

Etihad Etisalat Company
(Joint Stock Company)

Interim Condensed Financial Statements
31 March 2006
With Review Report



KPMG Al Fozan & Bannaga
Olayan Complex, Al Ahsa Street
P O Box 92876, Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 1 2914350
Fax +966 1 2914351
Internet www.kpmg.com

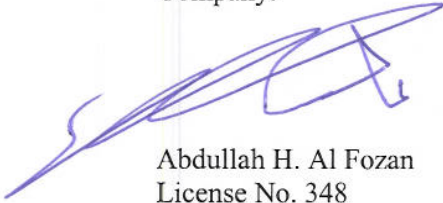
SPECIAL REVIEW REPORT

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

We have reviewed the accompanying balance sheet of **Etihad Etisalat Company – Joint stock company** (the “Company”) at 31 March 2006, and the related statements of income, changes in shareholders’ equity and cash flows for the three month period then ended, together with notes 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

Riyadh on _____ 1427H
Corresponding to _____ 2006

19 APR 2006



Etihad Etisalat Company
(Joint Stock Company)
Balance Sheet
As of March 31, 2006
(Saudi Rivals' 000)

	<u>Notes</u>	<u>31/3/2006</u>	<u>31/3/2005</u>
<u>Assets</u>			
<u>Current assets</u>			
Cash and cash equivalents	(3)	54 781 ✓	193 138
Accounts receivable (net)	(4)	570 095 ✓	—
Inventories		19 814	—
Other current assets	(5)	394 525	91 522
Total current assets		1 039 215	284 660
<u>Non current assets</u>			
Property and equipment (net)	(6)	2 735 334	65 146
License acquisition fees (net)	(7)	12 185 259	12 820 567
Total non current assets		14 920 593	12 885 713
Total assets		15 959 808	13 170 373
<u>Liabilities & shareholders' equity</u>			
<u>Current Liabilities</u>			
Short-term loans	(8)	7 435 847	6 738 583
Creditors	(9)	706 973	59 694
Due to related parties	(10)	177 820	65 926
Other current liabilities	(11)	228 910	423
Accrued expenses	(12)	1 936 501 ✗	121 085
Total current liabilities		10 486 051	6 985 711
<u>Non current liabilities</u>			
Provision for employees' end of service benefits		3 647	—
Founding shareholders' loan	(13)	1 600 000	1 600 000
Total non current liabilities		1 603 647	1 600 000
Total liabilities		12 089 698	8 585 711
<u>Shareholders' equity</u>			
Paid up capital	(1)	5 000 000	4 997 145
Accumulated losses	(19)	(1 129 890)	(412 483)
Total shareholders' equity		3 870 110	4 584 662
Total liabilities & shareholders' equity		15 959 808	13 170 373

Acting Chief Financial Officer:
Thamer Mohammed Al Hosani

Chief Executive Officer-Member of the Board of Directors:
Khaled Omar Al Kaf

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

Etihad Etisalat Company
(Joint Stock Company)
Income Statement
For the period from January 1, 2006 to March 31, 2006
(Saudi Rivals'000)

	<u>Notes</u>	<u>From 1/1/2006 to 31/3/2006</u>	<u>From 14/12/2004 to 31/3/2005</u>
Services revenue	(14)	1 126 539	—
Cost of providing services	(15)	519 364	—
Gross margin		607 175	—
Operating expenses			
Selling and marketing expenses	(16)	141 305	13 361
General and administrative expenses	(17)	121 316	181 128
Remuneration and allowances to board members		63	—
Depreciation and amortization	(6,7)	200 944	143 370
Provisions		13 007	—
Total operating expenses		476 635	337 859
Operating income / (loss)		130 540	(337 859)
Financing costs		(94 609)	(99 884)
Other income		1 558	25 260
Net income / (loss) for the period		37 489	(412 483)
Basic earnings / (loss) per share - quarterly	(18)	0.075	(0.825)

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

Etihad Etisalat Company
(Joint Stock Company)
Cash Flows Statement
For the period from January 1, 2006 to March 31, 2006
(Saudi Rivals'000)

	<u>Notes</u>	<u>From 1/1/2006</u> <u>to 31/3/2006</u>	<u>From 14/12/2004</u> <u>to 31/3/2005</u>
<u>Cash flows from operating activities</u>			
Net income / (loss) for the period		37 489	(412 483)
<i>Adjustments to reconcile net income (loss) to net cash from operating activities:</i>			
Amortization of license acquisition fees	(7)	128 367	143 184
Depreciation	(6)	72 577	187
Provision for employees' end of service benefits		997	—
Allowance for doubtful accounts		12 000	—
Changes in working capital			
Accounts receivable		(415 273)	—
Inventories		12 261	—
Other current assets		388 240	(91 522)
Creditors		(202 480)	59 694
Due to related parties		(15 431)	65 926
Other current liabilities		10 860	423
Accrued expenses		(197 012)	121 084
Net cash used in operating activities		<u>(167 405)</u>	<u>(113 507)</u>
<u>Cash flows from investing activities</u>			
Purchase of property and equipment	(6)	(50 704)	(65 333)
Payment for license fees	(7)		(12 963 750)
Net cash used in investing activities		<u>(50 704)</u>	<u>(13 029 083)</u>
<u>Cash flows from financing activities</u>			
Share capital, net		—	4 997 145
Short term loan		87 718	6 738 583
Founding shareholders' loan		—	1 600 000
Net cash provided by financing activities		<u>87 718</u>	<u>13 335 728</u>
Net cash flows during the period		(130 391)	193 138
Cash and cash equivalents at the beginning of the period		185 172	—
Cash and cash equivalents at the end of the period	(3)	<u>54 781</u>	<u>193 138</u>

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

Etihad Etisalat Company
(Joint Stock Company)
Statement Of Changes in Shareholders' Equity
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

	<u>Notes</u>	Capital	Accumulated losses (restated)	Total
Balance as of 1/1/2005		5 000 000	—	5 000 000
Net loss for the period		—	(1 039 915)	(1 039 915)
Balance as of 31/12/2005 as previously reported		<u>5 000 000</u>	<u>(1 039 915)</u>	<u>3 960 085</u>
Prior year adjustment for the financial period ended December 31, 2005	(19)	—	(127 464)	(127 464)
Balance as of 31/12/2005 as restated		<u>5 000 000</u>	<u>(1 167 379)</u>	<u>3 832 621</u>
Net income for the financial period ended March 31, 2006		—	37 489	37 489
Balance as of 31/3/2006		<u>5 000 000</u>	<u>(1 129 890)</u>	<u>3 870 110</u>

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

Etiihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

1. ORGANIZATION AND ACTIVITIES

Etiihad 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 and 6 Saudi shareholders hold 80% 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.

Etiihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

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 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 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 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 in this quarter is increase in net income by SAR 33.9 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
For the period from January 1, 2006 to March 31, 2006
(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 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) 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.

Etihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

3. CASH AND CASH EQUIVALENTS

	<u>31/3/2006</u>	<u>31/3/2005</u>
Cash in hand	581 ✓	56
Cash at banks	54 200 ✓	193 082
	54 781 ✓	193 138

4. ACCOUNTS RECEIVABLE, NET

	<u>31/3/2006</u>	<u>31/3/2005</u>
Subscribers	140 399 ✓	—
Allowance for doubtful accounts	(62 000) ✓	—
	78 399	—
Foreign operators	384 092 ✓	—
Distributors	107 604 ✓	—
	570 095	—

5. OTHER CURRENT ASSETS

	<u>31/3/2006</u>	<u>31/3/2005</u>
Prepaid expenses	112 731	38 770
Suppliers advances	85 203	48 510
Deferred expenses	8 345	—
Accrued revenue	180 371	—
Staff advances	2 515	196
Others	5 360	4 046
	394 525	91 522

Ethihad Etisalat Company
(Joint Stock Company)

Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

6. PROPERTY AND EQUIPMENT (NET)

	Land	Telecommunication equipment	Computer equipment & software	Office Equipment & Furniture	Vehicles	Leasehold Improvements	Capital work in progress	Total
<u>Cost</u>								
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	71 208	143 157	1 650	280	51 993	(221 147)	50 704
Total cost as at 31/3/2006	6 745	2 078 621	165 985	29 661	500	69 542	530 385	2 881 439
<u>Accumulated depreciation</u>								
Accumulated depreciation as at 1/1/2005	—	68 625	2 290	1 951	55	607	—	73 528
Depreciation for the period	—	52 704	10 688	1 835	208	7 142	—	72 577
Accumulated depreciation as at 31/3/2005	—	121 329	12 978	3 786	263	7 749	—	146 105
Net book value as at 31/3/2006	6 745	1 957 292	153 007	25 875	237	61 794	530 385	2 735 334
Net book value as at 31/12/2005	3 182	1 938 788	20 538	26 060	165	16 942	751 532	2 757 207

Etihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 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 31/3/2006	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	120 652	7 457	258	128 367
Accumulated amortization as of 31/3/2006	748 110	45 354	516	793 980
Balance as of 31/3/2006	11 461 890	708 396	14 973	12 185 259
Balance as of 31/12/2005	11 582 542	715 853	15 231	12 313 626

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 is 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 note 4. SR 0.54 billion from Tranch B has also been used by the Company for the part payment of the license 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 is in April 2006. Furthermore, accrued Murabaha of SR 166 million is also included under short-term loan.

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.

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.

Etihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

9. CREDITORS

	<u>31/3/2006</u>	<u>31/3/2005</u>
Trade payables	243 469	59 694
Capital expenditure payables	463 504	—
	<u>706 973</u>	<u>59 694</u>

10. RELATED PARTIES TRANSACTIONS

<u>Description</u>	<u>Transaction type</u>	Total transactions during the financial period ended	
		<u>31/3/2006</u>	<u>31/3/2005</u>
Emirates Telecommunication Corporation	-Management fees -Reimbursable costs to seconded staff	9 375 21 873	25 686 57 789
Emirates Data Clearing House	Roaming services	2 687	—

The outstanding balances as at 31/3/2006 are as follows: -

<u>Description</u>	<u>31/3/2006</u>	<u>31/3/2005</u>
Emirates Telecommunication Corporation	175 066	65 912
Emirates Data Clearing House	2 687	—
Riyadh Cable	67	14
	<u>177 820</u>	<u>65 926</u>

The nature of the relationships is as follows:

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

11. OTHER CURRENT LIABILITIES

	<u>31/3/2006</u>	<u>31/3/2005</u>
Deferred recharge	202 793	—
Deferred rental	15 376	—
Deferred activation	5 089	—
Others	5 652	423
	<u>228 910</u>	<u>423</u>

Etihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

12. ACCRUED EXPENSES

	<u>31/3/2006</u>	<u>31/3/2005</u>
Accrued amounts payable to telecommunication equipment suppliers	1 160 036	—
Payable to other telecommunication operators	420 764	—
CITC fees	81 225	—
Leave accrual	8 398	—
Staff training accrual	3 211	—
Bonus accrual	417	—
Others	262 450	121 085
	<u>1 936 501</u>	<u>121 085</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.

14. SERVICE REVENUE

	<u>From 1/1/2006 to 31/3/2006</u>	<u>From 14/12/2004 to 31/3/2005</u>
Activation fees	9 360	—
Rental fees	36 726	—
Usage	837 186	—
Interconnect revenue	222 458	—
Visitor roaming	20 272	—
Others	537	—
	<u>1 126 539</u>	—

15. COST OF PROVIDING SERVICES

	<u>From 1/1/2006 to 31/3/2006</u>	<u>From 14/12/2004 to 31/3/2005</u>
Consumption of inventories	16 163	—
Interconnection expenses	216 961	—
National and international roaming cost	120 831	—
CITC fees	82 014	—
Transmission and international gateway cost	44 676	—
Technical repair & maintenance cost	20 303	—
Rental GSM	13 622	—
Others	4 794	—
	<u>519 364</u>	—

Etihad Etisalat Company
(Joint Stock Company)
Notes To The interim condensed Financial Statements
For the period from January 1, 2006 to March 31, 2006
(Saudi Riyals'000)

16. SELLING AND MARKETING EXPENSES

	<u>From 1/1/2006</u> <u>to 31/3/2006</u>	<u>From 14/12/2004</u> <u>to 31/3/2005</u>
Advertising	60 603	12 735
Commissions	74 635	
Others	6 067	626
	<u>141 305</u>	<u>13 361</u>

17. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>From 1/1/2006</u> <u>to 31/3/2006</u>	<u>From 14/12/2004</u> <u>to 31/3/2005</u>
Staff expenses	60 460	9 451
Rental	8 490	10 700
Professional services	4 701	65 167
Travelling and accommodation	2 995	7 649
Management fees	9 375	23 689
Reimbursable costs to seconded staff	21 873	59 786
Others	13 422	4 686
	<u>121 316</u>	<u>181 128</u>

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 in issue.

19. PRIOR YEAR ADJUSTMENTS

Suppliers' invoices of SAR 108.87 million relating to prior year, and overstated revenue recorded in prior year of 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 March 31, 2006.

21. ZAKAT

No Zakat has been provided in the accompanying financial statements for the period ended 31 March 2006 as the Zakat base is in negative.