

Etihad Etisalat Company
(Joint Stock Company)
Interim Condensed Financial Statements
30 June 2006
With Review Report



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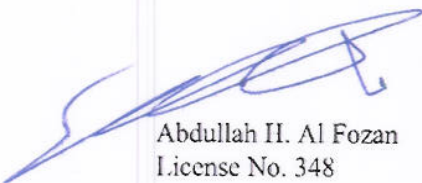
SPECIAL REVIEW REPORT

**To: The shareholders
Etihad Etisalat Company (Joint Stock Company)
Riyadh, Saudi Arabia**

We have reviewed the accompanying interim balance sheet of **Etihad Etisalat Company – Joint stock company** (the “Company”) at 30 June 2006, and the related statements of income, changes in shareholders’ equity and cash flows for the period then ended, together with notes from (1) through (21) which form an integral part of these financial statements. These interim condensed financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standard established by the Saudi Organisation for Certified Public Accountants (SOCPA) on review engagements. A review consists principally of applying analytical procedures to financial data and making inquiries from persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements of **Etihad Etisalat Company** for them to be in conformity with the generally accepted accounting standards appropriate to the circumstances of the Company.



Abdullah H. Al Fozan
License No. 348



18 JUL 2006

Etihad Etisalat Company
(Joint Stock Company)
Balance Sheet
As of June 30, 2006
(Saudi Rivals' 000)

	<u>Notes</u>	<u>30/6/2006</u> <u>(Unaudited)</u>	<u>30/6/2005</u> <u>(Unaudited)</u>
<u>Assets</u>			
<u>Current assets</u>			
Cash and cash equivalents	(3)	330 564	263 261
Accounts receivable (net)	(4)	728 350	9 326
Inventories		26 314	21 080
Other current assets	(5)	585 013	183 235
Total current assets		1 670 241	476 902
<u>Non current assets</u>			
Property and equipment (net)	(6)	2 681 568	556 228
License acquisition fees (net)	(7)	12 056 893	12 622 489
Total non current assets		14 738 461	13 178 717
Total assets		16 408 702	13 655 619
<u>Liabilities & shareholders' equity</u>			
<u>Current Liabilities</u>			
Short-term loans	(8)	7 603 843	7 199 391
Creditors	(9)	1 219 761	352 392
Due to related parties	(10)	208 446	100 601
Other current liabilities	(11)	229 768	72 775
Accrued expenses	(12)	1 555 737	164 357
Total current liabilities		10 817 555	7 889 516
<u>Non current liabilities</u>			
Provision for employees' end of service benefits		4 912	668
Founding shareholders' loan	(13)	1 600 000	1 600 000
Total non current liabilities		1 604 912	1 600 668
Total liabilities		12 422 467	9 490 184
<u>Shareholders' equity</u>			
Paid up capital	(1)	5 000 000	5 000 000
Accumulated losses	(19)	(1 013 765)	(834 565)
Total shareholders' equity		3 986 235	4 165 435
Total liabilities & shareholders' equity		16 408 702	13 655 619

Acting Chief Financial Officer:

Thamer Mohammed Al Hosani

Chief Executive Officer-Member of the Board of Directors:

Khaled Omar Al Kaf

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

Etiihad Etisalat Company
(Joint Stock Company)

Income Statement

For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

<u>Notes</u>	<u>From 1/4/2006 to 30/6/2006 (Unaudited)</u>	<u>From 1/4/2005 to 30/6/2005 (Unaudited)</u>	<u>From 1/1/2006 to 30/6/2006 (Unaudited)</u>	<u>From 14/12/2004 To 30/6/2005 (Unaudited)</u>
Services revenue	1 450 065	58 458	2 576 604	58 458
Cost of providing services	(645 894)	(44 298)	(1 166 966)	(54 920)
Gross margin	804 171	14 160	1 409 638	3 538
Operating expenses				
Selling and marketing expenses	(176 849)	(39 058)	(318 154)	(51 882)
General and administrative expenses	(146 429)	(111 576)	(266 100)	(282 619)
Depreciation and amortization	(213 368)	(226 052)	(414 312)	(369 422)
Provisions	(30 184)	(668)	(43 191)	(668)
Total operating expenses	(566 830)	(377 354)	(1 041 757)	(704 591)
Operating income / (loss)	237 341	(363 194)	367 881	(701 053)
Financing costs	(122 340)	(59 367)	(216 949)	(159 251)
Other income	1 124	479	2 682	25 739
Net income / (loss) for the period	116 125	(422 082)	153 614	(834 565)
Basic earnings / (loss) per share	0.232	(0.844)	0.307	(1.669)

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

Etihad Etisalat Company
(Joint Stock Company)
Cash Flow Statement
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals '000)

<u>Cash flows from operating activities</u>	<u>Notes</u>	<u>From 1/1/2006 to 30/6/2006 (Unaudited)</u>	<u>From 14/12/2004 to 30/6/2005 (Unaudited)</u>
Net income (loss) for the period		153 614	(834 565)
<i>Adjustments to reconcile net income (loss) to net cash from operating activities</i>			
Amortization of license acquisition fee	(7)	256 733	341 261
Depreciation	(6)	157 579	28 160
Provision for employees' end of service benefits		2 262	668
Provision for doubtful debts		40 867	—
Changes in working capital:			
Accounts receivable		(602 395)	(9 326)
Inventories		5 761	(21 080)
Other current assets		197 752	(183 235)
Creditors		310 309	352 392
Due to related parties		15 196	100 601
Other current liabilities		11 718	72 775
Accrued expenses		(577 776)	164 357
Net cash (used in) generated from operating activities		(28 380)	12 008
<u>Cash flows from investing activities</u>			
Purchase of property and equipment	(6)	(81 940)	(584 388)
Payment for license fees	(7)	—	(12 963 750)
Net cash used in investing activities		(81 940)	(13 548 138)
<u>Cash flows from financing activities</u>			
Share capital		—	5 000 000
Short-term loan		255 712	7 599 391
Repayment of short-term loan		—	(400 000)
Founding shareholders' loans		—	1 600 000
Net cash provided by financing activities		255 712	13 799 391
Net cash flows during the period		145 392	263 261
Cash and cash equivalent at the beginning of the period		185 172	—
Cash and cash equivalents at the end of the period		330 564	263 261

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

Ethihad Etisalat Company
(Joint Stock Company)

Statement of Changes in Shareholders' Equity
For the period from January 1, 2006 to June 30, 2006
(Saudi Rivals'000)

	<u>Notes</u>	<u>Capital</u> (Unaudited)	<u>Accumulated</u> <u>losses</u> (restated) (Unaudited)	<u>Total</u> (Unaudited)
Balance as of 14/12/2004		5 000 000	—	5 000 000
Net income / (loss) for the financial period ended December 31, 2005		—	(1 039 915)	(1 039 915)
Balance as of 31/12/2005 as previously reported		5 000 000	(1 039 915)	3 960 085
Prior year adjustment for the financial period ended December 31, 2005	(19)	—	(127 464)	(127 464)
Balance as of 31/12/2005 as restated		5 000 000	(1 167 379)	3 832 621
Net income for the financial period ended June 30, 2006		—	153 614	153 614
Balance as of 30/6/2006		5 000 000	(1 013 765)	3 986 235

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

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. Per Capital Market Authority resolution # 2006-154-4 on 27 March 2006 a share split was implemented on April, 8th 2006 where by the share was split to five shares at par value SR 10 each and accordingly the company issued shares are currently 500 million shares. The Emirates Telecommunications Corporation - Etisalat, UAE holds 35% of the shares and 6 Saudi shareholders hold 45% of the shares. The remaining 20% of the share capital is held by the public.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Accounting convention

The financial statements, expressed in Saudi 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 selling expenses. Cost is determined by using the weighted average method.

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
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(Saudi Riyals'000)

d) Accounts receivable, net

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

e) Provisions

A provision is recognized 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 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 income 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.

	<u>Rates</u>
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 in the income statement.

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 recognized whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses, if any, are recognized in the income statement.

h) License acquisition fees

License acquisition fees are amortized over 25 years. Amortization is charged to income statement 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. Starting January 1st, 2006 the Company has changed her estimate for the useful life of the license to be 25 years instead of 20 years as per SOCPA resolution. The effect of this change the 6 months is increase in net income by SAR 67.8 million and increase in the value of unamortized license by the same amount.

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
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(Saudi Riyals'000)

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 Law, as well as company personnel policies.

j) Zakat

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

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 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 of telecommunications services is accounted for in the period when the services are rendered and is stated net of discounts and rebates allowed.

m) Operating leases

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

n) Financial Instruments

Financial assets and liabilities are recognized 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.

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

3. CASH AND CASH EQUIVALENTS

	<u>30/6/2006</u>	<u>30/6/2005</u>
Cash in hand	608	160
Cash at banks	329 956	263 101
	<u>330 564</u>	<u>263 261</u>

4. ACCOUNTS RECEIVABLE, NET

	<u>30/6/2006</u>	<u>30/6/2005</u>
Subscribers	187 905	9 326
Allowance for doubtful accounts	(90 867)	
	<u>97 038</u>	<u>9 326</u>
Other telecom operators	533 467	
Distributors	97 845	—
	<u>728 350</u>	<u>9 326</u>

5. OTHER CURRENT ASSETS

	<u>30/6/2006</u>	<u>30/6/2005</u>
Prepaid expenses	162 211	90 490
Suppliers advances	71 138	77 474
Deferred expenses	8 935	6 881
Accrued revenue	333 340	19
Staff advances	2 310	1 525
Others	7 079	6 846
	<u>585 013</u>	<u>183 235</u>

Etiihad Etisalat Company
(Joint Stock Company)

Notes To The Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

6. PROPERTY AND EQUIPMENT (NET)

<u>Cost</u>	Land	Telecommunication equipment	Computer equipment & software	Office Equipment & Furniture	Vehicles	Leaschold Improvements	Capital work in progress	Total
Cost as at 1/1/2006	3 182	2 007 413	22 828	28 011	220	17 549	751 532	2 830 735
Additions for the period	3 563	98 065	148 251	57 317	280	90 873	(316 409)	81 940
Total cost as at 30/6/2006	6 745	2 105 478	171 079	85 328	500	108 422	435 123	2 912 675
Accumulated depreciation								
Accumulated depreciation as at 1/1/2006	—	68 625	2 290	1 951	55	607	—	73 528
Depreciation for the period	—	106 095	21 107	12 351	250	17 776	—	157 579
Accumulated depreciation as at 30/6/2006	—	174 720	23 397	14 302	305	18 383	—	231 107
Net book value as at 30/6/2006	6 745	1 930 758	147 682	71 026	195	90 039	435 123	2 681 568

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

7. LICENSE ACQUISITION FEES (NET)

	GSM license fees	3G license fees	Other Licenses	Total license fees
Cost as at 1/1/2006	12 210 000	753 750	15 489	12 979 239
Additions for the period	—	—	—	—
Cost as at 30/6/2006	12 210 000	753 750	15 489	12 979 239
Less:				
Accumulated amortization as at 1/1/2006	627 458	37 897	258	665 613
Amortization for the period	241 303	14 914	516	256 733
Accumulated amortization as of 30/6/2006	868 761	52 811	774	922 346
Balance as of 30/6/2006	11 341 239	700 939	14 715	12 056 893

The period amortization for the license fees (GSM and 3G) calculated based on the unamortized cost as of January 2006 using the remaining useful life starting from acquisition date. The useful life of the license has been changed starting Jan 2006 to 25 years instead of 20 year (as per SOCPA resolution)

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 have been granted in US Dollars and Saudi Riyals in two tranches. Tranch A, amounting to SR 5.99 billion which is secured against guarantees from the founding shareholders, has been fully used by the Company for the part payment of license fee referred in note7. SR 0.54 billion from Tranch B has also been used by the Company for the part payment of the license acquisition fees as mentioned above. The balance of Tranch B amounting to SR 0.78 billion has also been used to purchase the required material and equipment. The final maturity of this facility was in April 2006.

The Company has settled the above mentioned loan on 13-April-2006 by raising two bridge. Syndicated Murabaha agreements amounting 7.125 billion Saudi Riyals. The new Murabaha mature in March 29, 2007. Murabaha costs for the two agreements will be around 430 million Saudi Riyals. Furthermore, accrued Murabaha of SAR 96.7 million is also included under short-term loan. This loan is guaranteed by founding shareholders.

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
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Whilst the formal repayment date for the above facility is the 29, March 2007, the company is in the process of arranging financing to provide long term funding and settle this short term obligation.

This funding may include issuing of additional share capital and /or long term loans. In view of the fact that the current facility is guaranteed by founding shareholders and the progress made so far in arranging long term funding the directors do not anticipate any difficulty in meeting the company's funding requirements over the next 12 months.

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.

9. CREDITORS

	<u>30/6/2006</u>	<u>30/6/2005</u>
Trade payables	792 470	329 483
Capital expenditure payables	427 291	22 909
	<u>1 219 761</u>	<u>352 392</u>

10. RELATED PARTY TRANSACTIONS

<u>Name</u>	<u>Nature of transactions</u>	Transactions during the period ended	
		<u>30/6/2006</u>	<u>30/6/2005</u>
Emirates Telecommunication Corporation	-Management fees	18 750	33 065
	-Reimbursable costs to seconded staff	37 745	89 424
Emirates Data Clearing House	Roaming services	4 040	—

The outstanding balances as at 30/6/2006 are as follows: -

<u>Name</u>	<u>Balance as at</u>	
	<u>30/6/2006</u>	<u>30/6/2005</u>
Emirates Telecommunication Corporation	207 313	100 587
Emirates Data Clearing House	1 066	—
Riyadh Cable	67	14
	<u>208 446</u>	<u>100 601</u>

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

The nature of the related party relationships is as follows:

- **Emirates Telecommunication Corporation**
Direct shareholder with 35 % equity in the company.
- **Emirates Data Clearing House**
Affiliated company of Etisalat Group, UAE.
- **Riyadh Cable Company**
Direct shareholder with 6 % equity in the company.

11. OTHER CURRENT LIABILITIES

	<u>30/6/2006</u>	<u>30/6/2005</u>
Deferred revenue	224 016	52 328
Others	5 752	20 447
	<u>229 768</u>	<u>72 775</u>

12. ACCRUED EXPENSES

	<u>30/6/2006</u>	<u>30/6/2005</u>
Accrued amounts payable to telecommunication equipment suppliers	903 394	—
Payable to other telecommunication operators	230 284	—
CITC fees	125 633	—
Leave accrual	10 465	2 180
Staff training accrual	4 407	2 085
Others	281 554	160 092
	<u>1 555 737</u>	<u>164 357</u>

13. FOUNDING SHAREHOLDER'S LOAN

The founding shareholders 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.

Etihaad Etisalat Company
(Joint Stock Company)

Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

14. SERVICE REVENUE

	<u>From 1/4/2006</u> <u>to 30/6/2006</u>	<u>From 1/4/2005</u> <u>to 30/6/2005</u>	<u>From 1/1/2006</u> <u>to 30/6/2006</u>	<u>From 14/12/2004</u> <u>to 30/6/2005</u>
Activation fees	3 952	19 482	13 312	19 482
Rental fees	47 815	1 841	84 541	1 841
Usage	1 094 702	37 135	1 931 888	37 135
Interconnect revenue	286 742	—	509 199	—
Visitor roaming	15 816	—	36 088	—
Others	1 038	—	1 576	—
	1 450 065	58 458	2 576 604	58 458

15. COST OF PROVIDING SERVICES

	<u>From 1/4/2006</u> <u>to 30/6/2006</u>	<u>From 1/4/2005</u> <u>to 30/6/2005</u>	<u>From 1/1/2006</u> <u>to 30/6/2006</u>	<u>From 14/12/2004</u> <u>to 30/6/2005</u>
Consumption of inventories	20 275	7 889	36 438	7 889
Interconnection expenses	259 389	—	476 350	—
National and international roaming cost	135 962	—	256 792	—
CITC fees	121 043	1 813	203 057	6 253
Transmission and international gateway cost	55 770	26 378	100 446	26 378
Technical repair & maintenance cost	18 983	—	39 286	—
Rental GSM	32 322	8 218	47 652	14 400
Others	2 150	—	6 945	—
	645 894	44 298	1 166 966	54 920

Ethihad Etisalat Company
(Joint Stock Company)

Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

16. SELLING AND MARKETING EXPENSES

	<u>From 1/4/2006</u> <u>to 30/6/2006</u>	<u>From 1/4/2005</u> <u>to 30/6/2005</u>	<u>From 1/1/2006</u> <u>to 30/6/2006</u>	<u>From 14/12/2004</u> <u>to 30/6/2005</u>
Advertising	69 257	36 542	129 860	48 503
Commissions	102 957		177 592	237
Others	4 635	2 516	10 702	3 142
	<u>176 849</u>	<u>39 058</u>	<u>318 154</u>	<u>51 882</u>

17. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>From 1/4/2006</u> <u>to 30/6/2006</u>	<u>From 1/4/2005</u> <u>to 30/6/2005</u>	<u>From 1/1/2006</u> <u>to 30/6/2006</u>	<u>From 14/12/2004</u> <u>to 30/6/2005</u>
Staff expenses	73 313	24 097	133 773	33 580
Rental	7 463	3 703	14 244	7 983
Professional services	8 719	37 157	13 421	100 807
Traveling and accommodation	4 251	2 252	7 246	7 735
Management fees	9 375	9 375	18 750	33 065
Reimbursable costs to seconded staff	15 872	29 638	37 745	89 424
Remuneration and allowances to board members	1 720	105	1 723	105
Others	25 716	5 249	39 198	9 920
	<u>146 429</u>	<u>111 576</u>	<u>266 100</u>	<u>282 619</u>

Etihad Etisalat Company
(Joint Stock Company)
Notes to the Interim Condensed Financial Statements
For the period from January 1, 2006 to June 30, 2006
(Saudi Riyals'000)

18. EARNING / (LOSS) PER SHARE

Earning / (Loss) per share are calculated by dividing the net income / (loss) attributable to equity holders of the company by the weighted average number of ordinary shares issue during the period.

The earnings/loss per share of the comparative periods have been restated to reflect the income in the number of shares as stated in note 1.

19. PRIOR YEAR ADJUSTMENTS

Suppliers' invoices of SAR 108.87 million relating to prior year, and overstated revenue recorded in prior year of SAR 18.59 million have been recorded as a prior year adjustment in these financial statements

20. COMPARATIVE FIGURES

Some of the comparative figures in the financial statements have been reclassified to be consistent with the classification of the financial statements as at 30 June 2006.

As the company started commercial operation in 25 May 2005 it did not have a significant balances relating to certain assets and liabilities as at 30 June 2005. Accordingly, the comparative with 2006 show large movements.

21. ZAKAT.

No Zakat has been provided in the accompanying financial statements for the period ended 30 June 2006 as the Zakat base is in negative.