Etihad Etisalat Company
(Joint Stock Company)
Financial Statements
December 31, 2007
With Auditor's Report

KPMG Al Fozan & Al Sadhan
Building No. 7103
Al Ahsa Street
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Telephone +966 1 291 4350
Fax +966 1 291 4351
Internet www.kpmg.com.sa

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **Etihad Etisalat Company – Joint Stock Company** ("the Company") which comprise the balance sheet as at 31 December 2007 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (25) which form an integral part of the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

1) present fairly, in all material respects, the financial position of the Company as at 31 December 2007, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and

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

For KPMG Al Fozan & Al Sadhan

Abdullah H. Al Fozan
License No. 348

12 Safar 1429 H
Corresponding to 19 February 2008

KPMG Certified Public Accountants
KPMG Al Fozan & Al Sadhan

Etihad Etisalat Company
(Joint Stock Company)
Balance Sheet
As of December 31, 2007
(Saudi Riyals' 000)

	Notes	2007	2006
Assets			
Current assets			
Cash and cash equivalents	(4)	703 198	547 523
Accounts receivable (net)	(5)	1 459 733	734 066
Due from a related party	(12a)	71 061	5 162
Inventories		69 190	38 048
Other current assets	(6)	810 295	716 688
Total current assets		**3 113 477**	**2 041 487**
Non current assets			
Property and equipment (net)	(7)	5 478 552	3 847 532
License acquisition fees (net)	(8)	11 286 694	11 800 160
Investment	(9)	1 836	—
Total non current assets		**16 767 082**	**15 647 692**
Total assets		**19 880 559**	**17 689 179**
Liabilities & shareholders' equity			
Current Liabilities			
Short-term loan	(10)	—	7 839 943
Current portion of long term loan	(10)	1 010 625	—
Creditors	(11)	3 076 067	2 526 019
Due to related parties	(12b)	111 485	179 335
Other current liabilities	(13)	623 687	320 294
Accrued expenses	(14)	1 207 463	677 513
Total current liabilities		**6 029 327**	**11 543 104**
Non current liabilities			
Provision for employees' end of service benefits		26 349	13 096
Founding shareholders' loan	(10)	—	1 600 000
Long term loan	(10)	7 912 356	—
Total non current liabilities		**7 938 705**	**1 613 096**
Total liabilities		**13 968 032**	**13 156 200**
Shareholders' equity			
Paid up capital	(1)	5 000 000	5 000 000
Retained earnings / (accumulated losses)		774 572	(467 021)
Statutory reserve	(15)	137 955	—
Total shareholders' equity		**5 912 527**	**4 532 979**
Total liabilities & shareholders' equity		**19 880 559**	**17 689 179**

Chief Financial Officer:

Thamer Mohammed Al Hosani

Managing Director and Chief Executive Officer:

Khaled Omar Al Kaf

The accompanying notes (1) through (25) form an integral part of these financial statements.

Etihad Etisalat Company

(Joint Stock Company)

Income Statement

For the year ended December 31, 2007

(Saudi Riyals'000)

	Notes	From 1/1/2007 To 31/12/2007	From 1/1/2006 To 31/12/2006
Operating revenue	(16)	8 440 432	5 840 815
Cost of providing services	(17)	(3 792 193)	(2 680 466)
Gross margin		4 648 239	3 160 349
Operating expenses			
Selling and marketing expenses	(18)	(466 553)	(365 200)
General and administrative expenses	(19)	(943 030)	(670 471)
Depreciation and amortization	(7,8)	(1 030 919)	(844 979)
Provisions		(291 847)	(124 174)
Total operating expenses		**(2 732 349)**	**(2 004 824)**
Operating income		**1 915 890**	**1 155 525**
Financing costs		(555 391)	(478 680)
Other income		43 251	23 513
Net income before zakat		**1 403 750**	**700 358**
Provision for zakat	(21)	(24 202)	—
Net income		**1 379 548**	**700 358**
Basic earnings per share	**(20)**	**2.76**	**1.40**

The accompanying notes (1) through (25) form an integral part of these financial statements.

Etihad Etisalat Company
(Joint Stock Company)
Statement of Changes in Shareholders' Equity
For the year ended December 31, 2007
(Saudi Riyals'000)

	Capital	(Accumulated losses)/ retained earnings	Statutory reserve	Total
Balance as of 31/12/2005	5 000 000	(1 167 379)	—	3 832 621
Net income for the financial year ended December 31, 2006	—	700 358	—	700 358
Balance as of 31/12/2006	**5 000 000**	**(467 021)**	—	**4 532 979**
Net income for the financial year ended December 31, 2007	—	1 379 548	—	1 379 548
Statutory reserve for the year ended		(137 955)	137 955	—
Balance as of 31/12/2007	**5 000 000**	**774 572**	**137 955**	**5 912 527**

The accompanying notes (1) through (25) form an integral part of these financial statements.

Etihad Etisalat Company
(Joint Stock Company)
Cash Flow Statement
For the year ended December 31, 2007
(Saudi Riyals '000)

	Notes	2007	2006
Cash flows from operating activities			
Net income for the year before zakat		1 403 750	700 358
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of license acquisition fee	(8)	513 466	513 466
Depreciation	(7)	517 453	331 513
Provision for employees' end of service benefits		15 006	10 698
Provision for doubtful debts		251 478	113 476
Borrowing cost		540 700	668 376
Operating income before changes in working capital		3 241 853	2 337 887
Changes in working capital :			
Accounts receivable		(977 146)	(680 720)
Inventories		(31 142)	(5 973)
Other current assets		(93 607)	66 077
Due from related parties		(65 899)	(5 162)
Creditors		277 914	597 705
Due to related parties		(67 849)	(13 916)
Other current liabilities		303 393	102 277
Accrued expenses		505 749	(39 700)
Cash generated from operations		3 093 266	2 358 475
Payment of employees' end of service benefits		(1 753)	(252)
Payment of borrowing cost		(938 311)	(430 213)
Net cash generated from operating activities		**2 153 202**	**1 928 010**
Cash flows from investing activities			
Purchase of property and equipment		(1 876 341)	(1 819 310)
Investment		(1 836)	—
Net cash (used in) investing activities		**(1 878 177)**	**(1 819 310)**
Cash flows from financing activities			
Payment of short-term loan	(10)	(7 523 100)	(6 869 449)
Payment of founding shareholders' loans	(10)	(1 600 000)	—
Proceeds from syndicate bank loan	(10)	9 187 500	—
Payment of syndicate bank loan	(10)	(183 750)	—
Proceeds from short-term loan		—	7 123 100
Net cash (used in) / generated from financing activities		**(119 350)**	**253 651**
Net increase in cash and cash equivalents		**155 675**	**362 351**
Cash and cash equivalents at the beginning of the year		**547 523**	**185 172**
Cash and cash equivalents at the end of the year	**(4)**	**703 198**	**547 523**

The accompanying notes (1) through (25) form an integral part of these financial statements.

1. ORGANIZATION AND ACTIVITIES

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

The main activity of the Company is to establish and operate public wireless telecommunications network in the Kingdom of Saudi Arabia . The Company has started its commercial operations in 25 May 2005.

The company issued 100 million shares at par value SR 50. Per Capital Market Authority resolution # 2006-154-4 on 27 March 2006 a share split was implemented on April, 8th 2006 whereby the share was split into five shares at par value SR 10 each and accordingly the company issued shares are currently 500 million shares. The Emirates Telecommunications Corporation - Etisalat, UAE holds 35% of the shares and 6 Saudi shareholders hold 45% of the shares. The remaining 20% of the share capital is held by the public.

2. BASIS OF PREPARATION

These financial statements are prepared in accordance with standards issued by Saudi Organization for Certified Public Accountants (SOCPA). The financial statements, expressed in Saudi Riyals, are prepared under the historical cost convention using the accrual basis of accounting and the going concern concept. (Except as stated in note 3k)

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

a) Cash and cash equivalents

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

b) Accounts receivable, net

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

Allowance for doubtful debts is calculated based on aging of account receivables and the company previous experience in collecting receivables.

c) Inventories

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

d) Provisions

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

e) Property and equipment

Property and equipment, except land are stated at cost less accumulated depreciation. Land and capital work in progress are stated at cost. Routine repair and maintenance costs are expensed as incurred.

Depreciation on property and equipment is charged to income using straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given below for each class of assets.

	Rates
Building	5 %
Telecommunication equipment	5 – 10 %
Leasehold improvements	10 %
Computer, office equipment and furniture	20 %
Vehicles	20 %

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

f) Impairment

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

g) License acquisition fees

License acquisition fees are amortised over 25 years which is the regulatory life of the license. Amortization is charged to income statement from the date of granting the license. The capitalized license acquisition fee is reviewed on each reporting date to determine any impairment in the recorded value.

h) Investment

Investments are recorded by using the cost method. In case of any permanent impairment in its values, the amount of the impairment is charged to the income statement.

i) Creditors

Liabilities to trade suppliers and contractors are recognised for amounts to be paid in the future for equipment and goods or services received.

j) Provision for employees' end of service benefits

The provision for Employees' end of service benefits are calculated and accrued in accordance with the Saudi Labor and Workmen's Law, as well as Company's policies.

k) Foreign currency transactions

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

l) Zakat

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

m) Expenses

Selling and marketing expenses are those, which specifically relate to selling and marketing of the Company's products, and include costs relating mainly to commission and advertising. All other expenses other than cost of providing services are classified as general and administrative expenses.

The Company changed its business arrangements with its distributors during the year 2007 whereby some types of discounts previously included as part of selling & marketing expenses are now deducted directly on the exchange of goods. 2006 figures for revenue and selling & marketing expenses has been reclassified to conform with the current year presentations.

n) Government Charges

Government charges represent fees and charges as stipulated in the license agreements and paid against the right of use of telecommunication services in the Kingdom including frequency fees. These fees are recognized in the related periods during which they are used.

o) Financial instruments

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

p) Interconnection Cost

Interconnection costs represent national and international interconnection charges paid to local and foreign operators. Interconnection cost is recognized in the period when relevant calls are made.

q) Revenue Recognition

Revenue in respect of telecommunications services is accounted for in the year when the services are rendered and is stated net of trade discount and rebates for the period.

Revenues from sale of handsets equipment and accessories are recognized when the handsets equipment and accessories are delivered to customer.

r) Operating leases

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

4. CASH AND CASH EQUIVALENTS

(Saudi Riyals'000)	2007	2006
Cash in hand	590	468
Cash at banks	702 608	547 055
	703 198	**547 523**

5. ACCOUNTS RECEIVABLE, NET

(Saudi Riyals'000)	2007	2006
Subscribers	474 928	189 274
* Allowance for doubtful accounts	(329 171)	(77 693)
	145 757	**111 581**
Other telecom operators	1 089 574	492 723
Distributors	224 402	129 762
	1 459 733	**734 066**

* Movement in the allowance for doubtful account are as follows:

(Saudi Riyals'000)	2007	2006
Balance as at 1st January	77 693	50 000
Additions during the year	251 478	113 476
	329 171	**163 476**
Bad debts	-	(85 783)
	329 171	**77 693**

6. OTHER CURRENT ASSETS

(Saudi Riyals'000)	2007	2006
Prepaid expenses	186 483	175 421
Advances to suppliers**	282 042	243 227
Accrued revenue	196 163	227 060
Staff advances	2 823	2 178
Others	142 784	68 802
	810 295	**716 688**

** Advances to suppliers include an amount of SR 238 million (2006: SR 229 million) related to supplier of telecommunication equipment.

(Saudi Riyals'000)

7. PROPERTY AND EQUIPMENT (NET)

	Land	Building	Telecommunication equipment	Computer equipment & software	Office equipment & Furniture	Vehicles	Leasehold Improvements	Capital work in progress	Total
Cost									
Cost as at 1/1/2007	6 745	—	2 541 477	319 439	139 585	684	180 085	1 064 558	4 252 573
Additions for the year	41 077	8 233	2 013 231	89 082	54 142	—	62 069	(119 361)	2 148 473
Total cost as at 31/12/2007	**47 822**	**8 233**	**4 554 708**	**408 521**	**193 727**	**684**	**242 154**	**945 197**	**6 401 046**
Accumulated depreciation									
Accumulated depreciation as at 1/1/2007	—	—	278 368	62 641	32 592	335	31 105	—	405 041
Depreciation for the year	—	309	380 152	78 291	35 432	92	23 177	—	517 453
Accumulated depreciation as at 31/12/2007	**—**	**309**	**658 520**	**140 932**	**68 024**	**427**	**54 282**	**—**	**922 494**
Net book value as at 31/12/2007	**47 822**	**7 924**	**3 896 188**	**267 589**	**125 703**	**257**	**187 872**	**945 197**	**5 478 552**
Net book value as at 31/12/2006	**6 745**	**—**	**2 263 109**	**256 798**	**106 993**	**349**	**148 980**	**1 064 558**	**3 847 532**

8. LICENSE ACQUISITION FEES (NET)

(Saudi Riyals'000)	Mobile telecommunication service license fees	3G license fees	Other licenses	Total license fees
Cost as at1/1/2007	12 210 000	753 750	15 489	12 979 239
Cost as at 31/12/2007	12 210 000	753 750	15 489	12 979 239
Less:				
Accumulated amortization as at 1/1/2007	1 110 064	67 724	1 291	1 179 079
Amortization for the year	482 606	29 827	1 033	513 466
Accumulated amortization as at 31/12/2007	1 592 670	97 551	2 324	1 692 545
Balance as at 31/12/2007	**10 617 330**	**656 199**	**13 165**	**11 286 694**
Balance as at 31/12/2006	**11 099 936**	**686 026**	**14 198**	**11 800 160**

9. INVESTMENT

This represent the Company's investment of 99.99% in Mobily InfoTech Private Limited Company incorporated in Bangalore, India. The activity of the subsidiary is to develop specific software for Mobily's information technology use and to provide information technology support for the Company. The Company does not consolidate this investment as it is immaterial.

10. LOANS

On March 14, 2007, the Company signed long term Islamic financing agreements with a group of local, regional and international banks for US$ 2.875 billion (SR 10.782 billion). The structure of the Islamic Financing is based on selling the airtime minutes to participating banks and re-distributing the minutes to subscribers on behalf of banks.

The facility agreements signed were:

(a) Airtime Financing Facility US$ 2.450 billion (SR 9.1875 billion)
(b) Working Capital Murabaha Facility US$ 200 million (SR 750 million)
(c) Financial Support Murabaha Facility US$ 225 million (SR 843.75 million)

The Airtime Financing Facility was fully drawn on March 29, 2007 amounting to SR 9.1875 billion to repay the maturing obligations i.e., Short Term Bridge Loan Facility of SR 7.1 billion and founding shareholders' loans.

Working Capital Murabaha Facility and Financial Support Murabaha Facility were not utilized by the end of the year.

The tenure of the loan is 6 years with semi-annual unequal instalments, first instalment was paid on December 31, 2007. The final installment will be a balloon payment of 33% of long term loan on December 31, 2012. The murabaha profit is payable on quarterly basis.

Long term loan is presented after deducting initial unamortised financing cost and by adding accrued murabaha profit.

11. CREDITORS

(Saudi Riyals'000)	2007	2006
Trade payables	1 036 346	758 431
Capital expenditure payables	2 039 721	1 767 588
	3 076 067	**2 526 019**

12. RELATED PARTY TRANSACTIONS

The Company entered into a management agreement with the Emirates Telecommunications Corporation (Etisalat) as its operator effective from 14 August 2004. The agreement requires Etisalat to provide services comprising of executive and senior management services, implementation of the network roll-out programme, management of the capital investment programme, provision of customer operations, execution of saudization, establishment of national distribution channels, and licensing of the intellectual property rights. The company pays an annual management fee of SR 37.5 million (USD 10 million) for services provided under the agreement.

The agreement is entered into on an arm's length arrangement for a period of seven years and can be automatically renewed for successive periods of five years unless the company serves a 6 month notice of termination or Etisalat serves a 12 month notice of termination prior to the expiry of the applicable period.

The nature of transactions and the related balances are as follows:

(Saudi Riyals'000)		**Transactions during the year ended**	
Name	**Nature of transactions**	**2007**	**2006**
Emirates Telecommunications Corporation	- Management fees	37 500	37 500
	- Seconded staff cost	40 221	70 983
	- Other management cost	76 963	-
	- Telecom services (net)	133 861	94 830
Emirates Data Clearing House	- Roaming services	2 795	12 156

a) Due from related party	**2007**	**2006**
Emirates Telecommunications Corporation	71 061	5 162
	71 061	**5 162**

b) Due to related party	**2007**	**2006**
Emirates Telecommunications Corporation	106 641	176 262
Emirates Data Clearing House	4 844	3 073
	111 485	**179 335**

The nature of the related party relationships is as follows:

- **Emirates Telecommunications Corporation**
  Direct shareholder with 35 % equity in the Company.
- **Emirates Data Clearing House**
  Affiliated Company of Etisalat Group, UAE.

13. OTHER CURRENT LIABILITIES

(Saudi Riyals'000)	2007	2006
Deferred revenue	553 558	313 200
Others	70 129	7 094
	623 687	**320 294**

14. ACCRUED EXPENSES

(Saudi Riyals'000)	2007	2006
Telecommunication operators	348 729	351 475
License fees	19 185	1 247
Government revenue share	283 490	10 075
Leave salaries	29 501	15 705
Staff training accrual	3 724	6 143
Selling and marketing costs	142 514	105 071
Others	380 320	187 797
	1 207 463	**677 513**

15. STATUTORY RESERVE

In accordance with article 125 of the Saudi Arabian regulations for companies, the Company is required to reserve at least 10% of net income as a statutory reserve. The regular general meeting may resolve to stop such statutory reserve when the said reserve amounts to one half of the Capital. This reserve is not available for distribution.

16. OPERATING REVENUE

(Saudi Riyals'000)	2007	2006
Activation fees	26 767	19 883
Rental fees	291 966	213 786
Usage	6 411 726	4 365 619
Interconnect revenue	1 462 203	1 110 587
Visitor roaming	110 111	81 898
Others	137 659	49 042
	8 440 432	**5 840 815**

17. COST OF PROVIDING SERVICES

(Saudi Riyals'000)	2007	2006
Consumption of inventories	173 096	85 533
Interconnection expenses	1 763 212	1 242 243
National and international roaming cost	123 142	364 130
License fees	63 134	44 600
Government revenue share	947 594	444 582
Frequency charge and yearly rental	39 313	22 355
Transmission and international gateway cost	280 815	222 055
Technical repair & maintenance cost	244 510	126 901
Rental GSM	143 203	114 165
Others	14 174	13 902
	3 792 193	**2 680 466**

18. SELLING AND MARKETING EXPENSES

(Saudi Riyals'000)	2007	2006
Advertising and commissions	443 564	347 019
Others	22 989	18 181
	466 553	**365 200**

19. GENERAL AND ADMINISTRATIVE EXPENSES

(Saudi Riyals'000)	2007	2006
Staff expenses	555 885	359 241
Rental	38 881	30 664
Professional services	73 448	29 257
Management fees	37 500	37 500
Seconded staff cost	40 221	70 983
Other management cost	76 963	-
Remuneration and allowance to board members	4 464	2 005
Travelling and accommodation	18 767	14 426
Others	96 901	126 395
	943 030	**670 471**

20. EARNING PER SHARE

Earning per share is calculated by dividing the net income attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

21. ZAKAT

The Zakat declarations for the years ended 31 December 2005 and 31 December 2006 have been submitted to the Department of Zakat and Income Tax (DZIT). However, the DZIT has not yet raised the assessment for these years.

Zakat provision has been provided in the accompanying financial statements for the year ended December 31, 2007 and calculated in accordance with Saudi Arabian zakat and income tax regulations.

The calculation of zakat provision is as follows:

	2007	2006
Capital	5 000 000	5 000 000
Short-term/Long-term loan	8 922 981	7 348 129
Founding shareholders loan	-	1 600 000
Due to related parties	2 344	-
Adjusted net income for the year	969 599	49 665
Opening balance of provisions	90 789	52 650
Liabilities against finance of fixed assets	2 039 721	1 725 035
	17 025 434	15 775 479
Deductions		
Net fixed assets	14 978 278	14 822 130
Suppliers advances to telecommunication equipment	238 366	229 415
Investments	1 836	-
Opening balance of adjusted accumulated losses	1 471 854	1 167 379
Zakat base	335 100	(443 445)
Zakat @ 2.5%	8 378	-

Some of these amounts have been adjusted in arriving at the net income for the year.

	2007	2006
Net income for the year	1 403 750	700 358
Add / (deduct) back:		
Allowance for doubtful accounts	251 478	113 476
Provision for employees' end of service benefits	13 253	10 446
Depreciation differences and other expenses	(698 882)	(774 615)
	969 599	49 665

Zakat provision movement:

	2007	2006
Provision for the year	8 378	-
Additional provision	15 824	-
	24 202	-

22. FINANCIAL INSTRUMENTS

Financial assets of the Company comprise of cash in hand and at bank, accounts receivable, due from a related party and other current assets. Financial liabilities of the Company comprise of long/short term loans, creditors, due to related parties, employees' end of service benefits and other current liabilities. Accounting policies for financial assets and liabilities are set out in note 3.

Credit risk

Financial assets, which may be subject to concentration of credit risk, consist principally of cash in hand and at banks and accounts receivable. The Company's cash equivalents are placed with banks of repute and hence the credit risk is limited. Management closely monitors exposure to credit risk in case of accounts receivable.

Foreign exchange risk

The management closely monitors the exchange rate fluctuations. Based on their experience, the management does not believe it is necessary to account for foreign exchange risk. However, when management feels necessary hedging arrangements will be made to minimize the risk.

Murabaha rate risk

The Company does not have any significant murabaha rate risk. Murabaha rates on bank deposits and long/short term loans are based on pre set murabaha costs based on prevailing market rates. However, if management feels necessary hedging arrangements will be made to minimize the risk.

Liquidity risk

Liquidity risk is closely monitored by performing regular review of available funds and present and future commitments.

Fair value

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

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

23. COMMITMENTS AND CONTENGENCIES

a) Capital commitments represent the fixed assets contracts entered into and not yet executed at the balance sheet date which amounted to SR 2.645 billion as at December 31, 2007 (SR 2.701 billion as at December 31, 2006).

The Company entered in strategic partnership to build, deploy, and operate the latest fiber optics network on turn key project under the name Saudi National Fiber Network with 12,600 kilometer length around the Kingdom. The project ownership is shared between the Company and two other partners. The Company entered in the project with the aim of supporting and complementing its mobile network services by enabling it to provide other services of highly sophisticated technologies.

The total cost of the network is about one billion Saudi Riyals and the Company share is one third of this amount. The project is being constructed and deployed in phases composed of seven rings, Ring 1, Ring 2 and Ring 7 were completed in June 2007, July 2007 and Dec 2007 respectively. The other four rings will be completed by October 2008.

b) The Company has signed Memorandum Of Understanding (MOU) to acquire 99.99% shares of Bayanat Al-oula for Network Services Limited Liability Company on 18 September 2007. According to MOU acquisition includes the transfer of all the company's rights, assets including long-term assets and obligations, commercial name and current and future brand name for 1.5 billion Saudi Riyals.

MOU will be considered cancelled without any obligations on parties involved, if approval is not granted from either Communications and Information Technology Commissions (CITC) or any other governmental organization for full or partial sell or transfer of the shares.

c) Contingencies:
The Company, in normal course of business, is subject to proceedings law suit and other claims. However these matters are not expected to have a material impact neither on company's financial position nor on the results of its operation as reflected in this financial statements.

24. SUBSEQUENT EVENT

In accordance with requirements of the Royal Decree No. (m/40) dated 2/7/1425H, The Company has received a notification from the founding shareholders of their intention to sell one hundred million shares.

The board of directors has decided to recommend to the company's extraordinary general assembly to approve to increase the company's capital from SR 5 billion to SR 7 billion, through the issuance of new shares at par value of SR 10.

25. COMPARATIVE FIGURES

Wherever required the comparative figures in the financial statements have been reclassified to conform with the classification of the financial statements as at December 31, 2007.