موبايلي
mobily
Innovate your world

Annual Report
2012

Custodian of
The Two Holy
Mosques
King Abdullah
Bin Abdulaziz
Al - Saud

His Royal Highness Prince Salman bin Abdulaziz Al-Saud
Crown Prince
& First Deputy Prime Minister
& Minister of Defense

Contents

Background and introduction

Etihad Etisalat Company (Mobily), is a Saudi joint stock company, incorporated pursuant to the Council of Ministers' resolution number 189 of August 10, 2004 and Royal Decree number M/40 dated August 18, 2004. Mobily is registered in Riyadh under commercial registration number 1010203896 dated December 14, 2004.

The Company is the second authorised provider of mobile telecommunication services in Saudi Arabia, having begun commercial operations on May 25, 2005. The Company's share capital, amounting to SR 7 billion, consists of 700 million shares of SR 10 each, paid in full as at December 31, 2012.

In November, 2012, the Board of Directors recommended a 10 percent increase in the Company's share capital by issuing one bonus share for every 10 held. This will raise the share capital to SR 7.7 billion, subject to approval by an Extraordinary General Meeting of shareholders to be convened early in 2013. The increase in capital will be financed from retained earnings.

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

During 2008, the Company acquired 99 percent of the partners' shares in Bayanat Al-Oula for Network Services Company, a Saudi limited liability company. The acquisition included the company's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of SR 1.5 billion, resulting in goodwill of SR 1.47 billion on the acquisition date. In 2008, the Company invested in 95 percent of the share capital of a subsidiary company, National Company for Business Solutions, a Saudi limited liability company, and acquired 96 percent of the partners' shares in Zajil International Network for Telecommunication Company, a Saudi limited liability company. The acquisition included the Company's rights, assets, obligations, commercial name, and current and future trademarks for a total price of SR 80 million, resulting in goodwill of SR 63 million on the acquisition date.

Favourable outlook for future growth

The Kingdom of Saudi Arabia has approved its general budget for 2013 – considered to be the largest in the history of the Kingdom – with an expected expenditures of close to SR 820 billion and a surplus of SR 9 billion. These figures show that the Government is committed to maintaining its expansionary fiscal policy.

This new budget coincides with the fourth year of Saudi Arabia's ninth development plan and confirms the continuing focus on development projects, with expenditure heavily weighted to sectors such as education, healthcare, social and municipal services, water and sewerage, roads and transport, electronic dealings, supporting scientific research, enhancing the attractiveness of inward investment in KSA, and driving economic growth while giving continuing special priority to human development.

The numbers involved will reinforce confidence in the Saudi economy generally and in particular the stock market, which should in turn benefit all economic sectors. Joint stock companies will be able to continue with future projects, leading to good performance and financial results in the coming years.

In this context, the Company views the KSA telecommunications sector as still being very attractive, with excellent potential for continuous growth – driven by the broadband and corporate sectors, the upsurge in smart phones, and the resultant increase in demand for data services. Sustained Governmental spending on infrastructural projects will also lead to growth for a diversity of businesses. The Company expects an increase in cash dividends as profits continue to grow.

In line with forecasts, smart phone penetration in KSA reached about 30 percent by the end of 2012, accounting for nearly 50 percent of new mobile phone purchases. On the other hand, the availability of low or medium price smart phones will lead to an increase in device sales, reinforcing expectations for record growth in broadband data traffic. And the demographics of KSA – around half the population aged below 26 years – will further boost data usage as young people are more knowledgeable about the technologies involved. With the launch of 4G, supporting speeds of up to 100 Mbps and now covering more than 30 cities that represent over 78 percent of Saudi Arabia's populated area, data consumption will take on a new dimension.

The Company will continue to benefit from the size and capacity of its network through the continuing growth in broadband services (fixed and mobile), expansion within the corporate sector, and increasing device sales. The Company will continue to focus on converting subscribers to invoiced packages, or postpaid, to support the average revenue per user, working on improving operational efficiency and moving gradually to information and communications technology (ICT) through partnership agreements with local and international companies. Among the most important developments was the strategic agreement reached in 2012 with IBM to establish a security operations centre (SOC) that will provide the business sector with a range of services such as data security, business continuity, and cloud computing. And as a major part of the Company's strategy to focus on providing business solutions, 28 new data centres in the Kingdom are already operational and work is in progress on a further 16.

Against this background, the Company plans to spend more than SR 22 billion on infrastructure between 2012-17, taking into consideration the return on investment, to maintain its leadership in the mobile broadband market which it dominates. And by the end of 2013, planned expansion of the fibre optics network will take the overall reach to a total of 500,000 residential units. The Company believes that this strategy will maintain competitiveness, achieve integration between the mobile and fixed networks, increase capacity to satisfy the growing needs of internet users and the business sector, and ensure positive performance in the coming years.

The commitment to capital spending will keep the Company's infrastructure up to date to achieve growth in the mid to long term. With the financial strength of the Company and its track record of execution capabilities, coupled with a low net debt/EBITDA ratio, the Company is well positioned to use accessible financial resources effectively. The Company views the entrance of three new MVNOs (mobile virtual network operators) as an opportunity to target new users and won't necessarily lead to price competition.

The (ICT) industry is in the midst of a shift – once every 20-25 years – to a new technology platform for growth and innovation. IDC, the global market intelligence specialist, calls it "the third platform", built on mobile devices and apps, cloud services, mobile broadband networks, big data analytics, and social technologies.

By 2020, when worldwide ICT spending reaches $5 trillion ($1.7 trillion more than today, at least 80 percent of the ICT industry's growth will be driven by these third-platform technologies. Meantime, there will be a very rapid upsurge in new products and services built on the third platform, with matching expansion in their use in emerging markets.

Our vision

Enriching your life by continuously leading and innovating in communications services.

Our mission

To exceed the expectations of our employees and customers by fully leveraging our capabilities and potential.

Our objectives

- To be the best work environment in the region by caring for our employees first.
- To be Number One at delighting our customers.
- To maintain leadership in data applications and services

Board of Directors

Abdulaziz Saleh Al Saghyir

(Chairman)

BSc in civil engineering, University of Kansas, USA; Chairman, Abdulaziz Alsaghyir Commercial Investment Company.

Khalid Omar Al Kaf

(Managing Director and Chief Executive Officer)

Honours degree in computer engineering, George Washington University, USA; more than 20 years in progressively senior positions in the telecom industry, working in France, Japan, and the UAE.

Mubarak Rashed Al Mansouri

Master's degree in Finance, University of West Florida, USA; Chief Executive Officer, Emirates Investment Authority.

Essa Mohammed Al Haddad

Master's degree with a Higher Diploma in Telecom Engineering from the UK; Chief Commercial Officer of Etisalat Group, UAE; Board member, Etisalat Nigeria.

Ahmed Abdulkarim Julfar

BSc in civil engineering, Gonzaga University, Washington, USA; Chief Executive Officer, Etisalat Group; Chairman, E-Vision.

Ibrahim Mohammed Al Saif

Master's degree in economics, Southern California University, USA; General Manager – Investment Division, General Organization for Social Insurance (GOSI); Board Member, SAFCO.

Abdulaziz Hamad Al Jomaih

BSc in architectural engineering, King Saud University, KSA; Master's degree in general administration, University of California, USA; Assistant Vice-President, Aljomaih Holding Company; Vice-Chairman, Arcapita Bank, Bahrain.

Saleh Nasser Al Jasser

MSc in civil engineering, King Saud University, Riyadh; BSc in industrial engineering, King Abdul Aziz, Jeddah; Board Member, Saudi Research and Marketing Group.

Mohammed Ibrahim Al Mansour

MSc in computer science, West Michigan University USA; Chairman and CEO, Knowledge Net Computer Company.

Abdulrahman Abdullah Al Fehaid

Bachelor degree in telecom engineering, King Saud University, KSA; former Deputy Governor for Regulatory Policies and Licensing Affairs of Saudi Arabia's Communications and Information Technology Commission (CITC).

Executive Mangement

Khaled Al Kaf
Managing Director & CEO

Thamer Al Hosani
Chief Financial Officer

Marwan Al Ahmadi
Chief Business Officer

Abdulaziz Al Tamami
Chief Corporate Governance Officer

Nasser Al Nasser
Chief Operating Officer

Hamad Al Hashemi
Chief Human Resources Officer

Karl Michael Henneking
Chief Corporate Strategy & Marketing Officer

Abdullah Al Rowais
Chief Internal Audit

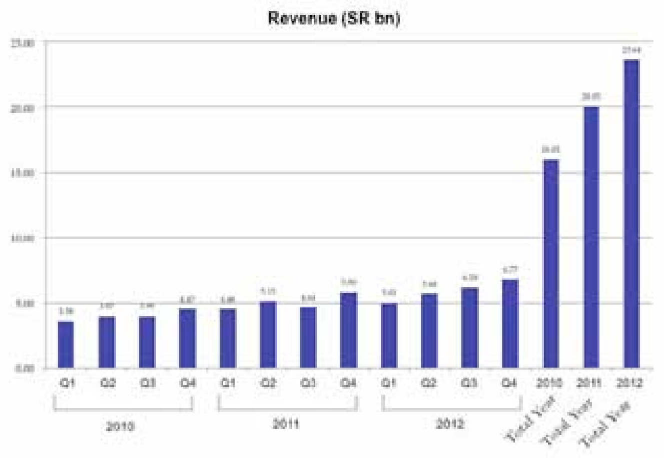
Mohammed Basafi
Chief Technical Officer (Fixed and Broadband Network)

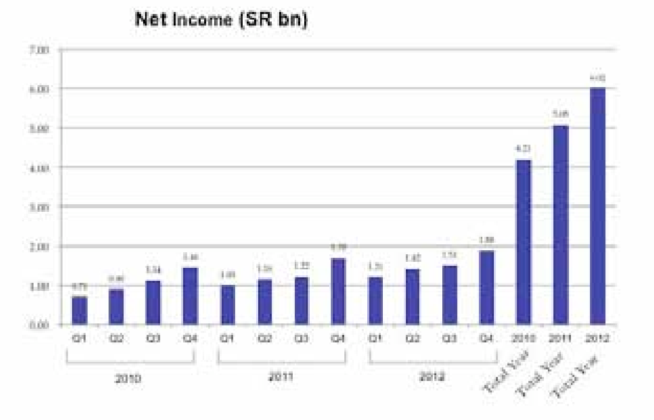
Mohammed Beseiso
Chief Sales & Customer Relations Officer

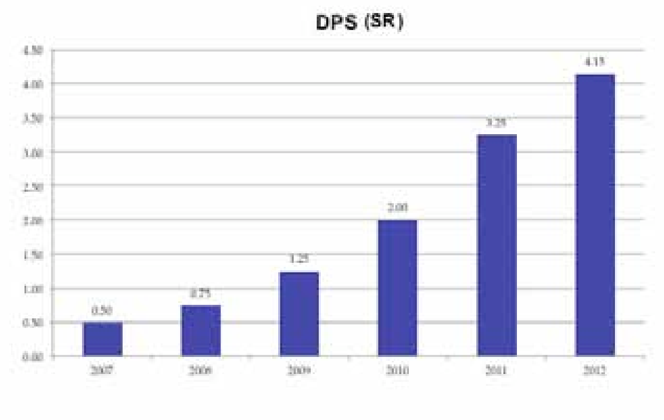
Medhat Amer
Chief Information Officer

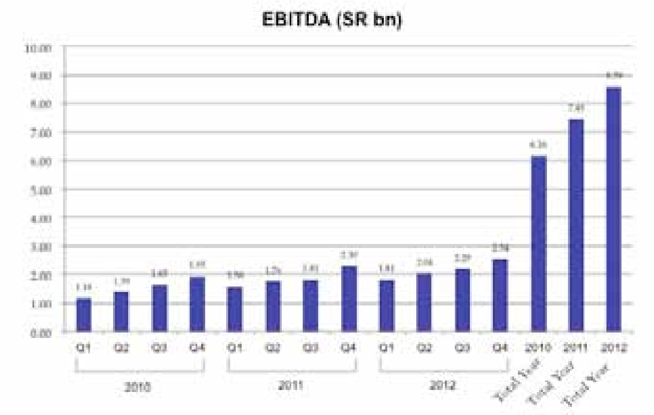
Eyas Al Hajery
Chief Business Support Officer

Financial highlights









Milestones in Mobily's history

2004

- Etihad Etisalat awarded Saudi Arabia's first 3G and second GSM licences
- Build-out of GSM network begins
- Initial public offering of 20 million shares oversubscribed 51 times

2005

- Launch of the commercial name, Mobily
- Signing of the interconnect agreement with Saudi Telecommunications
- Launch of commercial GSM services in 32 cities
- Coverage of 79.2 percent of the population achieved
- Number of subscribers reaches one million
- Positive EBITDA achieved

2006

- 3.5G service launched – first in Saudi Arabia
- Partnership signed with ITC and Bayanat Al-Oula to build 12,600 km advanced fibre-optic network
- Mobily turns cash-flow positive
- Subscribers total more than six million, representing more than 30 percent market share
- Population coverage exceeds 90 percent
- Mobily available at more than 3,600 points of sale

2007

- Net income, before Zakat, doubles to SR 1,404 million
- Earnings per share grow 97.14 percent from SR 1.40 to SR 2.76
- Islamic financing of SR 10.78 billion
- Investment of SR 1 billion to enhance 3.5G network
- Acquisition of 99.9 percent of Bayanat Al-Oula
- 4,843 base stations, 993 of them 3.5G capable
- More than 11 million subscribers achieved

2008

- Net profit increases 52 percent over 2007
- First shareholder dividend paid
- Mobily joins a consortium for international expansion of the national fibre-optic network
- Exclusive national roaming agreement signed with a new entrant into the Saudi telecom market, Zain KSA
- Mobily's mobile data network acknowledged as the busiest in the world
- 300,000 HSPA subscribers signed up in 18 months with 3.5G coverage reaching 70 percent of the population
- 3.8 million new subscribers added despite the entry of a third service provider
- Capital increased by SR 2 billion in a 200 million shares rights issue (2.3 times subscribed)
- More than 7,800 customer touch points, including dealers and preferred dealers

2009

- 40 percent growth in share price outperforms Tadawul Telecom and All Share (TASI) indices
- Mobile broadband subscribers top one million mark and usage grows from 19 to 50 terabyte per day
- HSPA revenue increases by 159 percent year-on-year and coverage reaches 80 percent of the population
- Mobily participates in the Tata Global Network (TGN) Gulf Cable System
- iPhone 3G and 3GS introduced
- Net profit up 44 percent, revenue up 21 percent
- Total number of subscribers reaches 18.2 million
- Mobily wins the Dale Carnegie Leadership Award

Milestones in Mobily's history

- SR 1.5 billion refinancing and SR 900 million infrastructure financing packages arranged
- Dividend of SR 1.25 per share declared, two-thirds more than the previous year

2010

- SR 3 billion increase in revenues, the highest in absolute terms since inception, representing year-on-year growth of 23 percent
- 60 percent increase in dividend to SR 2.00
- 92 percent broadband population coverage
- Post-paid revenues up 50 percent and business revenues more than double
- Broadband subscribers exceed 2.3 million
- 46 percent increase in traffic during the Hajj, with a record 1.48 million users registered on the network at the Holy Site of Mina on the first day of Eid
- SR 1.2 billion Murabaha financing facility arranged at a competitive rate to expand and upgrade current data infrastructure capabilities
- Collaboration with six telecom operators to build the longest terrestrial communications infrastructure along a 7,750 km round trip route connecting Europe to the Middle East

2011

- SR 10 billion refinancing scheme drawn up with seven local banks to replace existing short, medium, and long term loans with one loan consisting of four tranches over five to seven years
- Renewal of management agreement for a further five years with founding company Etisalat (UAE)
- First implementation of Long Term Evolution 4G network
- New Ladies Contact Centre opened in Jeddah
- Launch of Best Customer Experience initiative (CEX) to provide the best possible telecom experience

2012

- 10 percent bonus share issue to enhance shareholder return
- Implementation of quarterly dividend distribution
- Growth partnerships created with leading international companies to spearhead transformation to ICT environment
- Business sector records 71 percent year-on-year increase, and data services accounts for 27 percent of revenues
- Data traffic on wireless broadband network services grow from 163 to 750 terabyte per day
- SR 10 billion refinancing completed to replace existing loans
- Mobily wins Euromoney Best Managed Company in the Middle East award

Chairman's Report

Chairman's Report

Current achievements point to a bright future

Leadership, innovation, and unsurpassed customer service have always been the cornerstones of Mobily's consistently outstanding performance and its emergence as a telecoms operator of global status. Now, more than ever, these qualities underpin the next phase of the company's evolution into a world-leader in integrated information and communications technology. Chairman of the Board of Directors, Abdulaziz Saleh Al Saghyir, reflects on the achievements of 2012 and outlines his vision for the continued success of the company.

The past year was not only highlighted by outstanding revenues and profits: our achievements in gearing up for future challenges were equally important.

The telecoms industry is by its very nature dynamic and fast-changing. What was scarcely credible a few years ago is now commonplace. Yet we are only on the threshold of a transformation so revolutionary that even recent breakthroughs will soon seem no more remarkable than text messaging.

The pattern of growth in our key financial metrics in 2012 points to the future. Data traffic is growing almost exponentially and will continue to accelerate. We are just beginning to capture the potential that exists in the business sector (even though our growth in this area alone last year was 71 percent), and the rapid adoption of smart phones creates boundless opportunities.

Mobily is very well-positioned to capitalise on these far-reaching changes that are taking place within our industry. We established several strategic partnerships and agreements in 2012 such as with IBM, Pacific Controls, and Virtustream (covered in detail elsewhere in this report), that put us to the forefront of innovation not only in Saudi Arabia but in a global context.

Our financial position is another great asset. Factors such as our low ratio of net debt to EBITDA and strong cash flow generation enable us to effectively use the financial resources at our disposal, as evidenced in the 2012 refinancing of SR 10 billion of existing loans on very favourable terms.

Mobily's results for the year are indicative of the Company's capabilities – and even greater potential. Our annual net profits were SR 6,018 million ($ 1,605 million), up 18 percent on the SR 5,083 million ($ 1,355 million) achieved in 2011. Total revenues and earnings per share grew consistently and are detailed under 'Financials' in the Management Review section of this annual report.

In keeping with such an outstanding performance, your Board has recommended a fourth quarter dividend of SR 1.15 ($ 0.3067) per share, in addition to the interim cash distribution of SR 2,100 million ($ 560 million) in the first three quarters, bringing total cash dividends for the year to SR 2,985.5 million ($ 796.13 million). Quarterly dividend payments began in 2012, replacing the previous twice-yearly distribution.

Shareholders also benefit from the Board recommendation to issue one bonus share for every 10 held, with a pro rata increase in the dividend multiple. The bonus issue

Chairman's Report

will increase the Company's share capital by 10 percent to SR 7.7 billion ($ 2.053 billion), subject to approval by an Extraordinary General Meeting of shareholders to be convened early in 2013. The cash dividend for the fourth quarter of 2012 is based on the new number of shares (770 million) and the increase in capital will be financed from retained earnings.

It is worth noting that the company's share price increased by 45 percent during 2012 – among the highest gains in the telecommunications sector worldwide. And if the dividends distributed by the Company are also taken into account, shareholders' returns for the year amount to more than 54 percent.

To maintain our investment in the best infrastructure, and to further develop our leadership in innovation and sophisticated products, Mobily is committed to capital expenditure of more than SR 22 billion ($ 5.87 billion) during the next five years. This investment will enable us to service the increasing needs of our changing market environment and will contribute significantly to positive performance in the coming years.

Shareholders can therefore look forward to continuing growth in profits and dividend distributions.

The Board of Directors election that took place in 2012 reappointed the Chairman and Managing Director for a further three years. On behalf of the Board, I convey our gratitude to our shareholders for their continued trust, support, and contribution to the Company.

The Board of Directors also expresses sincere appreciation to the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al-Saud, and His Royal Highness Prince Salman bin Abdulaziz Al-Saud, the Crown Prince, and all Government ministers. We also thank the Ministry of Communications and Information Technology and the Communications and Information Technology Commission for their oversight and stewardship of the regulatory environment.

We acknowledge the loyalty and confidence of our customers, who are such an essential part of our success. We also pay tribute to the energy and commitment of our management team and all employees, who have again taken our business to greater heights.

Abdulaziz Saleh Al Saghyir
Chairman of the Board

Managing Director's Review

Managing Director's Review

The dawn of a new age

The telecoms industry is poised for a once-in-a-generation shift that will be as significant as the original introduction of mobile connectivity. And Mobily is at the forefront, at home and internationally. Managing director Khalid Al Kaf outlines the exciting prospects for an innovative new future.

In times to come, we will look back on 2012 as a watershed year for Mobily – a defining period that marked the closing of the first phase of our evolution and the beginning of our transition to a new era of information communications technology.

The changes taking place in our industry are profound and far-reaching. In a few short years, technology has transformed the conventional model of voice and messaging services as the core sources of revenue. We are now on the leading edge of a seismic shift in the very nature of our business – and Mobily has the capabilities, the resources, and the expertise to be at its epicentre.

We have always looked to the future. From our earliest days, we saw how we could change the way people in Saudi Arabia communicate with each other – and with the world at large, improving the competitiveness of our business clients and enhancing the lifestyle of individual customers.

Later on, we foresaw the way wireless broadband would create vast new potential, and we were ready – with technological leadership and service excellence. More recently, we have led the way in developing data services, creating powerful benefits for the business sector that would generate entirely new revenue streams.

Similarly, in 2011 we were the first in the region with TD-LTE infrastructure, the most advanced 4G telecommunications technology that is still at an early stage of introduction around the world. And we have been very much in step with the upsurge in smart phone usage and the accompanying potential for generating increased revenues.

Our prowess in innovation and giving our customers the best possible products and services has been consistently evident in our financial performance and returns to shareholders, and 2012 was no exception. The upward trend in revenues, earnings, and cash flow continued, giving us a very sound foundation for the next stage of dynamic growth.

This will come from the imminent shift to information communications technology and fully converged connectivity.

Managing Director's Review

And in 2012, we made extensive preparations for this new wave of terminal mobility, signing partnership agreements and entering into strategic alliances that give us potent synergies to exploit the vast and untapped opportunities that lie ahead. By building an eco system of partners with complementary expertise, we will be able to add new links to our value chain and maximise shareholder returns.

As can be seen from our 2012 results, data services are the prime growth area – led by our response to demand from the business sector and the inexorable rise in smart phones as the device of choice. The customer retention attributes of smart phones are so strong that they alone could deliver a three-fold increase in the average revenue per user.

To capture this potential, and to ride the new wave of high-speed data networks and the next generation of ICT-based applications that will take us into a new dimension of service and capability, we have budgeted over SR 22 billion ($ 5.87 billion) of capital expenditure over the next five years.

Our agreement with IBM entails developing innovative solutions for business needs, and the Security Operations Centre that we are building together will introduce unprecedented resources and capacity for the secure archiving and retrieval of information – an increasingly crucial requirement for virtually every organisation and in every area of activity.

Therefore, effective management of integrated large-scale data analysis is where our future lies, and our partnership with IBM will contribute through joint research and development as well as first-to-market trials of innovative services for enterprises and governmental institutions.

Our emphasis on this area is already evident in having 28 fully operational and Tier III or Tier IV certified data centres, with a further 16 due for completion in 2013. Along with large-scale data management, cloud computing and machine-to-machine (M2M) networking are converging as the engine-room of information communications technology, and the catalyst for future growth.

Further new partnerships with experts in these areas, such as those with Pacific Controls, Virtustream, and BMC Software, give us a strategic advantage in delivering key requirements for private and public sector customers, on top of existing alliances with industry leaders such as Cisco, Microsoft, and AMC.

With Mobily's infrastructure and broadband network capabilities, and partners' expertise in complementary areas, we will be able to help business customers cut their operational costs by providing new services of an entirely different nature. We expect a stream of innovations coming to the Saudi market in the near future, resulting from the various partnerships we have formed. The transformation to ICT will have an equally dramatic impact on our customers' business systems and effectiveness.

By adopting this approach to developing and providing state-of-the-art services and solutions, we are also support the Saudi government's initiative of creating a knowledge-based community.

At Mobily itself, innovation has become embedded in our operating culture and we have a role in extending this to a wider national context. Consequently, providing an innovative customer experience of world-class quality is for us an unwavering priority.

We have had an exhilarating year in 2012 in every respect – financially, operationally, and technologically. I therefore take this opportunity to thank all who contributed so much to make it possible, and continue to do so – our shareholders, our Board of Directors, customers, partners, and suppliers.

Yet we are only beginning the next stage of our unfailingly stimulating journey. I look forward to sharing with you as we continue to innovate the world.

Khalid Al Kaf
Managing Director & CEO

Management Review

Operations and Technology

Innovation will drive sustained expansion

Already the world's fastest-growing mobile telecoms company, Mobily is committed to further strategic investment in upgrading high-speed networks, information security, and data services.

Under the Company's five-year 'GED' strategy – 'growth, efficiency, and differentiation' – the goal is to be an integrated full-service telecoms and ICT operator, moving away from the industry's traditional reliance on voice revenue by focusing on data and adjacent services such as mobile health, finance, and machine-to-machine communications.

In doing so, the Company is spearheading the rapid expansion of fibre optic and high-speed data networks and looking to the next generation of applications and large data analysis.

It is the first company in the region to embrace TD-LTE (Time Division Long-Term Evolved) infrastructure in the kingdom's cities and regions, which is now the technology of choice for providing advanced yet affordable high data communication services. LTE has already been implemented in more than 30 Saudi cities, representing over 78 percent population coverage, using technology partnerships with Korea's Samsung and China's Huawei.

Mobily has also led the way in fibre-to-the-home (FTTH), with deployments in specific real estate areas in Riyadh, and has awarded contracts valued at about SR 1 billion to Ericsson and Huawei to further expand and upgrade its high-speed networks and data services.

Now, a SR 1 billion strategic alliance agreement with IBM will deliver innovative services for the business sector. Mobily and IBM are also partnering to built the Middle East's first-of-its-kind information security data centre – expected to be the world's biggest IBM installation outside the USA.

Under the self-financed agreement, a Security Operations Center (SOC) will be set up in Riyadh in 2013 to provide the business sector with a range of services such as information security, business continuity, and cloud computing. The SOC will be hosted in Mobily's Tier IV certified data centre and will operate to IBM's world-class standards.

Mobily already has 28 fully operational data centres, with a further 16 under-construction and due for completion in 2013. Its Dammam Data Center is the first in the Middle East to receive Tier III certification from the US-based Uptime Institute, the internationally-recognised data centre certification authority.

But the IBM partnership adds a new dimension by enabling the development of IT services such as secure archiving and retrieval of information, and meeting the Saudi market's demand for private and public cloud computing. It also gives Mobily the opportunity to collaborate on research, strengthening IBM's initiative for geographic expansion and increasing its presence in key markets.

Mobily has also formed a strategic alliance with BMC Software, US-headquartered specialist in business service management software, using BMC's Cloud Lifecycle Management (CLM) system to deliver key business requirements in fully implementing cloud computing and automating its IT infrastructure.

And by working with sister company BMC Consulting Services, Mobily has substantially reduced the time for provisioning services, while also improving IT productivity and planning for data center power and cooling requirements.

Cloud computing, large scale data management, and machine-to-machine (M2M) networking are converging to form the next wave of advances in information and communications technology.

To create strategic advantage in the M2M area, Mobily has signed a partnership agreement with Pacific Controls, the leading global provider of ICT-enabled managed services. Under the agreement, the two companies join forces to serve the needs of sectors such as energy and utilities, government, healthcare, financial, and retail.

The five-year agreement will incorporate a state-of-the-the art Command and Control Centre in Riyadh, using the latest M2M technology platform to position Mobily and the Saudi Arabia as one of the leading proponents in energy management services while adding value to customers' businesses and introducing initiatives to provide optimum benefits to end-users.

Operations and Technology (continued)

With Mobily's telecommunication infrastructure and broadband network capabilities and Pacific Controls' expertise in energy management, remote monitoring, and control through M2M applications, customers will be able to cut their operational costs by using new services such as energy analysis, carbon footprint reduction, measurement and verification, continuous commissioning, and fault detection and diagnostics.

Expansion of Mobily's network infrastructure continued in 2012, with a total of 6,500 sites upgraded or added, including 2,000 new 4G locations. Such a strong infrastructure supporting 3G and 4G networks creates high-quality connectivity between sources of information and end-users, giving Mobily a marked competitive advantage in exploiting technological developments such as cloud computing.

This was very evident at the 2012 Application Developers Conference hosted by Mobily and attended by a large group of local and international experts in information technology and professional mobile application developers.

Deliberations at the conference underlined the crucial future role of cloud computing, innovation in the new media, and the transition to digital platforms to improve the services offered.

Mobily's 'Cloud Server' was launched early in 2012, providing self-service, on-demand features for customers. The service requires no initial investment and customers pay monthly charges based on the time they use the resources. Demo services are available free for a month.

Development of cloud computing took another big step forward by striking a strategic alliance with Virtustream, the US-headquartered winner of the 2012 North American Hybrid Clouds Product Line Strategy Award. By establishing joint sales and marketing programmes, the alliance aims to capture a major share of the fast-growing Saudi cloud market.

Towards the end of the year, Mobily's launch of the first LTE data roaming marked another milestone for the Saudi telecommunication and IT sector. Customers are able to use the fastest data speed based on LTE while roaming on other operators.

The launch followed the signing of a roaming agreement with Hong Kong's CSL and conducted several technical tests, with interconnection between Mobily and CSL coming through Telstra in Australia. Mobily is leveraging its strong partnership with the other carriers to make LTE data roaming available for customers wherever they travel.

A commercial service delivery platform (SDP), established with Huawei, the Chinese multinational networking and telecommunications equipment and services company, enables Mobily to more rapidly implement new multimedia services, collaborating with content publishers, service providers, and other players in the value chain. The platform allows Mobily to set up its own app store, integrate with OTT ('over the top') content providers and develop cloud-oriented services. Mobily has also worked with Huawei on the launch of LTE services.

The technology and services contract for Mobily's mobile virtual network enabler (MVNE) was awarded to the Indian firm XIUS to provide MVNE and mobile virtual network operator (MVNO) network infrastructure and managed services. XIUS is also supplying the MVNE back-office services needed to launch an MVNO on the Mobily network and an MVNE platform to potential MVNO subscribers in Saudi Arabia.

The XIUS infrastructure will provide the MVNO with its own separate network components and flexible capabilities for service offerings to targeted subscribers. The MVNO will be able to focus on its identified market target segment without dependence on the mobile network operator.

Kuwait is also benefiting from Mobily's fibre-optic connectivity. Under a contract with Kuwait's Communication, Electricity and Water Ministry, Mobily will connect its fibre network by an underground cross-border cable that will deliver enormous bandwidth to internet service providers in Kuwait.

Strategic Innovation

Innovation culture takes root

Implementation of Mobily's GED strategy (growth, efficiency, and differentiation) continued to drive growth in 2012 – with managing customer experience and satisfying markets a dominant priority.

Underpinning the strategy is the whole-hearted adoption of a culture of innovation, giving Mobily a distinctive marketing edge by combining the latest technologies with new and imaginative products and services.

The principle applies to the three main market segments – consumer, corporate, and wholesale – and is further refined for complementary areas such as branding, capabilities of staff, and synergistic partnerships with companies offering allied expertise.

The extent of the culture change is evident in the response to the creation of a Mobily Innovation Centre (MIC) – originally devised as a specialist resource where dedicated staff could apply their talents for creative thinking and execution without being constrained by day-to-day operational responsibilities.

The MIC has a crucial role in identifying the latest trends in telecom and IT markets which are relevant to Mobily's customers – whether corporate or individual. And by using an internal social media platform similar to Facebook, more than 90 percent of staff are now also contributing – submitting and sharing a torrent of ideas for everything from new products to service improvements. The best innovative proposals are rewarded with prizes of up to SR 100,000.

The innovations philosophy has also been extended to the company's branding, that now uses 'Innovate your world' as a slogan, reinforcing the way the Company is always the first to bring the latest technologies to the Saudi market – such as broadband LTE (4G), internet television, and the cost-effective efficiency of cloud computing services for business customers. Further new ICT services due for imminent launch include exclusive video streaming content and mobile health.

This emphasis on enhanced customer experience is also demonstrated by the introduction of new ways of customer interaction. Mobily was one of the first companies in the world to integrate Twitter with its call centre and customer relationship management system, and during 2012 launched I-billing – an intelligent bill service delivered via e-mail that uses interactive features to present the bill clearly and transparently.

Mobily also is very active on Facebook, Google-Plus, Linked-In, YouTube, and digital marketing channels to help reach customers most effectively, having been the first Saudi company to use Google paid search and the first brand in the Middle East to establish a Google page.

Customers have also responded enthusiastically to an app that enables activation of prepaid recharge vouchers by using the camera of a smart phone. This is world-first for Mobily and is available to all mobile users in Saudi Arabia, not just the Company's own customer base.

Partnerships and strategic alliances are essential to responding most effectively to the rapidly-changing telecommunications and IT industry, where core competencies must be supported by complementary expertise. One of the first examples was Mobily's acquisition of the data service provider Bayanat and the internet service provider Zajil some years ago, in anticipation of the huge bandwidth demands on the internet. These acquisitions have enabled the faster and more cost-efficient creation of innovative and powerful data services and fibre-optic networks.

And last year's new partnerships give fresh impetus to innovation – not only maintaining Mobily's leadership but driving a host of first-to-market business services for the private and public sectors.

Customer

The quest for constant customer satisfaction

New products, services, and promotions are a constant feature of Mobily's commitment to providing a superior customer experience. During 2012, these ranged from innovative healthcare apps to bundled packages and extended working hours in retail branches.

The Company's seventh anniversary was marked with a week-long celebration that included prize incentives for subscribers and a period of free use on renewing or signing-up for 4G home services.

Mobily was the first operator in Saudi Arabia to stock the iPhone, and to cope with the huge demand for the 2012 launch of the iPhone 5, all branches stayed open daily until after midnight. Mobily was also the exclusive operator partner in Saudi Arabia for Nokia's launch of the Lumia 920 smartphone based on Windows Phone 8. Both launches were marked by offering special Mobily packages such as extended free subscription.

A similar offer was available to Blackberry subscribers, providing up to 5 GB more per month at very attractive rates. Mobily also strengthened the use of Blackberry by becoming Saudi's first telco to offer users the benefits of existing applications (through the Mobily Application Store) such as the healthcare app developed in collaboration with Harvard Medical School.

Mobily also launched the Al Mawrid tablet, an Android OS device that has Al Mawrid Arabic and English dictionaries installed. The devices are sold as stand-alone equipment so no subscription fees apply.

Customers are also benefiting from an I-Statement service that delivers monthly bills by email, backed up by a bilingual portal that provides a host of useful features to understand, analyze, and explore the bill. Innovative features include billing analysis with usage and summary graphs, sort and search call records, online credit card payment, customer feedback facility, and redemption of Neqaty loyalty points. And as the first telecom in the Middle East not to print customer bills, Mobily at the same time becomes the region's first true "green" operator.

The new I-Statement is powered by Adobe LiveCycle and operates independently of the company's web portal, giving users fast and direct access without navigation through the full range of Mobily's online services. The increased efficiency across the entire spectrum of billing and customer management is also delivering significant operational cost savings. I-Statement is achieving a four-fold improvement in timely and accurate delivery.

Customer convenience has been further enhanced by integrating Twitter usernames with internal systems for customer care. As a result, Mobily's social media team can interact more effectively with Twitter users who can now receive an immediate response to complaints or enquiries. Extensive social media interaction with customers also takes place on YouTube and Facebook.

New value-added features for the '7ala' prepaid bundle now provides free data, free on-net calls and free SMS for up to a month, depending on the contract package, and a new Connect Weekly package enables customers to get unlimited data for one week for at a very attractive rate.

Introduction of various customised applications in 2012 included the WhatsApp messaging package. In an exclusive agreement with Mobily, new customers can subscribe to What's App without an existing data plan, and those already on a data plan can take advantage of unlimited access for a nominal monthly charge.

In collaboration with value-added service provider Axeln, Mobily launched a health application based on content from the publishing and media division of Harvard Medical School. The application provides users with a wide range of health and medical advice including important information on common diseases and conditions. After a seven-day free trial, cost to users is less than SR 1 per day.

A smart application for diabetes patients enables them to communicate their data to their doctors, the product of a tie-up between Mobily and the French healthcare company Sanofi. The move helps diabetics avoid long-term complications and gives them more control over the disease, giving them an innovative easy-to-use method to share reports with their physicians.

Further healthcare innovation came in the form of a new service for deaf and mute people to access Islamic, entertainment, and cultural content on their mobile phones. The service is sent daily in the form of sign language audio and video clips of religious scholars and preachers, cooking, poetry, and many other subjects.

Sales and Marketing

Leading the way to a new era in telecoms

Innovative products and services have always been the cornerstones of Mobily's sales and marketing strategy, positioning the Company as Saudi Arabia's first-choice provider in telecommunications services.

Individual customers can take advantage of more than 4,000 points of sales, a comprehensive choice of packages designed to suit the diversity of personal needs, a generous loyalty points system, and a continuing series of promotional offers to add value and create savings.

Now, the same principles of cost-effective quality service are driving the rapid upsurge in business sector usage and the next phase of Mobily's expansion along with the third wave of telecoms technology.

During 2012, the rebranding of Mobily under the slogan 'Innovate your world' was a focal point of marketing activity, embracing the full spectrum of existing and prospective customers.

Specific programmes included an intensive 'know your customer' drive to highlight the importance of subscribers providing up to date account data.

The campaign was aimed at reducing or eliminating sales of prepaid packages from unauthorised stores without identification and proved very successful in satisfying the regulatory requirements of the Communication and Information Technology Commission (CITC).

Mobily notified subscribers by SMS and advertisements asking them to visit any of the Company's outlets to update their account data, stressing the importance of buying Mobily products only from main branches or verified outlets.

Extra service centres were opened in Riyadh, Jeddah, and Dammam to enable them to update their data conveniently. As an incentive, subscribers received double credit the first time they recharged after updating their data.

Customers also responded enthusiastically to a range of offers on various Mobily products. 'Wajid' for new subscribers was hailed as the best postpaid package in the Kingdom, offering the lowest prices for local calls and text messages along with free features that activated automatically. Free on-net voice calls, SMS, and internet browsing kicked in after a daily spend of only SR 5.

Discounts of up to 80 percent on outgoing call prices while roaming in GCC countries became a permanent feature, and the annual Mobily competition for roamers offered many prizes to subscribers travelling abroad and those choosing the Mobily network while visiting Saudi Arabia. Twenty winners each received SR 100,000.

With new versions of RoamTalk and Business Softphone apps, users can make or receive calls and messages with no added charges (dependent on their package). Subscribers with an active roaming service and a Mobily data package are now able to enjoy free internet when roaming on Etisalat network in Egypt or the UAE, and two new roaming bundles give connection options for as little as one hour or up to six months. The 'Connect' roaming bundles are considered to be first of their kind in the global market.

A three-year contract with Mobily subsidiary Bayanat Al-Oula provides 1,400 schools in the Eastern Province of Saudi Arabia with a high-reliability broadband internet service based on Mobily's BroadBand@Work and Wimax network.

Military personnel are enjoying a special package – the first of its kind in Saudi Arabia – that gives subscribers 1,000 free calls and 1GB monthly for only SR 30. The military package also includes discount vouchers from several popular brands in the Kingdom.

New subscribers to BroadBand@Work – the business sector product – enjoyed double the period of free usage. Based on 4G technology, Bayanat Al-Oula Mobily's data arm offers BroadBand@Work with a variety of bundles to suit customers' needs.

Business users also benefited from the launch of Injaz – bundles specially packaged according to the size of the enterprises and available in four options: Injaz Swift, Injaz Supreme, Injaz Distinction, Injaz Flexible.

Marketing activity during the Hajj season resulted in more than 500 percent growth in data traffic transmitted in the Holy Sites, largely attributable to expansion of infrastructure and network upgrades that added 150 fixed and mobile towers in Makkah and Mashaer. The volume of international call minutes in Makkah grew by 68 percent on the previous year, and in Madinah by 82 percent.

Sales and Marketing (continued)

Free internet access was provided for all pilgrims through Mobily's Wi-Fi network in Mina, Muzdalifah, and Arafat – the sixth successive season that the Company has provided a free service.

To cater for pilgrims' needs, Mobily adopted a number of creative marketing plans such as additional sales outlets at many international airports, in Mawaqeet, and the central areas surrounding the Holy Mosques. A Mobily SIM card co-branded with Bahrain Air was issued to pilgrims on flights to Jeddah operating from cities around the world.

A full range of Hajj and Umrah services included post-paid and prepaid lines, data SIM cards, and routers – along with offers that gave extra free credit, and free voice calls, SMS, and data service. Pilgrims also cooperated enthusiastically with Mobily's offer to donate any unused balances to good causes.

With the business sector growing dramatically in its importance as a revenue contributor for Mobily, the Company is constantly examining innovative ways to respond to the demand and exploit the capabilities of its LTE installation that allows high-speed data transfer.

Similarly, sales and marketing initiatives are being positioned to capitalise on the rapid uptake of smart phones and their appeal to Saudi Arabia's predominantly young population, a trend that has vast potential to boost the average revenue per user.

Human Resource

A commitment to optimising talent

Since its inception, Mobily has been a leader in hiring Saudi Arabian nationals – beginning operations in 2005 with about 2,000 staff of whom 86 percent were Saudis.

And in keeping with the strategic goal of creating the best work environment in the Kingdom, Mobily has reinforced this basic principle over the years through recruitment and retention programmes, training schemes, and collaboration with national education and manpower authorities.

The policy was further entrenched in 2012, when Mobily signed a strategic cooperation agreement with the Ministry of Labour that will enhance the Company's role as an innovative leader in creating employment opportunities and fostering career development.

During the year, the Company also launched the first phase of its pioneer Mobily Elites programme (ME) that seeks to attract and develop young local talent to contribute to the company's overall vision.

It aims to recruit young people of outstanding ability through competency-based selection methods, and the first group of 50 has already embarked on their new career path.

The programme embodies Mobily's commitment to Saudi youth, who can apply their qualifications and talents to grasp the opportunities available in the Company's culture of innovation and development.

Mobily has for long been active in events related to human resources, maintaining this record in 2012 by sponsoring the platinum career day at King Fahd University of Petroleum and Minerals and participating as a golden sponsor on the Career Day at the Saudi Arabian Cultural Mission in Washington.

Its efforts have been officially recognised in winning the Prince Naif Golden Award for Saudization in the transportation and telecommunications sector for the second successive year.

The Ministry of Labour also honoured Mobily, acknowledging its 2012 support of the Tawteen Job Exhibition in Jeddah where the Company showcased its experience in the recruitment of young Saudis and its specialized programmes to develop their skills.

Financial

Data and business sector growth underpin brilliant performance

Net profit of SR 6,018 million for 2012 was up 18 percent on the previous year's SR 5,083 million, with a consistent increase in earnings per share from SR 7.26 to SR 8.60. Total revenues also rose by 18 percent, from SR 20,052 million to SR 23,642 million.

The increasing level of revenue from data traffic is a primary contributor to the growth – up 41 percent on the previous year and now accounting for 27 percent of total revenues compared to 22 percent in 2011. Further growth came from the business sector, with revenues up by 71 percent year-on-year, and the continuing upward trend in the sale of smart phones.

The increase in overall data traffic is evident in the 2012 statistics: a daily average of 750 terabytes on Mobily's wireless broadband network compared to 163 terabyte in 2011 and only 85 terabyte a year earlier. Revenues from the fibre-optic and 4G networks increased by 70 percent on 2011.

In view of the year's performance, the Board has recommended a fourth quarter dividend of SR 1.15 per share, bringing total cash dividends for the year to SR 2,985.5 million.

A SR 10 billion agreement was signed in 2012 to refinance three of the Company's existing loans on better terms. The agreement with seven local banks applies to the remainders of a SR 10.781 billion long-term loan from 2007, a SR 1.5 billion medium-term facility negotiated in 2009, and a short-term SR 1.2 billion dated 2010.

The refinancing gives Mobily access to banking facilities (including credit) of up to SAR 10 billion payable in four tranches over five to seven years. The company considered it prudent to take this step now rather than in the future, negotiating a competitive Murabaha rate of SAIBOR (Saudi Interbank Offered Rate) + 0.70 percent for two of the tranches and SAIBOR + 0.65 percent for the others.

Awards

A distinguished history of achievement

Mobily's record of achievements over the past eight years has been widely recognised by independent endorsement from industry bodies and specialist media.

The company is consistently among the winners at regional and international awards ceremonies, and 2012 was no exception. Honours bestowed during the year were:

CommsMEA: Operator of the Year

The prize was presented at ITP Group's annual event in Dubai, recognising Mobily's extensive of record of large-scale projects and initiatives and its impact on the region's telecom sector.

CommsMEA's assessment process considered several criteria, including financial performance, providing the latest technologies, and diversity of innovative services.

Mobily's remarkable achievements were listed during the ceremony, contributing to its leading role in the region and receipt of the Operator of the Year award.

Euromoney: Best Managed Company in the Middle East

Mobily topped Euromoney's 2012 survey of the best managed companies in the Middle East, scoring the highest points not only in the telecoms sector but across all 11 categories assessed.

Euromoney asked analysts at banks and research houses with a focus on companies in the Middle to nominate firms they thought showed the most market strength, profitability, growth potential, and quality of management and earnings. Mobily scored 164 points, 64 higher than any company in the entire survey and more than three times that recorded by the runner-up in the telecoms sector.

Forbes Middle East: Best Management in KSA Telecom Sector

Forbes Middle East rated Mobily three levels ahead of other candidates in its assessment of management quality in the region's telecom sector.

The judging criteria were based on measures related to financial performance of the companies, such as asset growth, earnings per share, growth in market value, and return on equity – all reflecting the success of executive management in scoring highly in these areas.

Uptime Institute (Tier III International Prize): Best Data Centre in the Region

Uptime is the internationally-recognised data centre certification authority and Mobily's Dammam Data Center became the first in the Middle East to receive its Tier III accreditation.

Oracle: Award for Innovation

Mobily's innovative use of Oracle technology to link Twitter users with the Company's customer relationship management system was recognised by presentation of the award in the USA by the Oracle Communications Advisory Board.

Mobile Show 2012: Best Telco App Store

The Middle East's largest show for mobile technology, applications, and solutions – held in Dubai – gave its award to Mobily ahead of many other candidates from across the region.

Mobily is not only the recipient of awards, it also confers its own. At the Mobily Developers Conference, three prizes of $30,000 were presented for the best apps.

RISK MANAGEMENT

System improvements pave the way to international certification

Mobily's risk and business continuity management enhanced the existing programme to meet inherent challenges and implemented further mitigation plans. The risk management framework is now aligned to the requirements of ISO 31000 and risk assessment and treatment have been revised accordingly. These improvements to risk management policy and processes provide better assessment of risks and enable earlier risk identification and faster response.

Business continuity plans were designed to meet all possible risk scenarios and were comprehensively tested during the year – covering more than 100 possible incident scenarios. These exercises assure stakeholders of Mobily's ability to successfully handle any potentially adverse events or circumstances.

Risk management and business continuity maturity was further enhanced by introducing a multidimensional awareness and reward program to identify and recognise the best performers within the organisation.

Launch of an electronic system for governance, risk, and compliance adds to the efficiency and effectiveness of the risk management program by automating and streamlining the process, improving communication and collaboration, and reporting risks to the Executive Risk Management Committee and Board Risk Management Committee.

Mobily is committed to a culture of sound risk management and business continuity, consistently upgrading policies and procedures as the company works towards the goal of certification to international standards.

Corpoate Social Responsibility

Adopting global reporting practice

In line with international corporate reporting trends, Mobily is producing a dedicated report on the Company's role in corporate social responsibility (CSR) and the over-arching concept of sustainability.

As a leading Saudi business organisation, Mobily is acutely conscious of its responsibilities in key areas such as the wellbeing of its own employees, extending financial and practical assistance to the wider community, and adopting best practice in environmental matters.

The motivation is not simply to conduct business in a way that is good for society and mankind – it's also about making the business profitable so that it can continue to contribute to the wider society within which it operates. Business economic impact and benefit extend to total economic value created and distributed.

In essence, it helps to create a more caring world, not just in an environmental sense, but at home, at work, and as a community.

Mobily's commitments to this goal cover many areas – from education to healthcare, community assistance and development, cultural patronage to energy saving measures. All are covered in detail in the CSR report, which from now on will be a yearly production, available online and complementary to the annual report to shareholders.

Coporate Inoformation

The company is incorporated in the Kingdom of Saudi Arabia under Registration number 1010203896

Registered Name

Etihad Etisalat Company
(Mobily is the trading name of the company)

Business Address

26th Floor, The Kingdom Tower
P.O. Box 9979
Riyadh 11423
Kingdom of Saudi Arabia

Website

http://www.mobily.com.sa

Auditors

Deloitte & Touche
Bakr Abulkhair and Company

Investor Relations Postal

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Tadawul code: 7020 (Etihad Etisalat)

Bloomberg code: EEC AB

RIC (Reuters Instrument Code): 7020.SE

Etihad Etisalat Company

(A Saudi Joint Stock Company)

Consolidated financial statements and auditors' Report for the year ended December 31, 2012

Deloitte.

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Bakr Abulkhair & Co.
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AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Etihad Etisalat Company (a Saudi Joint Stock Company) (the "Company") as at December 31, 2012, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and the notes 1 to 27 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements, taken as a whole, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2012, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of the consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

Rabie Al-Awal 5, 1434
January 17, 2013

Consolidated Balance Sheet as at December 31,2012

	Notes	2012 SR'000	2011 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**1,302,080**	1,689,539
Accounts receivable, net	4	**5,903,751**	6,323,362
Due from a related party	5	**6,112**	11,128
Inventories, net		**721,394**	469,794
Prepaid expenses and other assets	6	**2,493,179**	1,399,431
Total current assets		**10,426,516**	9,893,254
Non-current assets			
Property and equipment, net	7	**17,254,889**	16,412,112
Licenses' acquisition fees, net	8	**9,411,807**	9,665,424
Goodwill	9	**1,529,886**	1,529,886
Total non-current assets		**28,196,582**	27,607,422
TOTAL ASSETS		**38,623,098**	37,500,676
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term loans	10	**-**	1,200,514
Current portion of long-term loans	10 & 11	**752,546**	4,895,445
Accounts payable	12	**5,580,427**	7,808,208
Due to related parties	5	**132,308**	193,525
Accrued expenses and other liabilities	13	**3,609,368**	3,948,882
Total current liabilities		**10,074,649**	18,046,574
Non-current liabilities			
Long-term loans	10 & 11	**7,505,562**	976,948
Provision for end-of-service benefits		**137,111**	89,031
Total non-current liabilities		**7,642,673**	1,065,979
TOTAL LIABILITIES		**17,717,322**	19,112,553
SHAREHOLDERS' EQUITY			
Authorized, issued and outstanding share capital	1	**7,000,000**	7,000,000
Statutory reserve	15	**2,179,779**	1,578,014
Retained earnings		**11,725,997**	9,810,109
Total shareholders' equity		**20,905,776**	18,388,123
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**38,623,098**	37,500,676

The accompanying notes from an integral part of these consolidated financial statements

Consolidated Statment for the Year Ended December 31,2012

	Notes	2012 SR'000	2011 SR'000
Revenues	16	**23,642,133**	20,052,254
Cost of services and sales	17	**(11,608,327)**	(9,726, 182)
Gross profit		**12,033,806**	10,326,072
Operating expenses:			
Selling and marketing expenses	18	**(1,397,206)**	(1,172,606)
General and administrative expenses	19	**(2,045,771)**	(1,699,144)
Depreciation and amortization	7 & 8	**(2,398,949)**	(2,148,963)
Total operating expenses		**(5,841,926)**	(5,020,713)
Operating income		**6,191,880**	5,305,359
Finance expenses	10	**(169,166)**	(213,320)
Other income		**64,839**	45,721
Income before zakat		**6,087,553**	5,137,760
Zakat	14	**(69,900)**	(54,301)
NET INCOME		**6,017,653**	5,083,459
Basic earnings per share (in Saudi Riyals):			
From operating income	21	**8.85**	7.58
From net income	21	**8.60**	7.26

The accompanying notes from an integral part of these consolidated financial statements

Consolidated of Cahsh Flows for the year ended December 31,2012

	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES		
Income before zakat	6,087,553	5,137,760
Adjustments to reconcile income before zakat to net cash from operating activities:		
Depreciation	1,835,679	1,617,805
Amortization of licenses' acquisition fees	563,270	531,158
Provision for doubtful debts	235,705	187,806
Finance expenses	169,166	213,320
Operating income before changes in working capital	8,891,373	7,687,849
Changes in working capital:		
Accounts receivable	183,906	(763,048)
Due from a related party	5,016	11,383
Inventories	(251,600)	(173,218)
Prepaid expenses and other assets	(1,093,748)	(162,661)
Accounts payable	(129,608)	(300,270)
Due to related parties	(61,217)	(87,514)
Accrued expenses and other liabilities	(355,988)	659,797
Provision for end-of-service benefits, net	48,080	23,384
Zakat paid	(53,426)	(72,325)
Finance expenses paid	(146,012)	(150,279)
Net cash provided from operating activities	7,036,776	6,673,098
INVESTING ACTIVITIES		
Short-term investments	-	450,139
Purchase of property and equipment	(4,860,245)	(3,700,297)
Disposal of property and equipment, net	83,616	10,253
Acquisition of licenses, net	(309,653)	(168,303)
Net cash used in investing activities	(5,086,282)	(3,408,208)
FINANCING ACTIVITIES		
Proceed from short-term loans	-	600,000
Payment of short-term loans	(1,203,273)	-
Proceed from long-term loans	7,415,000	270,000
Payment of long-term loans	(5,049,680)	(1,831,700)
Cash dividends	(3,500,000)	(2,275,000)
Net cash used in financing activities	(2,337,953)	(3,236,700)
Net change in Cash and cash equivalents	(387,459)	28,190
Cash and cash equivalents, beginning of the year	1,689,539	1,661,349
CASH AND CASH EQUIVALENTS, END OF THE YEAR	1,302,080	1,689,539

The accompanying notes from an integral part of these consolidated financial statements

Consolidated Statment of Changes in Shareholders's Equity for the yesar December 31,2012

	Notes	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2011		7,000,000	1,069,668	7,509,996	15,579,664
Cash dividends	20	-	-	(2,275,000)	(2,275,000)
Net income for the year		-	-	5,083,459	5,083,459
Transferred to statutory reserve	15	-	508,346	(508,346)	-
Balance at December 31, 2011		7,000,000	1,578,014	9,810,109	18,388,123
Cash dividends	20	-	-	**(3,500,000)**	**(3,500,000)**
Net income for the year		-	-	**6,017,653**	**6,017,653**
Transferred to statutory reserve	15	-	**601,765**	**(601,765)**	-
Balance at December 31, 2012		**7,000,000**	**2,179,779**	**11,725,997**	**20,905,776**

The accompanying notes from an integral part of these consolidated financial statements

1- Organization and activity

Etihad Etisalat Company (the “Company/Mobily”), a Saudi joint stock company, is incorporated pursuant to the Council of Ministers’ resolution number 189 dated Jumada Al Thani 23, 1425 H (corresponding to August 10, 2004) and Royal Decree number M/40 dated Rajab 2, 1425 H (corresponding to August 18, 2004) and is registered in Riyadh under commercial registration number 1010203896 dated December 14, 2004. The Company is the second authorized provider of mobile telecommunication services in the Kingdom of Saudi Arabia.

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

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

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

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

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

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

The Company’s main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks and any extension thereof, manage, install and operate telephone networks, terminals and communication unit 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 main activities of the subsidiaries are as follow:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for the installation and maintenance of wire and wireless telecommunication 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.

2- SIGNIFICANT ACCOUNTING POLICIES

These 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- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

The Company's equity share in the net income (losses) of the subsidiaries is computed at 100% based on direct investment in the share capital of the subsidiaries and indirect investment by certain subsidiaries as follows as at December 31, 2012:

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

Accounting convention

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

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the year. Although these estimates are based on management's best available information and knowledge of current events at the consolidated financial statements date; however, actual final results may differ from those estimates.

Cash and cash equivalents

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

Short-term investments

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

Accounts receivable

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

Inventories

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

2- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

Property and equipment

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

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

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

Impairment of assets

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

Licenses' acquisition fees

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

Goodwill

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

Accounts payable

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

Provision for end-of-service benefits

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

2- SIGNIFICANT ACCOUNTING POLICIES (Continued)

Zakat and income tax
Zakat is provided for in accordance with the Regulations of the Department of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat is provided on an accrual basis and is computed on the zakat base at year-end. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.
The tax relating to the subsidiary operating outside the Kingdom of Saudi Arabia is calculated in accordance with tax laws applicable in its country.

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

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

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

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

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

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

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

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

Revenues from sale of handsets equipment and accessories are recognized when the handset equipment and accessories are delivered to subscribers and customers.

2- SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated statement of income on a straight-line basis over the terms of the leases.

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

3- CASH AND CASH EQUIVALENTS

	2012 SR'000	2011 SR'000
Cash on hand and at banks	802,080	1,439,539
Short-term Murabaha	500,000	250,000
	1,302,080	1,689,539

4- ACCOUNTS RECEIVABLE, NET

	2012 SR'000	2011 SR'000
Accounts receivable	6,334,012	6,616,432
Less: Provision for doubtful debts	(430,261)	(293,070)
	5,903,751	6,323,362

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

	2012 SR'000	2011 SR'000
Balance at January 1	293,070	284,408
Charge for the year	235,705	187,806
Bad debts written off	(98,514)	(179,144)
Balance at December 31	430,261	293,070

5- RELATED PARTIES TRANSACTIONS

During the year, the Company transacted with the following related parties:

Party	Relation
Emirates Telecommunication Corporation – Etisalat and its subsidiaries	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

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

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

	2012 SR'000	2011 SR'000
Net interconnection services and roaming	**57,200**	49,305
Management fees (Note 19)	**37,513**	37,521
Other management expenses	**77,384**	118,756
Telecommunications services	**22,893**	29,704

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

	2012 SR'000	2011 SR'000
Emirates Telecommunication Corporation and its subsidiaries	**6,112**	11,128

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

	2012 SR'000	2011 SR'000
Emirates Telecommunication Corporation and its subsidiaries	**123,773**	180,986
Emirates Data Clearing House	**8,535**	12,539
	132,308	193,525

6- PREPAID EXPENSES AND OTHER ASSETS

	2012 SR'000	2011 SR'000
Advance payments to suppliers of network equipment	**1,251,888**	241,878
Prepaid expenses	**374,070**	278,753
Accrued revenues	**338,079**	410,586
Advance payments to trade suppliers	**89,782**	31,114
Other	**439,360**	437,100
	2,493,179	1,399,431

7- PROPERTY AND EQUIPMENT, NET

	Land SR'000	Buildings SR'000	Leasehold improvements SR'000	Tele-communication network equipment SR'000	Computer equipment and software SR'000	Office equipment and furniture SR'000	Vehicles SR'000	Capital work in progress SR'000	Total SR'000
Cost:									
January 1, 2012	224,751	184,771	603,261	16,796,859	1,621,374	403,631	1,633	2,272,607	22,108,887
Additions	50,610	-	35,199	1,417,924	285,738	21,177	1,118	950,306	2,762,072
Disposals	-	-	(3,747)	(150,025)	(40)	(3)	(962)	-	(154,777)
Transfers	-	32,876	13,885	1,912,783	103,578	1,931	-	(2,065,053)	-
December 31, 2012	275,361	217,647	648,598	19,977,541	2,010,650	426,736	1,789	1,157,860	24,716,182
Accumulated depreciation:									
January 1, 2012	-	21,766	258,728	4,244,909	876,750	293,166	1,456	-	5,696,775
Depreciation for the year	-	8,194	57,393	1,449,472	280,180	40,338	102	-	1,835,679
Disposals	-	-	(2,258)	(68,018)	(19)	(3)	(863)	-	(71,161)
December 31, 2012	-	29,960	313,863	5,626,363	1,156,911	333,501	695	-	7,461,293
Net book value									
December 31, 2012	275,361	187,687	334,735	14,351,178	853,739	93,235	1,094	1,157,860	17,254,889
December 31, 2011	224,751	163,005	344,533	12,551,950	744,624	110,465	177	2,272,607	16,412,112

8- Licenses' acquisition fees, net

	Mobile Telecom-munication services license SR'000	3G services license SR'000	Other SR'000	Total licenses' acquisition fees SR'000
Cost at January 1, 2012	12,210,000	753,750	511,106	13,474,856
Additions	-	-	317,283	317,283
Disposals	-	-	(8,048)	(8,048)
Cost at December 31, 2012	12,210,000	753,750	820,341	13,784,091
Less:				
Accumulated amortization at January 1, 2012	3,523,094	216,859	69,479	3,809,432
Amortization for the year	482,606	29,827	50,837	563,270
Disposals	-	-	(418)	(418)
Accumulated amortization at December 31, 2012	4,005,700	246,686	119,898	4,372,284
Balance at December 31, 2012	8,204,300	507,064	700,443	9,411,807
Balance at December 31, 2011	**8,686,906**	**536,891**	**441,627**	**9,665,424**

9- GOODWILL

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

	2012 SR'000	2011 SR'000
Bayanat Al-Oula for Network Services Company	**1,466,865**	1,466,865
Zajil International Network for Telecommunication Company	**63,021**	63,021
	1,529,886	1,529,886

10- SHORT AND LONG-TERM LOANS

During the first quarter of year 2012, the Company signed a sharia-compliant long-term refinancing facility agreement with local banks for a total amount of SR 10 billion. The proceeds were used to settle the outstanding balances of loans previously obtained by Etihad Etisalat Company (Mobily) which amounted to SR 5.8 billion as at December 31, 2011 (SR 1.2 billion for short-term loans and SR 4.6 billion for long-term loans). The remaining balance of the said facility will be used to finance the Company's capital expenditures and working capital requirements. The outstanding balance of the loan amounted to SR 7.35 billion as at December 31, 2012. During 2012, an amount of SR 150 million was paid.

The above long-term loan period is seven years and is repayable through semi-annual scheduled installments, with the first installment was settled in August 2012. The last installment is due on February 12, 2019.

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 SR 370 million which was used to settle the outstanding short-term loans and notes payable as at December 31, 2009. The outstanding balance of the loan amounted to SR 185 million as at December 31, 2012 (December 31, 2011: SR 308 million). During 2012, an amount of SR 123 million was paid.

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

On October 19, 2009, the subsidiary, Bayanat Al-Oula for Network Services Company, signed a sharia-compliant financing agreement with a local bank to finance its capital expenditure requirements for a total amount of SR 900 million. The outstanding loan balance amounted to SR 800 million as at December 31, 2012 (December 31, 2011: SR 900 million). During 2012, an amount of SR 100 million was paid.

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

11- DERIVATIVES

During the year 2008, the Company entered into interest rate hedging agreements with several local and international banks to hedge the cash flow risks from the fluctuations of loans Murabaha rates resulting from the financing activities for a notional amount of US$ 333 million (equivalent to SR 1.25 billion). The hedging agreements are based on the swap of fixed rates against floating rates between the Company and the banks. The change in the fair value of the derivative financial instruments is recorded under finance expenses caption in the consolidated statement of income. These contracts were terminated on December 31, 2012.

12- ACCOUNTS PAYABLE

	2012 SR'000	2011 SR'000
Capital expenditures payable	**2,424,979**	4,523,169
Trade payable	**3,155,448**	3,285,039
	5,580,427	7,808,208

13- ACCRUED EXPENSES AND OTHER LIABILITIES

	2012 SR'000	2011 SR'000
Accrued expenses for telecommunication companies	**630,164**	1,326,039
Deferred revenues	**617,721**	587,678
Government's share in trade earnings	**556,493**	518,278
Accrued selling and marketing expenses	**319,918**	196,734
Zakat (Note 14)	**80,310**	63,836
License fees	**39,349**	36,485
Other	**1,365,413**	1,219,832
	3,609,368	3,948,882

14- ZAKAT

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

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

	2012 SR'000	2011 SR'000
Share capital	**7,000,000**	7,000,000
Adjusted net income	**5,031,906**	3,912,324
Due to related parties	**63,133**	97,230
Provisions – beginning of the year	**774,429**	794,978
Liabilities against financing of property and equipment	**2,424,979**	4,523,169
Short and long-term loans	**7,072,907**	5,872,392
Adjusted accumulated earnings – beginning of the year	**2,698,227**	2,735,612

14- ZAKAT (Continued)

Less:	2012 SR'000	2011 SR'000
Property and equipment	**(18,680,020)**	(18,733,800)
Advance payments to suppliers of property and equipment	**(1,251,888)**	(241,878)
Goodwill	**(1,529,886)**	(1,529,886)
Capital work in progress	**(1,157,860)**	(2,272,607)

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

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

	2012 SR'000	2011 SR'000
Balance at January 1	**63,836**	81,860
Provision for the year	**69,900**	54,301
Payments during the year	**(53,426)**	(72,325)
Balance at December 31	**80,310**	63,836

The Company received the final assessment for year 2005. The Company filed its financial statements and zakat returns for all the years until year 2011 and paid the zakat dues accordingly. The Company received the final zakat assessments for the years 2006, 2007, 2008 and 2009 which showed additional charges that were objected by the Company's management. The management believes that adequate provisions were provided to meet any liability that might arise against any probable settlement to the DZIT.

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

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

The subsidiary, National Company for Business Solution filed its financial statements and zakat return for the year 2008. The Company did not receive the final zakat assessment for the year 2008 to date.

15- STATUTORY RESERVE

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's bylaws, 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.

16- REVENUES

	2012 SR'000	2011 SR'000
Usage	**17,093,107**	15,684,626
Activation and subscription fees	**1,231,966**	1,138,349
Other	**5,317,060**	3,229,279
	23,642,133	20,052,254

17- COST OF SERVICES AND SALES

	2012 SR'000	2011 SR'000
Cost of utilized inventories	**5,342,500**	3,194,748
Networks access charges	**3,871,573**	3,960,036
Government contribution fees in trade earnings	**1,148,475**	1,346,501
Rental and maintenance of network equipment expenses	**839,874**	829,121
Frequency waves fees	**128,923**	115,339
National transmission and interconnection links	**118,930**	105,954
License fees	**79,734**	92,465
Other	**78,318**	82,018
	11,608,327	9,726,182

18- SELLING AND MARKETING EXPENSES

	2012 SR'000	2011 SR'000
Advertisement, promotion and sales commissions	**625,221**	569,505
Other	**771,985**	603,101
	1,397,206	1,172,606

Other selling and marketing expenses include salaries, wages, and benefits related to sales and marketing employees.

19- GENERAL AND ADMINISTRATIVE EXPENSES

	2012 SR'000	2011 SR'000
Salaries, wages and employees' benefits	**795,303**	772,456
Provision for doubtful debts (Note 4)	**235,705**	187,806
Consulting and professional services	**120,352**	136,487
Rents	**104,687**	95,801
Management fees to Emirates Telecommunication Corporation (Note 5)	**37,513**	37,521
Travel and transportation	**36,142**	30,348
Board of Directors' remunerations and allowances	**8,164**	10,536
Other	**707,905**	428,189
	2,045,771	1,699,144

20- DIVIDENDS

Based on the mandate of the Company's Ordinary General Assembly, the Company's Board of Directors in its meeting held on October 18, 2012 (corresponding to Zul Hijah 2, 1433 H) resolved to distribute interim cash dividends for the third quarter of year 2012 of SR 1 for each outstanding share, in addition to the interim cash dividends that were distributed of SR 1 for each outstanding share for the first and second quarters of year 2012, respectively.

The Company's General Assembly in its meeting held on March 11, 2012 (corresponding to Rabie Al Thani 18, 1433 H) approved the Company's Board of Directors' recommendation to distribute cash dividends for the second half of the year ended December 31, 2011 of SR 2 for each outstanding share in addition to the interim cash dividends that were distributed of SR 1.25 for each outstanding share for the first half of the year ended December 31, 2011 to reach a total distribution for year 2011 of SR 3.25 for each outstanding share.

21- EARNINGS PER SHARE

Basic earnings per share from operating income and from net income for the year is calculated by dividing operating income and net income for the year by the outstanding number of ordinary shares as at December 31, 2012 and amounting to 700 million shares.

22- RISK MANAGEMENT

Financial instruments

Financial assets of the Company comprised of Cash and cash equivalents, short-term investments, accounts receivable, due from a related party and other assets, while financial liabilities of the Company comprised of short and long-term loans, accounts payable, due to related parties, provision for end-of-service benefits and other liabilities. Accounting policies for financial assets and liabilities are set out in Note 2.

Credit risk

Financial assets that are mainly subject to concentration of credit risk consist primarily of Cash and cash equivalents, short-term investments, accounts receivable and other assets. The Cash and cash equivalents and short-term investments are deposited with high credit rated banks, and consequently the credit risk is limited. The Company does not consider itself exposed to concentration of credit risk with respect to accounts receivable due to its diverse and large subscribers' base.

Foreign exchange risk

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks. Financial commitments are established to minimize foreign exchanges risks when management believes it is deemed necessary.

Murabaha rate risk

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

22- RISK MANAGEMENT (Continued)

Liquidity risk

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

23- FAIR VALUE

The fair value of the Company's consolidated financial assets and liabilities does not significantly differ from their carrying amounts. The Company's management believes that it is not exposed to any significant risk with respect to the aforementioned.

24- CAPITAL COMMITMENTS AND CONTINGENCIES

The Company and its subsidiary Bayanat Al-Oula for Network Services had capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the consolidated balance sheet date in the amount of SR 7 billion as at December 31, 2012 (December 31, 2011: SR 1.9 billion).

The Company and its subsidiaries had contingent liabilities in the form of letters of guarantee and letters of credit in the amount of SR 94 million and SR 122 million respectively as at December 31, 2012 (2011: SR 111 million and SR 178 million respectively).

25- SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments, 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 Company's operations, are not met as at December 31, 2012, the Company's management believes that operating segment information disclosure for the Company and its subsidiaries is not required.

26- SUBSEQUENT EVENTS

Following the recommendation of the Company's Board of Directors in their meeting held on Muharram 4, 1434 H (corresponding to November 18, 2012) to increase the Company's share capital by SR 700 million through the distribution of one bonus share for every ten outstanding shares to the shareholders, representing 10% of the Company's share capital, and the approval of the Capital Market Authority on this recommendation on Muharram 20, 1434 H (corresponding to December 4, 2012), the Extra-ordinary General Assembly approved in its meeting held on Safar 30, 1434 H (corresponding to January 12, 2013) the recommendation of the Board of Directors to increase the Company's share capital from SR 7 billion to SR 7.7 billion which will be financed from the balance of retained earnings as at September 30, 2012 to become SR 7.7 billion consisting of 770 million shares of SR 10 each. Preference will be given to shareholders registered in the Company's Shareholders register as at the end of the trading day on which the Extra-ordinary General Assembly was held.

The Company's Board of Directors in their meeting held on January 17, 2013 (corresponding to Rabie Al-Awal 5, 1434) proposed to distribute cash dividends of SR 885,500,000 for the fourth quarter of year 2012 representing SR 1.15 on each outstanding share

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27- COMPARATIVE FIGURES

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

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