mobily annual report 07

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His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud
Crown Prince, Deputy Prime Minister, Minister of
Defense and Aviation and Inspector General

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

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corporate information

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

Business Address
26th Floor, Kingdom Tower
P.O.Box 23088
Riyadh 11321
Kingdom of Saudi Arabia
Website: http://www.mobily.com.sa

Auditors
KPMG Al Fozan & Al Sadhan
Abdullah H. Al Fozan
Licence No 348

Shareholder Transparency
Investor information and literature requests should be addressed to:
Etihad Etisalat Company - Mobily
Investor Relations
P.O.Box 9979 Riyadh 11423
Kingdom of Saudi Arabia

E-mail: investorcontact@mobily.com.sa

Shareholders account enquiries should be directed to +966 56 040 4040

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annual milestones

2004

- Mobily awarded Saudi Arabia's first 3G and second GSM licenses.
- Completion of Islamic financing for $2.35 billion.
- Build-out of Mobily's GSM network begins.
- Initial Public Offering of 20 million Mobily shares - oversubscribed 51 times.

2005

- Launch of the commercial name – Mobily.
- Signing of the interconnect agreement with Saudi Telecommunications.
- Mobily launched commercial GSM services in 32 cities (license requirement only seven), bringing coverage to 79.2 per cent of the population.
- More than one million subscribers achieved.
- Mobily turns EBITDA positive.

2006

- Mobily launches 3.5G service – the first in the Kingdom.
- Strategic partnership signed with ITC and Bayanat Al-Oula to build 12,600 km advanced fiber optic network.
- Mobily turned cash-flow positive.
- Mobily subscribers total just over 6 million at year-end, representing more than 30 per cent market share.
- Population coverage exceeds 90 per cent.
- Mobily available at more than 3600 points of sales.

2007

- Net income, before Zakat, doubles to SAR 1,404 million (US$374 million).
- Earnings per share grows 97.14% from SAR 1.40 (US$0.37) to SAR 2.76 (US$0.74).
- Islamic financing of SAR 10.78 billion (US$2.875 billion) to pay off short-term debt and to finance operations and the Company's infrastructure expansion secured setting a new benchmark in terms of value and the manner in which it was structured.
- Mobily announces plans to invest an additional SAR 1 billion (US$267 million) to enhance its 3.5G network.
- A Memorandum of Understanding signed to acquire 99.9% of Bayanat Al-Oula that holds a license to build, manage and operate a data communications network in the Kingdom.
- 4843 base stations, 993 of them 3.5G capable.
- More than eleven million subscribers achieved.

board of directors

Mobily is committed to complying with high standards of corporate practice in order to provide ethical, fair and transparent dealings with all our stakeholders. We have implemented the necessary controls and mechanisms to achieve this aim.

The Board seeks to consistently meet the highest standards of responsible conduct in order to achieve a good balance between direction, control, accountability, responsibility, fairness and transparency in the Company.

Abdulaziz bin Saleh Alsaghyir (Chairman)

BSc in civil engineering, University of Kansas, USA; chairman, Abdulaziz Alsaghyir Commercial Investment Company; member of the Board of Electricity and Co-Generation Regulatory Authority; executive committee member, Rana Investment Company.

Khaled Omar Al Kaf (Chief Executive Officer & MD)

Honors degree in computer engineering, George Washington University, USA; 17 years in progressively senior positions in the telecom industry, working in France, Japan, and the UAE.

Mohammad Hassan Omran

Engineering degree in electronics and communications, Cairo University, Egypt; chairman of Etisalat - UAE and its fully-owned subsidiaries and chairman of Thuraya.

Salem Al-Sharhan

BSc in accounting, United Arab Emirates university UAE; chief financial officer of Etisalat; chairman, Zantel; board member, Atlantique Telecom.

Abdulaziz Hamad Abdulaziz Aljomaih

BSc in architectural engineering, King Saud University, Saudi Arabia; master's degree in general administration, University of California, USA; assistant vice-president, Aljomaih Holding Company; chairman, Bahrain Steel Iron Company; vice-chairman, Arcapita Bank in Bahrain.

directors

Ibrahim bin Mohammed Al-Seif
Master's degree in economics, Southern California University USA; general manager, investment department, GOSI; board member, SAFCO.

Saeid Binzagr
BSc, University of Leinfield, USA; vice-president, Binzagr Company.

Dr Mazen Ibrahim Hassounah
MSc and PhD in planning, University of Toronto; BSc in civil engineering, University of Petroleum & Minerals, Saudi Arabia; CEO and board member, Rana Investment Company; distinguished academic career in Canada and the UK.

Dr Fahad Abdullah Mubarak
PhD in business administration, University of Houston, USA; chairman & MD, Morgan Stanley - KSA.

Ahmed Abdulkarim Julfar
BSc in civil engineering, Gonzaga University, Washington, USA; chief operating officer, Etisalat, responsible for core business in the UAE retail market; board member, E-Vision, the UAE cable TV operator; board member, Etisalat Academy.

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chairman's statement

statement

"The Saudi Arabia telecom sector is expected to witness a strong growth surge. All the economic factors for Mobily's continued success are in place – the Kingdom's continued transformation, comparatively low per capita spend on telecoms and favorable demographics." - Chairman Abdulaziz bin Saleh Alsaghyir describes how Mobily is poised to benefit from these exciting market conditions.

Once again Mobily has produced a set of outstanding results reflecting, as before, the strength and ability of the Board, Management and Staff.

The Company revenues surged to SAR 8,440 million (US$2,250 million) an increase of 44.4%. EBITDA was SAR 2,947 million (US$786 million) - up 47% from last year.

This trend in the Company's performance is expected to be maintained as it continues to benefit from the growth in the Kingdom's telecom sector.

Saudi Arabia is undergoing an unparalleled transformation designed to encourage private sector involvement outside the oil industry and, in 2007, the World Bank recognized the Kingdom's as one of the world's top performers and the best place to do business in the Middle East and the Arab.

The build-up of foreign assets in the country has reached record levels and the economy is stronger than ever before.

The solid foundations which were laid down at the time of our establishment three years ago, plus our on-going infrastructure development, rapid achievement of profitability and the development of our skilled and dedicated people will assist Mobily achieve its performance goals into the future.

Saudi Arabia's per capita spend on telecoms is lower than the region's average which suggests exciting growth prospects for the Company. The broadband market also offers particularly good potential. Broadband penetration is still virtually untapped and a vast requirement for data services is expected from the expanding business sector.

In anticipation of this growth, an additional SAR 1 billion (US$266 million) is being invested in the expansion of our 3.5G infrastructure as well as further development of the 12,600-kilometer fiber optic network. I am sure that these and other similar investments, will entrench Mobily as the leading broadband service provider in Saudi Arabia, offering the best possible technology within the best possible cost structure.

Favorable demographics exist within the young, wealthy and service oriented population and this, supplemented by a growing expatriate community, offers yet another growth opportunity for the Company.

A third mobile license has been awarded in the Kingdom and I am confident that, although we will compete strongly with the new entrant, we will work together in a friendly and ethical manner and we will share our network with them. There is room in this market for all suppliers of telecom services and we look forward to the growth which Mobily has enjoyed in the past being continued in the years ahead.

We are aware of local investment opportunities that will further strengthen our position as a leading provider of telecom services - and potential also exists for us to invest abroad. All meaningful ventures that fit in with our defined growth strategy will be considered.

Our people development programs continue to yield positive results and our staff contingent, which includes more than 80% Saudi nationals, has contributed significantly to our success during the year.

I would like to thank both main authorities overseeing the Saudi telecom sector, the Communications and Information Technology Commission (CITC) and the Ministry of Communications and Information Technology (MCIT) for their guidance and co-operation. I would also like to thank other contributors, the Board, executives and our staff for their efforts, assistance and continued support.

Abdulaziz bin Saleh Alsaghyir | Chairman

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chief executive

chief executive officer's review

"We seek to elevate Mobily as a profitable company striving for excellence and to add to the advancement of the Saudi economy as well as the telecom sector." - Khaled Omar Al Kaf.

Mobily's exponential success, which has been brought about by careful planning and execution, is a noteworthy achievement – not only in the region but, I believe, in the world.

Our financial results indicate increased levels of revenue and profitability that reflect the high levels of commitment and ability of our executive and management team. We are particularly proud that net income, before zakat, reached SAR 1,404 million (US$374 million) representing a 100% increase on last year's figure. Our earnings per share grew from SAR 1.40 (US$0.37) to SAR 2.76 (US$0.74), an increase of 97.14%.

Spending on telecom services in the Kingdom continued to expand and we not only increased revenues from a larger number of multicultural subscribers but also increased our market share.

The way forward is for us to continue with the same formula of technical innovation, segmented product offerings and market responsive pricing that have served us well in the past and which will continue to do so in the years ahead.

The year 2008 will see the completion of our fiber optic network that will be expanded globally together with a consortium including Etisalat of the UAE and Etisalat Misr of Egypt. This will mean faster transmission speeds and more cost effective international and regional calling rates revolutionizing the Saudi Arabia telecom industry. Our 3.5G network, the first in the Kingdom, represents one of the latest operating technologies of its kind in the world and will provide users with some of the most sophisticated facilities available in any global market. As a result, data revenue will grow and support any downward pressure on our ARPU. An indication of mobile broadband potential is that about 1,000 customers a day were signing up for HSDPA internet packages immediately after they were introduced in June.

One of our high priority focuses during the year will be the development of convergent technologies that will integrate a wide variety of user devices. Customers are increasingly seeking single billing, single customer care and single service providers for their home, mobiles and business. We are focusing on this need and will actively seek new collaborations, partnerships and acquisitions in line with this demand.

We aggressively grew our franchised service and distribution network, which is staffed by highly trained and skilled personnel, across all major cities, towns and villages, some of which have not been serviced in the past and we added a new customer contact center employing 500 people.

We have established a strong market presence and brand identity across the Kingdom. This was strategically developed focusing on various market segments. In particular, the Mobily brand has appeal to young and technologically minded users who look to own and use the latest products and services while receiving the best possible customer care. Studies show that 45% of the Kingdom's population is less than 20 years old representing a strong upside potential for growth. To cater for this huge youth market, specific branded products and services were launched into this segment. We are pursuing a fixed line substitution strategy with our home zone product that was introduced during the year as being one of the first in category. We also plan to offer devices that will replace the fixed-line home service.

The Company's philosophy of innovation was extended into the sports arena with a five-year, SAR 200 million (US$53 million) deal with Al-Hilal Club. This heralded a new era of sponsorship in the Kingdom and typifies Mobily's approach to both community involvement and corporate business conduct. We look forward to other organizations following our example. Our study of community aspirations has contributed significantly to Mobily's sponsorship goals and, as in the past, we will continue to seek out those opportunities for meaningful programs to which we can contribute.

A study, which is being undertaken together with leading consultancies, will determine recommendations to provide the best employment environment, not only in the Kingdom but also in the region. A program of employee retention has been adopted and the study is investigating the Company's remuneration scales, staff benefits and rewards to create job satisfaction, trust, care and comfort that will be reflected in the retention of our customers. Billions of Saudi riyals have been invested in creating an effective framework, network and technology and this, together with the dedicated efforts of our 3,000 plus staff will ensure that Mobily is destined to strongly contend with all market challenges into the future.

Khaled Omar Al Kaf | Chief Executive Officer


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financial highlights

Twelve Months period ending December	2007 SAR mn	2006 SAR mn	Change %
Activation Revenue	27	20	35%
Rental Fees	292	214	36%
Usage	6,412	4,366	47%
Interconnect Revenue	1,462	1,111	32%
Visitors Revenue	110	82	34%
Others	138	49	182%
Operating Revenue	**8,440**	**5,841**	**45%**
EBITDA	**2,947**	**2,001**	**47%**
EBITDA Margin (%)	**34.9%**	**34.3%**	
Operating Income	**1,916**	**1,156**	**66%**
Financing Cost	(555)	(479)	
Interest coverage (Times)	3.45x	2.41x	
Other Revenues	43	24	84%
Net Income Before Zakat	**1,404**	**700**	**100%**
Zakat Provision	(24)		
Net Income	1,380	700	97%
Basic Earnings per share (SAR)	2.759	1.401	97%

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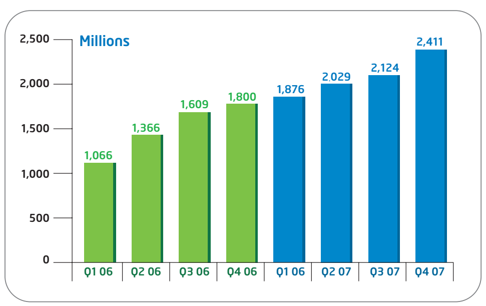
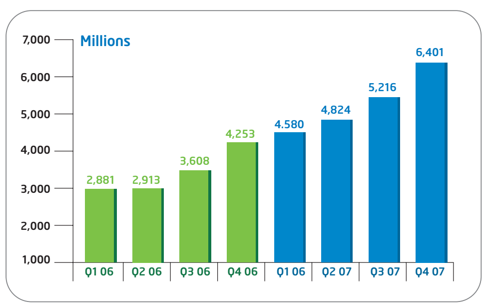
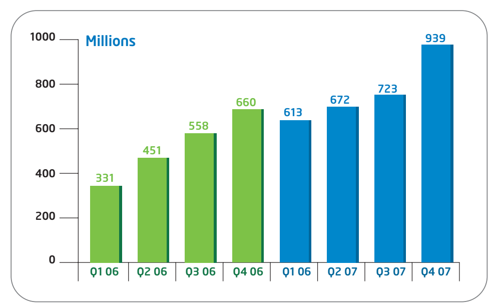
financial highlights



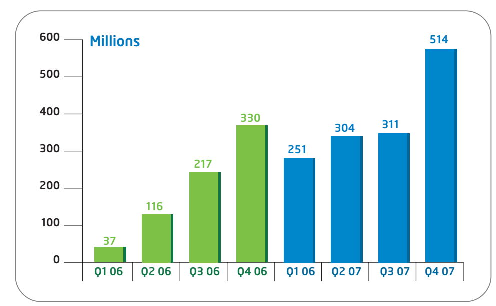
Total Operating Revenue (SAR)



Cumulative CAPEX (SAR)



EBITDA (SAR)



Net Income (SAR)

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sustainability,corporate developments and achievements

"In order to continue with the exponential success that the Company has enjoyed, Mobily is committed to building on the solid foundations that were laid down at the time of its inception. We continue to strive for the benefit of all our stakeholders."

The 2007 financial year was defined by a series of notable achievements in the fields of corporate financing, network coverage, distribution and in the Company's social and shareholder involvement programs.

Shari'ah compliant debt finance

A highlight of the year was the securing of SAR 10.78 billion (US$2.875 billion) Islamic financing, which not only set a new benchmark in terms of value but also in the manner in which it was structured. The transaction incorporated an innovative structure with the buying and selling of airtime as a commodity and was successfully closed by ABN AMRO, Banque Saudi Fransi, Calyon, National Bank of Abu Dhabi, The National Commercial Bank, Samba Financial Group and Saudi Hollandi Bank (together the Initial Mandated Lead Arrangers "IMLAS"). The syndication was well received in the market and resulted in a substantial oversubscription. The financing was used to pay off short-term debt and to finance operations and the Company's infrastructure expansion.

Network expansion

Broadband usage grew substantially to more than 7 terabyte (7,000 gigabyte) daily and this increasing demand for high-end services warranted an SAR 1 billion (US$267 million) expansion of the HSDPA network. Towards the end of the year, the first phase of the second 3.5G expansion plan was completed adding coverage to three new major cities in the Eastern Province - Hufouf, Al Jubail and Hafr Al Baten, bringing to 23 the number of cities covered with HSDPA and UMTS technology. Areas with no HSDPA access have 3G coverage while areas, with no 3G coverage, offer Mobily subscribers access to Internet based on EDGE. Mobily is considered to be among the largest companies in MENA providing 3G wireless services and will retain its position as the leading supplier of broadband services in the region.

Coverage of new highways in the northern parts of Saudi Arabia was completed by the addition of 228 base stations at a cost of SAR 500 million (US$133 million). This brings the total number of base stations to 4843, including 993 that are 3.5G capable, giving a population coverage of more than 95% and coverage of highways in the Kingdom to more than 20,000 kilometers. Mobily grew its network coverage by an average of two towers a day. Further work was completed, which covered villages, suburban areas and roads between villages that had not been covered previously by our independent network. In addition, coverage was extended to certain areas of the Kingdom that had not previously had any mobile network coverage - including some Aramco sites.

During the year it was agreed that the Company's extensive network across the Kingdom would be shared with the Zain Group who bid successfully for the third mobile license in the Kingdom. The arrangement is seen as a strategic move without, in any way, compromising Mobily's strength in the market.

Fiber Optic Network

The Company, together with Integrated Telecom Company and Bayanat Al-Oula, announced the completion of the first phase of the fiber optic network project that covers the central, western and eastern regions of the Kingdom. When fully completed in 2008, at a total cost of SAR 1 billion (US$267 million), the network will comprise seven rings, with a total length of 12,600 kilometers, connecting all parts of the Kingdom. The design of the network allows for it to be enhanced up to 10 times if required. This new network represents a strategic option, enabling Mobily to better capture the strong growth in the currently booming broadband market in Saudi Arabia and generating improved revenues and margins.

Recognizing the strategic importance of this network, a Memorandum of Understanding was signed to acquire 99.9% of Bayanat Al-Oula for SAR 1.5 billion (US$400million). The deal, includes the acquisition of Bayanat's stake in the network. Bayanat holds a license to build, manage and operate a data communications network in the Kingdom and has entered into an agreement to roll out the largest WiMAX network in the region. The deal signifies the Company moving closer to its goal of maximizing converged offerings to customers.

Roaming

To better serve the community, Mobily continued with its program of entering into international roaming agreements. The Company has agreements with more than 324 mobile operators worldwide in 132 countries, including 168 GPRS in 39 countries and 101 MMS roaming agreements in 50 countries. Agreements for video calling, high-speed data connectivity and mobile television have been concluded with 35 operators in 25 countries. Mobily's pre-paid customers have access to international roaming with 105 operators in 58 countries - considered to be the best in the Kingdom.

Distribution growth

Mobily continued rigorous expansion of its unique distribution model based on owned and operated Flagships (FS), Franchise based Fully Branded Outlets (FBO) and Co-Branded Outlets (CBO), plus a network Dealers/Resellers covering the majority of the population. In addition to the 24 Flagships, 43 FBOs as well as 288 Co-Branded Outlets were added. The concept of cost effective Mini-FBO was further developed with total of 106 of them added during this year, thus, bringing the total number of franchised FBO to 149 by year end, where 46 are spread across the central region, 37 are in the western region, 49 are in the eastern region and 17 are in the southern region. Customers accessing these franchised outlets receive almost the same variety of products and level of services as those provided in Mobily's owned outlets.

In addition to this powerful backbone of sales and distribution, the company has 939 preferred dealers and more than 4,000 dealers/resellers, spread throughout Saudi Arabia.

This gives the company a total of more than 5,400 points of sales and service outlets, in more than 77 cities and towns and hundreds of small towns and villages across the Kingdom, including remote areas that have never been served earlier.

Outlets specifically designed for women have also been added. As a result of our commitment to service excellence and efficiency, this network of full-service outlets and dealers have been a major factor contributing to the rapid growth and success of the company. The aggressive expansion of the customer contact points, including the doubling of the FBOs will continue into 2008 as well.

To further enhance the customer experience, a second customer contact center, fully equipped with cutting edge technology and creating employment for 500 skillful, highly trained staff, was set up in Dammam.

Shareholder Transparency

The Investor Relations team consistently provides relevant corporate and financial information timeously and proactively to a wide range of market participants with a view to Mobily being perceived as a transparent, visible, accessible and credible company. The team also processes feedback from various stakeholders to improve service and business performance. Several events, applying the effective use of all communication channels and designed to highlight the financial performance and prospects of Mobily, were mounted. In line with the growing investor interest in the Company, some dedicated telephone lines have been established to facilitate the investment community's communication with the Company.

sustainability,corporate developments and achievements

Hajj commitment

Capacity of the network at the holy sites was boosted significantly for the 2007 Hajj season compared to the previous year. A total of 82 new fixed and mobile towers were deployed in anticipation of the large traffic increase and to accommodate network overloading. During the first day of Eid al Adha a record 1.5 million pilgrims used Mobily's network compared to 850,000 the previous year. The Company also sent 1.5 million text awareness messages to pilgrims and went beyond the Kingdom's borders to provide contact points in pilgrim's home countries such as Malaysia, Egypt, Indonesia, Turkey, Jordan and Sudan where it introduced its services including the well known Rahal package with its highly competitive international call rates designed specifically for pilgrims. In addition, 500,000 gifts of umbrellas and prayer carpets were distributed. The external service was repeated in the Kingdom with 38 Mobily contact points located at various holy sites, some of them in operation for 24 hours a day. In conjunction with Bayanat Al-Oula a free WiMAX mobile internet service was made available through 70 access points utilizing the latest in fiber optic cable technology – a good example of Mobily's commitment to deliver the latest in wireless solutions to pilgrims and the community at large. This is the first time that such a service has been made available for pilgrims.

Company Recognition

At the second Gulf Capital Market Forum held in Dubai, Mobily was awarded the prize of The Best Gulf Public Joint Stock Company in the GCC in recognition of it contributing significantly to the Kingdom's economy, competing successfully in the market and its Saudization program. The Company was also named as the Best New Service Provider in the Middle East's telecommunication sector competing with du, Zain, Qtel, and Batelco and others to win the title. The CEO, Khaled Al Kaf, was awarded Businessman Of The Year at the Middle East Business Achievements Conference in Dubai. The first edition of Mobily World magazine won the Arab Press intellectual property prize.

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products and serv

products and service development

"In 2007 Mobily launched a stream of exciting new products and services to the market, each of them carefully researched and planned. The high level of acceptance by the market of these offerings is reflected in the record earnings which the Company has achieved."

During the year 44 new services aimed at specific segments of the market including youth, women, business and others, were launched ranging from entertainment to connectivity and infotainment all of which significantly transformed the way in which people communicate with each other.

In order to determine customer and potential customers needs, about 70 quantitative and qualitative surveys were conducted during the year and about 50,000 people were interviewed. Mobily took the initiative of targeting specific segments of the market by catering for their needs and aspirations - and thus moved closer to specific offerings and value propositions.

Neqaty, a reward program in which all Mobily subscribers are automatically enrolled, has been well received by the market. Points are awarded based on spend and other benchmarks by post and pre-paid users.

In recognition of the benefits of Mobile Number Portability (MNP), Mobily has simplified switching from other networks with **Raqami**. Several factors affect the revenue benefits of switching, namely the time required to accomplish the switch, the simplicity of switching and the cost. In all situations Mobily has streamlined the process. Customers wanting to switch no longer need to visit their present provider in order to process the paperwork prior to the switch. The service was made available in more than 110 Mobily outlets across the Kingdom.

The Company broke new ground with the introduction of **high-speed mobile Internet bundles**, among them an unlimited download package - a first for Saudi Arabia and the region. Connection speeds vary according to the areas customers connect from or the connection device they use. Those customers who connect to the Internet using GPRS, EDGE-GPRS, or the 3.5G based HSDPA, have three competitive price packages to choose from – a 1Gb, a 5Gb and an unlimited option which represents a first of its kind in the Middle East.

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plus khatty postpaid line

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products and serv

A USB PC connect card, **Mobily Connect**, targets users on the move with laptops who want high-speed connections to the Internet. Compared to standard 3G, the card offers speeds 14 times faster for downloads and 22 times faster for uploads.

The increasing demand for mobile broadband services by small businesses and home office users led to the introduction of the **Connect Router** which distributes broadband Internet services to up to 32 connected users. Installation is quick which allows customers to gain access to the Internet within minutes.

Control Line, a post-paid service was also offered for the first time. Customers can benefit from the control feature of their telecom usage with this product, but they still enjoy a cost-effective business tariff. No bills are issued unless specifically requested.

In line with this evolvement the Company moved strongly into the youth market and developed an exciting new low cost prepaid package, **Fallah**. Highly successful from its introduction, the service targets 17-21 year olds and is based on building brand affinity and talking to the market in their language. Conventional above-the-line communication coupled with a series of road shows rapidly developed the brand soon after its rollout.

Following the successful launch of the BlackBerry service for the business sector the Company introduced **BlackBerry Pearl** smartphone for individuals.

Hawwel, a Push-to-Talk (PTT) service, delivers 'walkie-talkie' style encrypted communication for individuals and businesses at competitive rates. It accommodates a one-to-one conversation or group calls for up to 10 people at the same time and is not distance restricted as conversations are carried on the mobile GSM network. As a result of Mobily's wide national network, the service is now available across the Kingdom.

Khatty and Khatty Plus are made deliberately simple with per second billing and the lowest monthly fee in the Kingdom for a post-paid package. The Khatty Plus package includes the ability to call five chosen numbers at a flat reduced per minute rate and one chosen international number at a discounted per minute charge.

The best unified rates in the Kingdom are offered with Mobily's **7ala** package. Calls can be made to anywhere in Saudi Arabia (to Mobily customers, landlines or any other mobile network) at a particularly low, flat rate. Customers who choose to migrate from the previous pre-paid packages, **Anees** and **Wafeer**, will continue to enjoy a special discount on their favorite international number.

Another innovative introduction was the **Mada** post-paid service that combines competitive fixed-line rates with the convenience of mobile communication. It sets another regional benchmark by becoming the first Saudi Arabia and GCC telecom product to offer home-zone billing technology. Users are able to define an area (usually with a diameter of around 1,000 metres) from within which they can call at one of the cheapest rates offered in the Kingdom.

In order to maximize the substantial sponsorship arrangement with Al-Hilal, a special edition **"Al Zaeem"** handset was launched which commemorates 50 years of the Club's heritage. The Club's fans who bought one of the 1,377 handsets got 12 months' free subscription to any of the Club's news channels as well as a gold vanity number. Other prepaid and postpaid packages were also developed specifically for the Club's supporters.

Video Mail Service, another first in the Kingdom and an evolution of the voice mail service, allows customers to transmit video messages under the 3.5G technology instead of the voice only messages.

products and service development

SMS bundles offer a cost effective method for international messaging, at a low tariff, to family, friends and colleagues. With **SMS 2 voice**, messages can be sent as voice to a landline or a mobile while SMS 2 Email converts SMS texts to e-mail. **Flash SMS** sends SMS text messages that appear instantly on a recipient's screen.

As a result of a landmark content agreement, CNN's newsfeed was added to the new, unlimited, flat rate, mobile **TV Streaming service**. This is the first time that CNN has been made available live on mobile phones in the Middle East and makes CNN the first international television channel to be available to mobile users in Saudi Arabia. Users of the open streaming service can choose from a variety of 14 premium and free-to-air channels that include news, cinema, and sports feeds. Three days after its introduction the service had attracted 12,000 customers.

Using the camera embedded in handsets customers can now interact with video games with the first mobile **Motion Detection Gaming** technology in the Middle East. This interactive virtual reality technology senses a user's movements and enacts them in the games that are offered.

Direct debit services, in cooperation with SABB, brings to six the number of payment methods available for Mobily postpaid customers, including cash at the counter, online credit card payment, payment through ATM cards and cash through Mobily Auto machines as well as Mobily M-Pay terminals which are available at Mobily showrooms and dealers.

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sponsorships and



sponsorships and community involvement

"We have a deeply rooted commitment to the community in which we operate and we actively seek worthwhile upliftment opportunities for us to join with others to improve our environment and society."

The Company, as a result of extensive research into the markets in which it operates, embarked on a range of sponsorship programs covering a wide variety of cultural programs as well as sporting and community activities.

To be spread over the next five years, Mobily's SAR 200 million (US$53.3 million) sponsorship of the Riyadh based **Al-Hilal Club** attracted a lot of attention during the year and was viewed as the beginning of a new era in the field of sport sponsorship. It has resulted in the development of a specific customer package aimed at the club's supporters and is recognized as being the largest of its kind in Arab sport history. The sponsorship represents the Company's philosophy of supporting Saudi Arabian youth and constructively investing in the local community. It also represents an historical turning point for Saudi football and should give impetus for more Saudi companies to invest in sport promotion.

Twenty amateur Saudi footballers, ranging in age from 14 to 17, and two coaches were sponsored by Mobily and the Ministry of Education to travel to Barcelona, Spain for a two-week training program. Some of the youngsters, who are products of Mobily's school football league, were signed up by local clubs immediately on their return.

A **Blood Donation Drive** in Jeddah was supported where Mobily's Customer Care Center worked in conjunction with the King Fahd Hospital to reach out to the community for blood donations.

The size and scope of Mobily's participation in the Kingdom's sporting arena continued during the year with involvement in a wide variety of other activities including 13 federations, seven clubs and Saudi National Football.

Some other events/activities that were supported include:

- The **7th Gulf Tournament** for swimming in open water
- The **Al Faisal motor rally team**
- The **Castrol Rallycross** for cars and motorbikes
- The **Kingdom Open tennis tournament**
- The **4th Camel Festival**
- The **Beach volleyball championship**
- The year's **Best Saudi Football Player**
- The **Gulf Swimming Championships** in which the Saudi team won gold, silver and bronze medals
- **Little League Soccer**
- The **Carting Championships**
- The **Jeddah Charity Marathon**

Community involvement went far beyond sport as Mobily participated in a significant number of events and projects of community education and upliftment.

A special program to prepare Saudi youths as potential candidates to enter the labor market was launched. An agreement was signed with the **Institute of Public Administration** to provide employment skills for gifted students. Mobily also sponsored an agreement with the **General Organization for Technical Education and Vocational** for distinguished students. A Memorandum of Understanding was negotiated with King Saud University in Riyadh for the creation and support of the **Riyadh Technology Valley Project**. The project has the interests of youth at heart and is designed to assist in students reaching educational levels to those of similar and prestigious institutions around the world. Arising out of this MoU will be an information technology and telecommunications' laboratory to be named the "Mobily Research and Development Lab."

In addition, Mobily participated in the following:

- A campaign, which included 600 divers from Saudi Scuba, to assist in the **protection of the marine environment and resources**
- The **Sixth Human Resources Development Forum**
- The **3G Moving Exhibition**
- The **Arab Summit**
- The **Saudi-UAE Economic Forum**
- **Gitex**

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saudi arabian economic review

Population (millions) 25.0
GDP per capita (US$) 14,581
Nominal GDP (US$ billion) 347.9
Nominal GDP growth (%) 12.4
Real GDP growth (%) 4.2
CPI increase (%) 3.1
Total exports (% increase) 6.7
Non-oil exports (% increase) 24.9
Non-oil exports (% of total exports) 12.4
Total imports (% increase) 20.5
Balance of trade surplus (US$ billion) 91.84

*** Some figures are estimates available at the time of compilation.**

Economic conditions in the Kingdom of Saudi Arabia continued to be buoyant, primarily as a result of sustained satisfactory oil revenues. Inflation rates of increase remained relatively low and, with current oil prices expected to move higher during 2008, the economy is likely to experience another excellent year.

The country is experiencing a period of significant cultural and economic reforms that will result in a globally competitive investment environment providing wider opportunities for the private sector. The changes are expected to result in massive increases in liquidity.

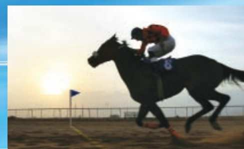
The Stock Market is the largest and most liquid in the GCC and accounts for some 40% of the area's total market capitalization and 70% of its value traded.

Saudi Arabia is the largest oil producer in the world with crude reserves amounting to around 22% of the global total. Oil revenues account for approximately 85% of government revenue, 70% of exports and 50% of GDP.

Several massive projects have been launched by the Government including the establishment of six economic cities spread geographically across the Kingdom. Involving the investment of around SAR 1,125 billion (US$300 billion) these projects will provide increased development potential and a greater spread of economic activity. Most of the projects are public-private partnerships with 70% of the investment originating from the private sector.

As a result of current and expected oil price levels, as well as development planning, the high level of economic activity is expected to continue until at least 2010. Much of this growth is expected to be generated internally as opposed to external factors (such as oil exports), which have been a driving force in past years.

It is expected that Saudi Arabia is now entering a period of non-oil fuelled growth similar to that of the 1970s.



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independent auditors' report

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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 withe 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 to our audit of these financial statements.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted out 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 judgement, including the assessments 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 accountung 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 prepration and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Abdullah H. Al Fozan
License No. 348

13 Safar 1429 H
Corresponding to 20 February 2008

balance sheet

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

Twelve Months period ending December	Notes	2007	2006
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 Hosan

Managing Director and Chief Executive Officer — Khaled Omar Al Kaf

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

income statement

Etihad Etisalat Company (Joint Stock Company)
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**

statement of changes in shareholders’ equity

Etihad Etisalat Company (Joint Stock Company)
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**

cash flow statement

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

Cash flows from operating activities	Notes	2007	2006
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

notes to the financial statement

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notes to the financial statement

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notes to the financial statement

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.

notes to the financial statement

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

notes to the financial statement

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.

notes to the financial statement

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

	2007	2006
4. Cash and cash equivalents		
Cash in hand	590	468
Cash at banks	702 608	547 055
	703 198	**547 523**
5. Accounts receivable, net		
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:		
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		
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.

notes to the financial statement

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

7. Property and equipment (net)

	Land	Building	Telecom-munication 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

notes to the financial statement

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

8. License Acquisition Fees (Net)

	Mobile Telecom-unication Service License Fees	3G License Fees	Other License	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	1033	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**

notes to the financial statement

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

notes to the financial statement

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

	2007	2006
11. Creditors		
Trade payables	1 036 346	758 431
Capital expenditure payables	2 039 721	1 767 588
	3 076 067	2 526 019

notes to the financial statement

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

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:

Name	Nature of transactions	Transactions during the year ended 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			
Emirates Telecommunications Corporation		71 061	5 162
		71 061	5 162
b) Due to related party			
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.

notes to the financial statement

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

	2007	2006
13. Other current liabilities		
Deferred revenue	553 558	313 200
Others	70 129	7 094
	623 687	320 294
14. Accrued expenses		
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 Arabians regulations for companies, the Company is required to reserve at least 10% of net income as statutory reserve. The regular general meeting may resolve to stop such statutory reserve when they said reserve amounts to one half of the Capital. This reserve is not available for distribution.

notes to the financial statement

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

	2007	2006
16. Operating revenue		
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		
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

notes to the financial statement

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

	2007	2006
18. Selling and marketing expenses		
Advertising and commissions	443 564	347 019
Others	22 989	18 181
	466 553	365 200
19. General and administrative expenses		
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
Total operating expenses	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.

notes to the financial statement

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

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.		
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		
Provision for the year	8 378	-
Additional provision	15 824	-
Zakat @ 2.5%	**24 202**	-

notes to the financial statement

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.

notes to the financial statement

b) The Company has signed Memorandum Of Understanding (MOU) to acquire 99.99% shares of Bayanat Al-oula for Network Services Limited Liability Company on18 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.

On 13/2/1429H (corresponding to 20/2/2008), the board of directors has recommended 5% of paid-up capital as dividend for the year ended December 31, 2007. The distribution which amounts to SR 250 Million will be distributed at SR 0.50 per share

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.