

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
AND INDEPENDENT AUDITORS' REVIEW REPORT

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014

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REVIEW REPORT

April 21, 2014

To the Shareholders of Etihad Etisalat Company
(A Saudi joint stock company)

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Etihad Etisalat Company (the "Company") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2014 and the interim consolidated statements of income, cash flows, and changes in shareholders' equity for the three-month period then ended, and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required.

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

Review conclusion

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

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ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED BALANCE SHEET (Unaudited)
AS AT MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents		1,114,744	1,127,854
Accounts receivable, net		9,867,222	5,833,802
Due from a related party		12,799	6,649
Inventories, net		989,141	1,226,602
Prepaid expenses and other assets		4,317,188	2,336,862
Total current assets		16,301,094	10,531,769
Non-current assets			
Property and equipment, net	4	21,628,434	17,937,255
Licenses' acquisition fees, net	5	8,789,246	9,271,909
Goodwill		1,529,886	1,529,886
Investments in an associate		5,500	-
Total non-current assets		31,953,066	28,739,050
TOTAL ASSETS		48,254,160	39,270,819
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current portion of long-term loans	6	857,124	830,881
Accounts payable		6,897,510	5,475,935
Due to related parties		30,627	25,803
Accrued expenses and other liabilities		4,235,875	3,501,502
Total current liabilities		12,021,136	9,834,121
Non-current liabilities			
Long-term loans	6	11,662,698	7,923,256
Employee termination benefits		168,371	153,528
Total non-current liabilities		11,831,069	8,076,784
TOTAL LIABILITIES		23,852,205	17,910,905
EQUITY			
Equity attributable to shareholders of the Group:			
Share capital	1	7,700,000	7,700,000
Statutory reserve	7	2,847,434	2,179,779
Retained earnings		13,853,021	11,480,135
Total shareholders' equity		24,400,455	21,359,914
Minority Interest		1,500	-
Total equity		24,401,955	21,359,914
TOTAL LIABILITIES AND EQUITY		48,254,160	39,270,819

Chief Financial Officer
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:
Khalid Omar Al Kaf

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2014	2013
Revenues		6,237,265	5,593,040
Cost of services and revenues		<u>(3,103,061)</u>	<u>(2,899,241)</u>
Gross profit		<u>3,134,204</u>	<u>2,693,799</u>
Operating expenses:			
Selling and marketing expenses		(393,187)	(354,601)
General and administrative expenses		(468,269)	(399,311)
Depreciation and amortization	4,5	<u>(763,081)</u>	<u>(612,839)</u>
Total operating expenses		<u>(1,624,537)</u>	<u>(1,366,751)</u>
Operating income		1,509,667	1,327,048
Finance expenses	6	(58,276)	(44,156)
Other income		12,788	89,399
Company's share in loss of an associate		<u>(131)</u>	<u>-</u>
Income before zakat		1,464,048	1,372,291
Zakat		<u>(64,422)</u>	<u>(32,653)</u>
NET INCOME FOR THE PERIOD		<u>1,399,626</u>	<u>1,339,638</u>
Earnings per share (in Saudi Riyals) from:			
Income from main operations	8	<u>1.96</u>	<u>1.72</u>
Net income for the period	8	<u>1.82</u>	<u>1.74</u>


Chief Financial Officer
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:
Khalid Omar Al Kaf



ETIHAD ETISALAT COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2014	2013
OPERATING ACTIVITIES		
Net income for the period	1,399,626	1,339,638
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	617,901	470,313
Amortization of licenses' acquisition fees	145,180	142,526
Provision for doubtful debts	66,674	53,365
Finance expenses	58,276	44,156
Changes in working capital:		
Accounts receivable	(1,313,174)	(310,081)
Due from a related party	20,471	(537)
Inventories	(74,620)	(505,208)
Prepaid expenses and other assets	36,142	(34,901)
Accounts payable	(71,064)	(485,547)
Due to related parties	(81,662)	(106,505)
Accrued expenses and other liabilities	88,831	218,799
Employee termination benefits, net	10,629	18,417
Net cash provided from operating activities	<u>903,210</u>	<u>842,435</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,085,447)	(598,083)
Disposals of property and equipment, net	188	17,675
Acquisition of licenses, net	(21,635)	(2,628)
Investment in an associate	131	-
Net cash used in investing activities	<u>(2,106,763)</u>	<u>(583,036)</u>
FINANCING ACTIVITIES		
Proceeds from long-term loans	2,102,941	700,000
Payment of long-term loans	(339,338)	(211,700)
Finance expenses paid	(54,699)	(36,425)
Cash dividends	(962,500)	(885,500)
Changes in minority interest	1,500	-
Net cash provided from (used in) financing activities	<u>748,004</u>	<u>(433,625)</u>
Net decrease in cash and cash equivalents	(455,549)	(174,226)
Cash and cash equivalents, beginning of the period	<u>1,570,293</u>	<u>1,302,080</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>1,114,744</u>	<u>1,127,854</u>
Supplemental non-cash information		
Transfer from retained earnings to share capital	-	700,000
Property and equipment purchases credited to capital expenditure payable	<u>413,719</u>	<u>381,055</u>

Chief Financial Officer
Tamer Mohamed Al Hosani

Managing Director and Chief Executive Officer:
Khalid Omar Al Kaf

The accompanying notes from page 6 to page 17 form an integral part of these interim consolidated financial statements

ETIHAD ETISALAT COMPANY
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Share capital	Statutory reserve	Retained earnings	Total
Balance at January 1, 2013		7,000,000	2,179,779	11,725,997	20,905,776
Net income for the year		-	-	6,676,553	6,676,553
Transfer from retained earnings to share capital	1	700,000	-	(700,000)	-
Transfer to statutory reserve	7	-	667,655	(667,655)	-
Cash dividends	9	-	-	(3,619,000)	(3,619,000)
Balance at December 31, 2013		7,700,000	2,847,434	13,415,895	23,963,329
Net income for the period		-	-	1,399,626	1,399,626
Cash dividends	9	-	-	(962,500)	(962,500)
Balance at March 31, 2014		7,700,000	2,847,434	13,853,021	24,400,455

The accompanying notes from page 6 to page 17 form an integral part of these interim consolidated financial statements

ETIHAD ETISALAT COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

1. ORGANIZATION AND ACTIVITY

1.1 Etihad Etisalat Company

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

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

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

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

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

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

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

1.2 Subsidiary companies

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

1.2.1 Mobily Infotech India Private Limited

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

1.2.2 Bayanat Al-Oula for Network Services Company

During the year 2008, the Company acquired 99% of the partners' shares in Bayanat Al-Oula for Network Services Company, a Saudi limited liability company. The acquisition included the company's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 1.5 billion, resulting in goodwill of Saudi Riyals 1.466 billion on the acquisition date.

ETIHAD ETISALAT COMPANY
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

1.2.3 National Company for Business Solutions

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

1.2.4 Zajil International Network for Telecommunication Company

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

1.2.5 Mobily Plug & Play LLC

During the first quarter of 2014, the Company had completed the legal formalities pertaining to the investment of 60% of Mobily Plug & Play LLC. It worth mentioning that the remaining 40% is owned by Plug & Play International, a company incorporated in USA.

The main activities of the subsidiaries are as follows:

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Interim consolidated financial statements

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

2.2 Basis of consolidation

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

Except for the subsidiary, Mobily Plug & Play LLC, 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 other subsidiaries and indirect investment by certain subsidiaries. The Company's equity share in the net income (losses) of the subsidiary Mobily Plug & Play is computed at 60% based on direct investment in its share capital as at March 31, 2014:

ETIHAD ETISALAT COMPANY
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>	
		<u>Direct</u>	<u>Indirect</u>
Mobily Info Tech Limited Company	India	99.99%	0.01%
Bayanat Al-Oula for Network Services Company	Saudi Arabia	99.00%	1.00%
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%
Mobily Plug & Play LLC	Saudi Arabia	60.00%	-

2.3 Accounting convention

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

2.4 Critical accounting estimates and judgments

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards in Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

2.5 Cash and cash equivalents

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

2.6 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim consolidated statement of income and reported under "General and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "General and administrative expenses" in the interim consolidated statement of income.

2.7 Inventories

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.8 Property and equipment

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

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

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

2.9 Licenses' acquisition fees

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

2.10 Goodwill

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

2.11 Investment in an associate

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

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

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

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

2.12 Impairment of non-current assets

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.13 Borrowings

Borrowings are recognized at the proceeds received, net of transactions costs incurred, if any. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim consolidated statement of income.

2.14 Accounts payable

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.15 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.16 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.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the income statement.

The tax relating to the subsidiary operating outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in its country and is recorded under "General and administrative expenses" in the interim consolidated statement of income.

2.17 Employee termination benefits

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

2.18 Revenue recognition

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

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

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

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

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

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

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

2.19 Costs and expenses

2.19.1 Cost of services and revenues

Represent the cost of services and revenues incurred during the period which include the costs of goods sold, direct labor, governmental charges, interconnection costs and other overheads related to the revenues recognized.

2.19.1.a Governmental charges

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

2.19.1.b Interconnection costs

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

2.19.2 Selling and marketing expenses

Represent expenses resulting from the Group's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing expenses and cost of revenues, when required, are made on a consistent basis.

2.19.3 General and administrative expenses

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.20 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Shareholders of the Company.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2014
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.21 Foreign currency transactions

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

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

2.22 Operating and capital leases

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

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

3.1 Financial instruments

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

Financial assets of the Group comprised of cash and cash equivalents, accounts receivable, due from a related party and other assets, while financial liabilities of the Group comprised of short and long-term loans, accounts payable, due to related parties, provision for employee termination benefits and other liabilities.

3.2 Credit risk

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

3.3 Foreign exchange risk

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks as most of the transactions are in Saudi Riyals and US Dollars. Financial commitments are made to minimize foreign exchange risks when management believes it is deemed necessary.

3.4 Murabaha rate risk

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

3.5 Liquidity risk

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

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3.6 Fair value

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

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4. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Leasehold improvements	Telecom- munication equipment and software	Computer equipment and software	Office equipment and furniture	Vehicles	Capital work in progress	Total
Cost									
January 1, 2014	275,361	883,097	663,290	23,937,675	2,778,884	462,889	2,369	1,107,808	30,111,373
Additions	-	(59,814)	4,536	1,034,053	171,294	5,843	-	357,517	1,513,429
Disposals	-	-	-	(452)	(82)	-	-	-	(534)
Transfers	-	5,921	-	133,604	17,805	497	-	(157,827)	-
March 31, 2014	275,361	829,204	667,826	25,104,880	2,967,901	469,229	2,369	1,307,498	31,624,268
Accumulated depreciation									
January 1, 2014	-	42,774	375,951	7,080,639	1,504,459	373,581	875	-	9,378,279
Depreciation for the period	-	3,711	16,160	480,296	108,960	8,681	93	-	617,901
Disposals	-	-	-	(346)	-	-	-	-	(346)
March 31, 2014	-	46,485	392,111	7,560,589	1,613,419	382,262	968	-	9,995,834
Net book value									
March 31, 2014	275,361	782,719	275,715	17,544,291	1,354,482	86,967	1,401	1,307,498	21,628,434
March 31, 2013	275,361	186,593	321,434	14,903,689	972,680	88,786	1,049	1,187,663	17,937,255

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5. LICENSES' ACQUISITION FEES, NET

	Mobile Telecom- munication services license	3G services license	Other	Total licenses' acquisition fees
Cost at January 1, 2014	12,210,000	753,750	895,109	13,858,859
Additions	-	-	21,635	21,635
Cost at March 31, 2014	12,210,000	753,750	916,744	13,880,494
<u>Less:</u>				
Accumulated amortization at January 1, 2014	4,488,306	276,513	181,249	4,946,068
Amortization for the period	120,651	7,457	17,072	145,180
Accumulated amortization at March 31, 2014	4,608,957	283,970	198,321	5,091,248
Balance at March 31, 2014	7,601,043	469,780	718,423	8,789,246
Balance at March 31, 2013	8,083,649	499,607	688,653	9,271,909

6. LONG-TERM LOANS

During the first quarter of the year 2012, the Company signed a sharia-compliant long-term refinancing facility agreement with local banks for a total amount of Saudi Riyals 10 billion, fully utilized as at March 31, 2014 (March 31, 2013: Saudi Riyals 8.2 billion). The proceeds were used to settle the outstanding balances of loans previously obtained by Etihad Etisalat Company (Mobily) which amounted to Saudi Riyals 5.8 billion as at December 31, 2011 (Saudi Riyals 1.2 billion for short-term loans and Saudi Riyals 4.6 billion for long-term loans). The remaining balance of the said facility was used to finance the Company's capital expenditures and working capital requirements.

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

During the third quarter of 2013, the Company signed a long term sharia-compliant financing agreement with the Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN) to arrange for a long term financing of approximately US Dollar 650 million (Saudi Riyals 2.4 billion) for the purpose of acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson. The total tenure of the facilities is 10 years, with a utilization period of 1.5 years, and an extended repayment period of 8.5 years. The conversion rate was agreed to be at 1.71% fixed rate. The investment will be used to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment. The utilized portion of this financing agreement amounted to US Dollars 278 million (Saudi Riyals 1.04 billion) as at March 31, 2014.

Consequent to the year ended December 31, 2013, the Company signed another long term sharia-compliant financing agreement with the Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN) during the first quarter of 2014, to arrange for a long term financing of approximately US Dollar 560 million (Saudi Riyals 2.1 billion) for the purpose of acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson, (not utilized as at March 31, 2014). The total tenure of the facilities is 10 years, with a utilization period of 1.5 years, and an extended repayment period of 8.5 years. The conversion rate was agreed to be at 2.4% fixed rate. The investment will be used to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment.

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During the first quarter of 2014, the Company signed a long term sharia-compliant financing agreement with the Saudi Investment Bank for a total amount of Saudi Riyals 1.5 billion. The said facility will be used to finance the Company's capital expenditures and working capital requirements. The utilized portion of the loan amounted to Saudi Riyals 1.4 billion as at March 31, 2014.

The above long-term loan period is seven years paid through a one bulk payment due on June 28, 2020.

During the first quarter of 2014, the Company signed a vendor financing agreement with CISCO Financing Systems International for a total amount of US Dollars 100 million (Saudi Riyals 372.2 million) for the purpose of acquiring CISCO network equipment's and software solutions. The total tenure of the facilities is 3 years with semi-annual repayments. The utilized portion of the loan amounted to US Dollars 13.38 million (Saudi Riyals 49.8 million) as at March 31, 2014.

During the second quarter of 2013, the Company's subsidiary, Bayanat Al-Oula for Network Services Company, signed a long-term sharia-compliant financing agreement with local banks amounting to Saudi Riyals 1.5 billion (Fully utilized as of March 31, 2014) which was used to settle outstanding long-term loans in addition to financing the subsidiary's working capital requirements.

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

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

On October 19, 2009, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a sharia-compliant financing agreement with a local bank to finance its capital expenditure requirements for a total amount of Saudi Riyals 900 million which was used to finance fixed assets acquisitions.

7. STATUTORY RESERVE

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

8. EARNINGS PER SHARE

Earnings per share from income from main operations and net income for the period is calculated by dividing operating income and net income for the period by the weighted average for the outstanding number of ordinary shares amounting to 770 million shares as at March 31, 2014 and 2013.

9. DIVIDENDS

The total cash dividends distributed during the financial period ended March 31, 2014 amounted to Saudi Riyals 962.5 million by SR 1.25 for each outstanding share (March 31, 2013: Saudi Riyals 885.5 by SR 1.15 for each outstanding share).

10. CONTINGENCIES AND COMMITMENTS

10.1 Capital commitments

The Group had capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the interim consolidated balance sheet date in the amount of Saudi Riyals 7 billion as at March 31, 2014 (March 31, 2013: Saudi Riyals 14 billion).

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10.2 Contingent liabilities

The Group had contingent liabilities in the form of letters of guarantee and letters of credit in the amount of Saudi Riyals 298 million and Saudi Riyals 75 million as at March 31, 2014, respectively (2013: Saudi Riyals 98 million and Saudi Riyals 83 million, respectively).

11. STATUS OF ZAKAT FINAL ASSESSMENTS

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

12. SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by SOCPA is to disclose detailed information on the results of each of the main operating segments, allocated based on the regulatory environment. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the concentration in the Group's operations, are not met as at March 31, 2014, the Group's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

13. RECLASSIFICATION

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