14 August 2004. The agreement requires the ETC to provide services comprising of executive and senior management services, implementation of the network roll-out programme, management of the capital investment programme, provision of customer operations, execution of saudization, establishment of national distribution channels, and licensing of the intellectual property rights. The company will pay an annual management fee of SAR 37.5 million (USD 10 million) for services provided under the agreement. The term of the agreement is for a period of seven years and can be automatically renewed for successive periods of five years unless the company serves a 6 month notice of termination or ETC serves a 12 month notice of termination prior to the expiry of the applicable period.

DUE TO RELATED PARTIES	2005
Payable to Emirates Telecommunication Corporation	191,382
Payable to Emirates Data Clearing House	1,952
	193,334

Significant related party transactions comprised the following:

	2005
Emirates Telecommunication Corporation	191,382
Emirates Data Clearing House	1,952
Receivable from Riyadh Cable (note 5)	83

Furthermore, the details of loans from shareholders by the Company are included in note 8 and 13.

11. DEFERRED REVENUE

	2005
Deferred activation fee	5,943
Deferred rental	684
Deferred recharge	208,100
	214,727

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Notes	2005
Accrued amounts payable to telecommunication equipment suppliers	*12.1*	1,416,301
Accrued expenses		295,155
Payable to other Telecommunication operators		361,716
Other current Liabilities		
- Accrual for bonus		9,702
- Accrual for leave		6,683
- Interest payable		15,374
- Staff training accrual		4,061
- Others		3,292
		2,112,284

(Saudi Riyals'000)

12.1 The actual cash flow generated by the company up to the date of the approval of these financial statements and the cash flow forecast of the company demonstrate that it can meet the above obligations from its internal resources as they become due.

13. FOUNDING SHAREHOLDER'S LOAN

The founding shareholders have contributed SR 1.6 billion, as a non interest bearing loan for future capital requirements, which has been used for part payment of the license acquisition fee referred to in note 7.

14. OPERATING REVENUE

	From 14 December 2004 to 31 December 2005
Activation fees	5,444
Rental fees	49,532
Usage	1,303,738
Others	321,614
	1,680,328

15. ANNNUAL LICENSE FEE FOR THE COMMUNICATIONS AND INFORMATION TECHNOLOGY COMMISSION (CITC)

	From 14 December 2004 to 31 December 2005
Government Revenue share (5%)	46,032
Annual license fees (1%)	9,206
Others	4,208
	59,446

In accordance with agreement entered with CITC, the Company has to pay revenue share and license fees against the right to operate in Kingdom of Saudi Arabia.

16. INTERCONNECTION EXPENSES

Interconnection expenses represent the costs to connect to domestic and international carriers network for calls made by the Company's subscribers.

(Saudi Riyals'000)

17. STAFF EXPENSES

	From 14 December 2004 to 31 December 2005
Salaries and allowances	110,492
Social security	6,015
Provision for employees ' end of service benefits	2,650
Bonus expense	9,702
Annual leave expense	6,683
Others	7,640
	143,182

18. ADMINISTRATIVE AND MARKETING EXPENSES

	From 14 December 2004 to 31 December 2005
Management fees and salaries of seconded employees	184,053
Advertisement and Promotion	153,866
Commission	73,964
Professional, legal and consultancy	80,270
Allowance for doubtful accounts	50,000
Traveling and Accommodation	20,690
Communication, utilities and office supplies	16,469
Remuneration and allowances of board members	372
Others	11,744
	591,428

Other operating expenses include expenses incurred prior to the commercial registration of the Company.

(Saudi Riyals'000)

19. OTHER OPERATING EXPENSES

	From 14 December 2004 to 31 December 2005
Consumption of inventories	44,307
Rentals	72,307
Transmission and international gateway cost	141,061
National and international roaming cost	252,700
Repair and maintenance cost	1,665
	512,040

20. FINANCIAL CHARGES

	Notes	From 14 December 2004 to 31 December 2005
Profits on short-term loans	*8*	303,604
Other financing cost		41,856
		345,460

21. OTHER INCOME

	From 14 December 2004 to 31 December 2005
Interest income	29,829
Others	2,341
	32,170

22. LOSS PER SHARE

Loss per share is calculated by dividing the net loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the period.

23. OPERATING LEASE

The company entered into operating leases for offices, GSM sites, and outlets which are annual in nature and renewable at the discretion of the company. The lessor is obliged to renew the contract at the discretion of the company for 10 years for GSM and 5 years for office rental.

24. FINANCIAL INSTRUMENTS

Financial assets of the Company comprise of cash in hand, bank balances, trade receivables and certain other assets. Financial liabilities of the Company comprise of short-term loans, shareholders loans, accounts payables, due to related parties, provision for employees' end of service benefits and certain other liabilities. Accounting policies for financial assets and liabilities are set out in note 2.

Credit risk

Financial assets, which are potentially subject to concentration of credit risk, consist principally of cash at bank and trade receivables. The Company's cash equivalents are placed with banks of repute and hence the credit risk is limited. The credit risk with respect to trade receivables is limited as the total amount receivable is spread over a number of accounts.

Foreign exchange risk

Management closely monitors the exchange rate fluctuations. Based on their experience, management does not consider it necessary to cover the Company from currency risk.

Interest rate risk

The Company does not have a significant interest rate risk except for time deposits with banks, short-term loans and shareholders loans which carries floating interest plus credit margin based on prevailing market interest rates.

Liquidity risk

Liquidity risk is closely monitored by performing regular review of available funds and present and future commitments. Presently, the Company is negotiating with a consortium of banks to finance capital expenditure and replace short-term loan.

Fair value

The fair value of the Company's financial assets and liabilities are not materially different from their carrying amounts.

The Company believes that it is not exposed to any significant risk as mentioned above.

(Saudi Riyals'000)

25. COMMITMENTS AND CONTINGENCIES

	2005
Capital expenditure commitments	**683,402**
Letters of credits	**2,506**

26. ZAKAT

No Zakat has been provided in the financial statements for the period ended 31 December 2005 due to negative zakat base.

The principal elements of the Zakat base include:

	2005
Shareholders' equity	5,000,000
Short-term loan	7,348,129
Founding Shareholders loan	1,600,000
	13,948,129
Deductions	
Net fixed assets	2,757,207
Net loss for the period – adjusted	987,265
License cost	12,313,626
Negative zakat base	(2,109,969)

Some of these amounts have been adjusted in arriving at the net loss for the period.	**2005**
Net loss for the period	(1,039,915)
Add back:	
Allowance for doubtful accounts	50,000
Provision for employees' end of service benefits	2,650
	(987,265)

27. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved by the Board of Directors on 28 Muharram 1427 H corresponding to 27 February 2006.