الاتصالات السعودية

SAUDI TELECOM

a Saudi Joint Stock Company

Financial Statements for the Year Ended December 31, 2006

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Financial Statements for the Year Ended December 31, 2006

		Page
Independent Auditors' Report	…………………………….	2
Balance Sheet	…………………………….	3
Statement of Income	…………………………….	4
Statement of Cash Flows	…………………………….	5
Statement of Changes in Shareholders' Equity	…………………………….	6
Notes to the Financial Statements	…………………………….	7 - 24

Al Juraid & Company
Member firm of
PricewaterhouseCoopers

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

INDEPENDENT AUDITORS' REPORT

To the shareholders
Saudi Telecom Company
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

We have audited the accompanying balance sheet of Saudi Telecom Company (a Saudi joint stock company) ("the Company") as of December 31, 2006 and the statements of income, shareholders' equity and cash flows for the year then ended, and the notes which form an integral part of these financial statements. These financial statements, which were prepared in accordance with the articles of the Regulations for Companies and presented to us with all the necessary information and explanations which we required, are the responsibility of the Company's management. 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 the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 31, segmental information was not disclosed in the notes to financial statements as required by generally accepted accounting standards in the Kingdom of Saudi Arabia.

In our opinion, except for the matter referred to in the preceding paragraph, the above mentioned financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
- Comply with the requirements of the Regulations for Companies and the Company's Articles of Association as they relate to the preparation and presentation of these financial statements.

Al Juraid & Company
Member firm of PricewaterhouseCoopers
P.O. Box 8282
Riyadh 11482
Saudi Arabia

Walid I. Shukri
Registration No. 329

Deloitte & Touche
Bakr Abulkhair & Co.
P.O. Box 213
Riyadh 11411
Saudi Arabia

Bakr A. Abulkhair
Registration No. 101

Riyadh, Safar 7, 1428
February 25, 2007

Saudi Telecom Company
(a Saudi Joint Stock Company)
Balance Sheet as of December 31, 2006

	Notes	2006 SR'000	2005 SR'000
ASSETS			
Current assets:			
Cash and cash equivalents	3	2,909,321	4,004,821
Short-term investments	4	5,599,000	3,695,000
Accounts receivable, net	5	3,938,639	3,623,634
Inventories, net	6	149,700	153,288
Prepayments and other current assets	7	765,622	473,401
Total current assets		13,362,282	11,950,144
Non-current assets:			
Property, plant and equipment, net	8	30,128,383	30,532,590
Intangible assets, net	9	731,766	753,750
Investments accounted for under the equity method	10	990,126	892,004
Other investments	11	150,033	100,033
Other non-current assets	12	759,183	515,355
Total non-current assets		32,759,491	32,793,732
Total assets		**46,121,773**	**44,743,876**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	13	1,959,937	2,605,975
Dividends payable	14	65,006	207,249
Other payables	15	2,355,215	2,135,496
Accrued expenses	16	3,749,277	3,176,734
Deferred revenue - current		1,394,028	1,329,277
Total current liabilities		9,523,463	9,454,731
Non-current liabilities:			
Deferred revenue		623,569	821,168
Employees' end of service benefits	17	1,820,402	1,612,540
Total non-current liabilities		2,443,971	2,433,708
Total liabilities		11,967,434	11,888,439
Shareholders' equity:			
Authorized, issued and outstanding shares	18	20,000,000	15,000,000
Statutory reserve	19	5,818,458	4,538,568
Retained earnings		8,339,223	13,320,211
Unrealized loss on other investments	11	(3,342)	(3,342)
Total shareholders' equity		34,154,339	32,855,437
Total liabilities and shareholders' equity		**46,121,773**	**44,743,876**

The accompanying notes from 1 to 36 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Statement of Income for the Year Ended December 31, 2006
(Saudi Riyals in thousands)

	Notes	2006	2005
Operating Revenues			
Wireless		24,023,115	23,514,231
Wire line		9,762,774	9,025,712
Total operating revenues	20	33,785,889	32,539,943
Operating Expenses			
Government charges	21	(4,446,169)	(5,175,322)
Access charges		(4,325,210)	(2,519,941)
Employee costs	22	(4,206,494)	(3,883,083)
Depreciation and amortization	8 , 9	(3,835,792)	(3,836,211)
Administrative and marketing expenses	23	(2,886,446)	(2,140,781)
Repairs and maintenance		(1,437,633)	(1,622,552)
Total operating expenses		(21,137,744)	(19,177,890)
Operating Income		12,648,145	13,362,053
Other Income and Expenses			
Cost of manpower improvement program	24	(500,000)	(519,903)
Commissions	3, 4, 11	416,613	207,274
Earnings from investments accounted for under the equity method	10	101,631	106,680
Other, net	25	475,089	(416,994)
Other income and expenses, net		493,333	(622,943)
Net Income before Zakat		13,141,478	12,739,110
Provision for Zakat	26	(342,576)	(292,249)
Net Income		**12,798,902**	**12,446,861**
Basic earnings per share in Saudi Riyals		6.40	6.22

The accompanying notes from 1 to 36 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Statement of Cash Flows for the Year Ended December 31, 2006
(Saudi Riyals in thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	12,798,902	12,446,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,835,792	3,836,211
Doubtful debts expense	435,602	272,393
Earnings from investments accounted for under the equity method	(101,631)	(106,680)
Provision for capital work in progress	(24,057)	389,251
(Gains)/ losses on sale/ disposal of property, plant and equipment	(12,600)	79,715
Losses/ (Gains) on sale of other investments	2,450	(50,304)
Capitalized commission write-off	-	304,184
Changes in:		
Accounts receivable	(750,607)	(762,465)
Inventories	3,588	64,362
Prepayments and other current assets	(292,221)	(276,850)
Other non-current assets	(243,828)	(433,338)
Accounts payable	(646,038)	(122,626)
Other payables	219,719	(743,439)
Accrued expenses	572,543	1,596,618
Deferred revenue	(132,848)	(179,966)
Employees' end of service benefits	207,862	(30,870)
Net cash provided by operating activities	15,872,628	16,283,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,392,713)	(4,389,144)
Short-term investments	(1,904,000)	(1,960,000)
Investment in Sabic's Sukuk	(150,000)	-
Proceeds from sale of other investments	97,550	105,953
Dividends received from investments accounted for under the equity method	18,209	16,694
Investment in Tejari Saudi Arabia	(14,700)	-
Proceeds from sale of property, plant and equipment	19,769	28,835
Intangible assets	-	(753,750)
Net cash used in investing activities	(5,325,885)	(6,951,412)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(11,642,243)	(10,340,529)
Net cash used in financing activities	(11,642,243)	(10,340,529)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,095,500)	(1,008,884)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,004,821	5,013,705
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,909,321**	**4,004,821**

The accompanying notes from 1 to 36 form an integral part of these financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2006
(Saudi Riyals in thousands)

	Notes	Common Shares	Statutory Reserve	Retained Earnings	Unrealized Loss On Other Investments	Total Shareholders' Equity
Balance at December 31, 2004		**15,000,000**	**3,293,882**	**12,618,036**	**(3,342)**	**30,908,576**
Net income		-	-	12,446,861	-	12,446,861
Dividends	14	-	-	(10,500,000)	-	(10,500,000)
Transfer to statutory reserve	19	-	1,244,686	(1,244,686)	-	-
Balance at December 31, 2005		**15,000,000**	**4,538,568**	**13,320,211**	**(3,342)**	**32,855,437**
Net income		-	-	12,798,902	-	12,798,902
Dividends	14	-	-	(11,500,000)	-	(11,500,000)
Transfer to capital	18	5,000,000	-	(5,000,000)	-	-
Transfer to statutory reserve	19	-	1,279,890	(1,279,890)	-	-
Balance at December 31, 2006		**20,000,000**	**5,818,458**	**8,339,223**	**(3,342)**	**34,154,339**

The accompanying notes from 1 to 36 form an integral part of these financial statements.

1 GENERAL

Saudi Telecom Company (the "Company") was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35, dated 24 Dhul Hijja 1418 H (April 21, 1998) which authorized the transfer of the telegraph and telephone division of the Ministry of Post, Telegraph and Telephone ("MoPTT") (hereinafter referred to as "Telecom Division") with its various components and technical and administrative facilities to the Company, and in accordance with the Council of Ministers' Resolution No. 213 dated 23 Dhul Hijja 1418 H (April 20, 1998) which approved the Company's Articles of Association (the "Articles"). The Company was wholly owned by the Government of the Kingdom of Saudi Arabia (the "Government"). Pursuant to the Council of Ministers' Resolution No. 171 dated 2 Rajab 1423 H (September 9, 2002), the Government sold 30% of its shares.

The Company commenced its operations as the provider of telecommunications services throughout the Kingdom of Saudi Arabia (the "Kingdom") on 6 Muharram 1419 H (May 2, 1998), and received its Commercial Registration No. 101050269 as a Saudi Joint Stock Company on 4 Rabi Awal 1419 H (June 29, 1998). The Company's head office is located in Riyadh.

The Company provides a range of telecommunications services which includes mobile, fixed local, national and international telephone services, telex, telegraph, data transmission, leased lines, public telephones, public network and radio paging services.

The Company is the dominant telecommunications services provider within, to and from the Kingdom. In accordance with the Council of Ministers' Resolution No. 171, referred-to above, it was approved that the telecommunications sector be opened for competition by partially liberalizing the mobile and fixed line services. A new GSM operator started its operations in May 2005. During 2003, the Communications and Information Technology Commission ("CITC") issued licenses for Very Small Aperture Terminals (V-SAT), and also issued licenses, during 2004, for the provision of data services.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom. The significant accounting policies are summarized below:

a) Period of the financial statements

According to the Company's Articles, the Company's financial year begins on January 1 and ends on December 31of the same year.

b) Revenue recognition

Revenue is recognized when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying rates approved by the CITC.

- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Unbilled revenue is recognized in the period to which it relates.
- Revenue is recognized upon collection when collectability is highly uncertain.
- Non-refundable up-front activation fees received from customers up to the end of the first quarter 2006 were deferred and recognized over the estimated service lives for the customers. Non-refundable up-front activation fees are recognized upon receipt, starting from the second quarter 2006.
- Wireless revenues are composed mainly of mobile, international and national roaming services, while wireline revenues are composed mainly of fixed lines, international settlements, leased circuits, data and internet services.

c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and all highly liquid investments with maturity of 90 days or less from the acquisition date. Cash and cash equivalents are stated at cost.

d) Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billings and unbilled usage revenues net of allowances for doubtful debts.

e) Allowance for doubtful debts

The Company reviews its accounts receivable for the purpose of creating the required allowances against doubtful debts. When creating the allowance, consideration is given to the type of service rendered (mobile, landline, telex, international settlements…etc), age of the receivable, the Company's previous experience in debt collection and the general economic situation.

f) Inventories

- Inventories, which are principally cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares which cannot be removed from the exchange, are recorded within property, plant and equipment. Inventory items held by contractors responsible for upgrading and expanding the network are recorded within 'capital work-in-progress'.
- The Company creates an allowance for obsolete and slow-moving inventories, based on a study of the usage of the major inventory categories. When such an exercise is impractical, the allowance is based on groups or categories of inventory items, taking into consideration the items which may require significant reductions in their values.

g) Property, plant and equipment and depreciation

1. Prior to May 2, 1998, the Telecom Division did not maintain sufficiently detailed historical information to record property, plant and equipment based on historical cost. Consequently all property, plant and equipment transferred by the Telecom Division on May 2, 1998 has been recorded based on a valuation performed by the Company with the assistance of independent international and local valuation experts. The principal bases used for valuation are as follows:

- Land	Appraised value
- Buildings, plant and equipment	Depreciated replacement cost

2. Other than what is mentioned in (1) above, property, plant and equipment acquired by the Company are recorded at historical cost.
3. Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.
4. Property, plant and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful lives:

	Years
Buildings	22 – 30
Telecommunications plant and equipment	5 – 25
Other assets	5

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. The Company reviews periodically its property, plant and equipment to determine whether any of the assets are permanently impaired, whenever events or changes in circumstances indicate that. The amount of impairment is included in the statement of income in the period when such determination is made, and property, plant and equipment is reported net.
7. Gains and losses resulting from the disposal/ sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-off / sold assets, and the gains or losses are included in the statement of income.

h) <u>Intangible assets</u>

Intangible assets are recorded upon acquisition at cost, and are amortized starting from the date the service is provided on a straight line basis over their useful lives or statutory durations, whichever is shorter. The 3G mobile licence fees are being amortized over twenty years. The Company reviews periodically the intangible assets, on periodical basis, to determine whether they are permanently impaired, whenever events or changes in circumstances indicate that. The amount of impairment, if any, is included in the statement of income in the period when such determination is made.

i) <u>Software costs</u>

- Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.
- Internally developed operating systems, software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.
- Internally developed application software costs are recognized as expense when incurred. Where the costs of operating systems software cannot be identified separately from the associated hardware costs, the operating systems software costs are recorded as part of the hardware.
- Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
- Software training and data-conversion costs are expensed as incurred.

j) <u>Investments accounted for under the equity method</u>

The Company accounts for investments in entities in which it has a significant influence, under the equity method. Under the equity method, the Company records the investment on acquisition at cost, which is adjusted subsequently by the Company’s share in the net income/ (loss) of the investee, the investee’s distributed dividends and any changes in the investee’s equity, to reflect the Company’s share in the investee’s net assets. These investments are reflected in the balance sheet as non-current assets, and the Company’s share in the net income/ (loss) of the investee is presented in the statement of income.

k) Other investments

- Available for sale marketable securities are carried at fair value, which is based on market value when available, however, if fair value cannot be determined, due to non-availability of an active market or other indexes through which market value can reasonably be determined, cost will be considered as the alternative fair value. Unrealized gains and losses are shown as a separate component within the shareholders' equity in the balance sheet. Losses resulting from permanent decline in fair values below costs are recorded in the statement of income in the period in which the decline occurs.
- Investments held to maturity are recorded at cost and adjusted for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent decline in fair values below costs are recorded in the statement of income in the period in which the decline occurs.
- Gains and loses resulting from sales of available for sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed.

l) Zakat

The Company calculates and reports the zakat provision in its financial statements in accordance with Zakat rules and principles, and the instructions of the Department of Zakat and Income Taxes. Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

m) Employees' end of service benefits

The provision for employees' end of service benefits represents amounts due and payable to the employees upon the termination of their contracts, in accordance with the terms and conditions of the Sadi Labor and Workman Law. The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the date of the balance sheet, using the employees' latest salaries and allowances and years of service in the Company.

n) Foreign currency transactions

- The Company maintains its financial records in Saudi Riyals and records foreign currency transactions at the appropriate rate of exchange prevailing at the date of the transaction.
- Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the balance sheet date.
- Gains and losses arising on the settlement of foreign currency transactions, and unrealized gains and losses resulting from the translation of foreign currency denominated monetary balances to Saudi Riyals, are recorded in the statement of income.

o) Government charges

Government charges are the costs incurred for the right to operate the telecommunications services in the Kingdom, including use of the frequency spectrum. Government charges are accrued in the relevant periods.

p) Access charges

Access charges represent the costs to connect to foreign and domestic carriers' networks for calls made by the Company's customers. Access charges are recognized in the periods of relevant calls.

q) Administrative and marketing expenses

Administrative and marketing expenses are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they will be charged to the relevant periods.

r) Earnings per share

Earnings per share are calculated by dividing net income for the financial period by the weighted average number of shares outstanding during the year.

3 CASH AND CASH EQUIVALENTS

A part of surplus cash is invested in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on these deals during the year was 4.4% (2005: 4.5%). Total commission earned on these deals during the year was SR 154.3 million (2005: SR 88.7 million).

Investments during 2005 were through bank time deposit accounts with maturity periods of 90 days or less, w hich had been liquidated before the end of second quarter 2005. Total commission earned on time deposits before conversion to Murabaha amounted to SR 28.6, with average commission rate of 3.1%.

Cash and cash equivalents at the end of the year include balances of collection accounts at various local banks. As per agreements with the banks, funds are to be transferred to the Company's main account on the fourth day of the subsequent month.

At the end of the year, cash and cash equivalents consisted of the following:

(Thousands of Saudi Riyals)	2006	2005
Collection accounts	2,444,490	2,492,295
Short-term Murabaha deals	302,505	1,256,500
Disbursement accounts	162,326	256,026
	2,909,321	4,004,821

4 SHORT-TERM INVESTMENTS

A portion of the surplus cash is invested in Murabaha deals with maturity periods of more than 90 days. The average rate of commission on these deals during the year was 5.3% (2005: 5.6%). Total commission earned on these deals during the year was SR 254.4 million (2005: SR 46.1 million).

Investments during 2005 were through bank time deposit accounts with maturity periods of more than 90 days, which had been liquidated before the end of second quarter 2005. Total commission earned on time deposits before conversion to Murabaha amounted to SR 28.3 million, with average commission rate of 3.5%.

5 ACCOUNTS RECEIVABLE, NET

(a) Accounts receivable on December 31 consisted of the following:

(Thousands of Saudi Riyals)	2006	2005
Billed receivables	3,143,447	2,378,959
Unbilled receivables	1,370,632	1,788,585
	4,514,079	4,167,544
Allowance for doubtful debts	(575,440)	(543,910)
	3,938,639	3,623,634

Movement in the allowance for doubtful debts during the yearwas as follows:

(Thousands of Saudi Riyals)	**2006**	**2005**
Balance at January 1	543,910	877,967
Additions (Note 23)	435,602	272,393
	979,512	1,150,360
Bad debts written-off	(404,072)	(606,450)
Balance at December 31	575,440	543,910

(b) Since inception, the Company recognizes revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected revenues from such customers for the year 2006 amounted to SR 104 million (2005: SR 156 million), with an annual average of SR 220 million for the seven years preceding 2006.

(c) The Company has agreements with foreign network operators whereby amounts receivable from and payable to the same foreign network operator are subject to offsetting. At December 31, 2006 and 2005, the net amounts included in accounts receivable and accounts payable were as follows:

(Thousands of Saudi Riyals)	**2006**	**2005**
International accounts receivable, net	347,006	484,033
International accounts payable, net	862,191	755,530

(d) In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), the Company settles the amounts due to the Government as government charges against accumulated receivable balances due from Government for usage of the Company's telecom services.

6 INVENTORIES, NET

Movement in inventories during the year was as follows:

(Thousands of Saudi Riyals)	**2006**	**2005**
Balance at January 1	163,744	230,473
Additions	123,633	323,512
Usage	(128,414)	(390,241)
	158,963	163,744
Inventory allowance	(9,263)	(10,456)
Balance at December 31	149,700	153,288

7 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	2006	2005
Frequency evacuation project	272,906	191,671
Accrued commissions and receivables	169,048	47,076
Advances to suppliers	126,150	65,164
Deferred costs	66,556	59,871
Prepaid rent	56,019	53,400
Employee housing loans-Current (Note 12)	51,498	31,728
Prepaid insurance	19,484	20,229
Other	3,961	4,262
	765,622	473,401

The frequency evacuation project, which is agreed upon with official parties, is to evacuate the frequencies used for the benefit of the CITC and to build an alternative network by the Company. The project costs of SR 250 million have been deducted from the balance payable to the Government and reflected under "Other payables", however, the remaining amount will be settled at the end of the project. (Refer to Note 15).

8 PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Land and Buildings	Telecommunications Plant and Equipment	Other Assets	Capital Work In Progress	Total 2006	Total 2005
Gross book value						
At January 1	9,481,873	45,249,291	1,089,531	3,543,032	59,363,727	57,168,129
Additions	962	111,813	117,534	3,162,404	3,392,713	4,389,144
Transfers	391,776	2,528,705	5	(2,920,486)	-	-
Disposals	-	(151,677)	(70,989)	(365,194)	(587,860)	(2,193,546)
At December 31	9,874,611	47,738,132	1,136,081	3,419,756	62,168,580	59,363,727
Accumulated depreciation						
At January 1	3,890,272	23,726,775	824,839	389,251	28,831,137	26,386,487
Charge	270,566	3,435,861	107,381	-	3,813,808	3,836,211
Provision for capital work in progress	-	-	-	(389,251)	(389,251)	389,251
Disposals	-	(144,895)	(70,602)	-	(215,497)	(1,780,812)
At December 31	4,160,838	27,017,741	861,618	-	32,040,197	28,831,137
Net book value	5,713,773	20,720,391	274,463	3,419,756	30,128,383	30,532,590

(a) Land and buildings above include land of SR 2,299 million as of December 31, 2006 and 2005.

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,615 million as of December 31, 2006. The transfer of the ownership of the remaining land parcels with a value of SR 684 million is still in progress.

(c) During the year 2005, the Company reviewed its property, plant and equipment and capital work in progress, and as a result capitalized commission amounting to SR 304 million was written-off, and a provision of SR 389 million was created against capital work in progress. The provision has been cleared during the year 2006.

9 INTANGIBLE ASSETS, NET

On 27 Jumada Awal 1426H (July 4, 2005), the CITC granted the Company a license to provide the Third Generation (3G) mobile services. The commercial provisioning of this service commenced in June 2006.

Intangible assets consist of the following as of December 31:

(Thousands of Saudi Riyals)	2006	2005
License for the Third Generation (3G) mobile services:		
Cost	753,750	753,750
Amortization during the year	(21,984)	-
Net book value at December 31	731,766	753,750

10 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Investments accounted for under the equity method of accounting consist of the following:

(Thousands of Saudi Riyals)	2006 Ownership	2006	2005 Ownership	2005
Arab Satellite Communications Organization ("Arabsat")	36.66%	925,647	36.66%	846,633
Arab Submarine Cables Company Ltd.	44.29%	49,779	42.86%	45,371
Tejari Saudi Arabia	50.00%	14,700		-
		990,126		892,004

Arabsat

This organization was established in April 1976 by member states of the Arab League. Arabsat offers a number of services to member states, as well as to all public and private sectors within its coverage area, principally the Middle East.

Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis.

Arab Submarine Cables Company Ltd.

Arab Submarine Cables Company Ltd. was established in September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom and the Republic of Sudan for telecommunications between them and any other countries. The operations of the Arab Submarine Cables Company Ltd. started effective June 2003.

Tejari Saudi Arabia

Tejari Saudi Arabia (a limited liability company) was formed in November 2006 for the purpose of establishment, operation and management of electronic markets and platforms, and to provide all services related to e-commerce dealings. The company has not commenced the commercial activities as of December 31, 2006.

11 OTHER INVESTMENTS

(a) Other investments consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Held to maturity:		
Investment in Sabic's Sukuk	150,000	-
Notes	-	100,000
	150,000	100,000
Available for sale – at market value:		
Investment in New ICO	33	33
Total other investments	150,033	100,033

(b) The Sukuk were acquired from the Saudi Basic Industries Corporation "Sabic" in July 2006 for SR 150 million, with maturity of 5 years up to July 2011, and a commission rate equal to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.40%. Commission earned from these Sukuk during the year 2006 amounted to SR 3.7 million.

(c) Notes issued by a local bank were acquired at the end of 2004 for SR 100 million, with maturity period of seven years up to December 2011, callable after five years, bearing floating commission rates. The notes were sold during the year 2006 and a loss on sale amounting SR 2.45 million was realized. Commission earned from these notes during the year 2006 amounted to SR 1.9 million. (2005: SR 4.4 million)

(d) During the year 2005, the Company sold its investment in Intelsat Ltd. for SR 105.9 million and realized a gain amounting SR 50.3 million.

(e) The balance of unrealized losses on available for sale investment in New ICO reflected at market value amounted to SR 3.3 million at December 31, 2006 and 2005.

12 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Employee housing loans	703,687	441,362
Deferred costs	55,496	73,993
	759,183	515,355

During 2005, the Company started granting Employee housing loans, bearing no commission, in accordance with the approved policy. These loans are stated at cost as of December 31, 2006.

13 ACCOUNTS PAYABLE

(a) Accounts payable consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Government charges	672,852	1,113,256
International settlements	862,191	755,530
Trade	386,811	548,260
Capital expenditures	38,083	188,929
	1,959,937	2,605,975

(b) The Company settled the amounts due to the Government in relation to the government charges against accumulated balances due from governmental entities. Certain international settlements accounts payable balances are netted against international settlements accounts receivable balances. (Refer to Note 5).

14 DIVIDENDS PAYABLE

Movement in dividends during the year was as follows:

(Thousands of Saudi Riyals)	2006	2005
Balance at January 1	207,249	47,778
Dividends declared for the fourth quarter 2005	3,000,000	-
Dividends declared for the first quarter 2006	2,500,000	-
Dividends declared for the second quarter 2006	3,000,000	-
Dividends declared for the third quarter 2006	3,000,000	-
Dividends declared for the second half of 2004	-	4,200,000
Dividends declared for the first half of 2005	-	4,200,000
Dividends declared for the third quarter 2005	-	2,100,000
	11,707,249	10,547,778
Payments made during the year	(11,642,243)	(10,340,529)
Balance at December 31	65,006	207,249

15 OTHER PAYABLES

Other payables consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Suppliers' retentions	867,279	866,720
Provision for Zakat (Note 26)	296,799	284,325
Settlement of seconded employees' entitlements	282,052	338,635
Withholding tax provision	260,410	121,016
Manpower improvement program	252,005	47,428
Frequency evacuation project (Note 7)	250,000	250,000
Refundable customers' guarantee deposits	90,826	83,366
Other	55,844	144,006
	2,355,215	2,135,496

In accordance with the Council of Ministers' Resolution No. 75 dated 5 Rabi Awal 1422 H (May 28, 2001), the Company recognized in the statement of income for 2001 an estimated amount which represented 50% of the total amount for the settlement of the MoPTT seconded employees' pension entitlements.

The Council of Ministers' Resolution No. 198 dated 18 Rajab 1424 H (September 15, 2003) approved the system of exchanging benefits between the Civil and Military Pension System and the Social Insurance System. The estimated amount has been reconciled based on the actual number of employees who chose to terminate their services or settle their pension entitlements, after the concerned parties made their final decision in regard to this issue.

16 ACCRUED EXPENSES

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Capital expenditures	1,583,649	1,963,930
Trade	1,029,007	202,418
Employee accruals	938,950	834,229
Land provision	197,671	176,157
	3,749,277	3,176,734

17 EMPLOYEES' END OF SERVICE BENEFITS

The movement in employees' end of service benefits during the year was as follows:

(Thousands of Saudi Riyals)	2006	2005
Balance at January 1	1,612,540	1,643,410
Charges (Note 22)	325,760	298,692
Settlements	(117,898)	(329,562)
Balance at December 31	1,820,402	1,612,540

The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the balance sheet date, using the employees' latest salaries and allowances and years of service in the Company.

18 SHARE CAPITAL

At December 31, 2006, the Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As of December 31, 2006 and 2005, the Government owned 70% of the Company's shares

At the beginning of year 2005 the capital was SR 15,000 million, divided into 300 million shares, at par value of SR 50 each.

In accordance with the Capital Market Authority's decision No. 4-154-2006 dated 27 Safar 1427 H (March 27, 2006), which was based on the Council of Ministers' resolution concerning the split of joint stock companies' shares on that date, the par value per share was split to become SR 10 instead of SR 50. As a result the number of the Company's shares became 1,500 million.

The Company's General Assembly, in its extraordinary meeting of 13 Rabi Awal 1427 H (April 11, 2006), approved the increase of the Company's share capital from SR 15,000 million to SR 20,000 million through a stock dividend of one bonus share for each three outstanding shares with a total value of SR 5,000 million through a transfer from the retained earnings. Accordingly, the number of shares was increased to 2 billion shares.

Basic earnings per share were calculated for the 2005 comparatives to retrospectively reflect the effect of the shares increase and split which took place in 2006.

19 STATUTORY RESERVE

10% of annual net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. During the year 2006 the Company appropriated an amount of SR 1,280 million (2005: SR 1,245 million). The statutory reserve on December 31, 2006 amounted to SR 5,818 million, which represents 29% of share capital (December 31, 2005: SR 4,539 million, which represents 23% of share capital).

20 OPERATING REVENUES

Operating revenues consist of the following:

(Thousands of Saudi Riyals)

	2006	2005
Usage charges	26,790,008	25,835,087
Subscription fees	5,150,241	4,725,254
Activation fees	586,437	582,700
Other	1,259,203	1,396,902
	33,785,889	32,539,943

The Company entered into a Build-Operate-Transfer ("BOT") agreement with a local company to provide wireless communications based on the integrated Digital Enhanced Network (iDEN) platform, which has been named "Bravo". Service provision, which includes communications and digital cellular services, started in July 2005. Revenue from this service has been included in "Other".

Non-refundable up-front activation fees are recognized as revenue upon receipt starting from the second quarter 2006, and the change had no material effect on the financial results. Such fees currently approximate the actual cost of service activation.

21 GOVERNMENT CHARGES

The Government charges the Company fees in exchange for granting the Company the right to operate and provide Kingdom-wide telecommunications services. These charges are based on net revenue. Net revenue is defined as total operating revenues less access charges as reflected in the statement of income. The Government charges were calculated as follows:

(Thousands of Saudi Riyals)

	2006	2005
Commercial service provisioning	3,993,517	4,540,696
License fees	284,903	302,713
Frequency spectrum	167,749	331,913
	4,446,169	5,175,322

The following illustrates the basis on which the Government charges are calculated:

(a) Commercial Service Provisioning

- The fees for commercial provisioning of all services, except Data, are 15% of net revenue (as defined above). The fees for Data services are 8% of net revenue, applied effective the beginning of 2005, which resulted in a reduction in the fees recalculated by the Company during 2006.
- The Council of Ministers issued a Resolution in its meeting dated 10 Moharam 1428 H (January 29, 2007) amending the fees for commercial provisioning of landline services to 10%, instead of 15%, effective from 22 Dhul Hijja 1428 H (January 1, 2008).

(b) License Fees

License fees were determined as 1% of net revenue (as defined above).

(c) Frequency Spectrum

The fees for usage of the frequency spectrum are calculated in accordance with the pricing list issued by the CITC, the application date of which corresponds to 25 Dhul Quada 1425 H (January 6, 2005). The new method of calculating the fees depends on various factors, the most important of which being the locations and widths of required frequencies, distances covered and technologies applied. The Company reviewed the frequency tables in order to specify its actual requirements and, accordingly, determine the ultimate cost, which resulted in a reduction in the fees recalculated by the Company during 2006. An agreement has been reached on the reconciliation of most amounts due, however, the final frequencies table is being worked upon with the CITC.

(d) An amount of SR 97.9 million has been recorded as an accrued receivable related to government charges paid by the Company on behalf of the new mobile operator (Mobily) in 2006.

22 EMPLOYEE COSTS

Employee costs consist of the following:

(Thousands of Saudi Riyals)

	2006	2005
Salaries and allowances	2,964,289	2,819,381
Incentives and rewards	397,316	279,201
End of service benefits	325,760	298,692
Social insurance	256,469	234,608
Medical insurance	153,415	150,376
Vacations	50,855	38,158
Other	58,390	62,667
	4,206,494	3,883,083

23 ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses consist of the following:

(Thousands of Saudi Riyals)

	2006	2005
Sales commissions and advertising expenses	1,288,090	835,603
Doubtful debts expense (Note 5)	435,602	272,393
Printing of telephone cards and stationery	245,637	199,302
Consultancy	199,898	111,388
Rent of equipment, property and motor vehicles	137,890	116,787
Utilities	151,607	167,901
Training	77,264	87,296
Telecommunications, courier and delivery	104,414	144,579
Safety expenses	79,827	78,334
Other	166,217	127,198
	2,886,446	2,140,781

During the year 2005, the Company made a study of the allowance for doubtful debts, based on additional information provided by the billing system. The study resulted in amending some elements of the allowance calculation and the basis for determining its appropriate level.

24 COST OF MANPOWER IMPROVEMENT PROGRAM

The amount shown in the statement of income for 2006 represents the cost of implementing the sixth phase of the Company's manpower improvement program which was initiated during 2001. The following schedule shows the cost of fifth and sixth phases:

(Thousands of Saudi Riyals)	Implementation Date	Cost
The Fifth Phase	2005	519,903
The Sixth Phase	2006	500,000
Total		1,019,903

25 OTHER INCOME AND EXPENSES, NET

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	2006	2005
Miscellaneous revenue	551,019	311,239
(Losses)/ Gains on sale of other investments (Note 11)	(2,450)	50,304
Provision for capital work in progress	-	(389,251)
Capitalized commission write-off	-	(304,184)
Gains/ (losses) on sale/ disposal of property, plant and equipment	12,600	(79,715)
Miscellaneous expenses	(86,080)	(5,387)
	475,089	(416,994)

"Miscellaneous revenue" in the year 2006 includes an amount of SR 62.3 million which represents an accrued receivable related to government charges paid by the Company on behalf of the new mobile operator (Mobily) in 2005.

"Miscellaneous expenses" in the year 2006 includes an amount of SR 25 million, representing amount expensed during the period out of SR 100 million donated by the Company to the Ministry of Health under "Alwafaa" Health Program.

26 ZAKAT

(a) Zakat base

(Thousands of Saudi Riyals)	2006	2005
Share capital – beginning of the year	15,000,000	15,000,000
Additions:		
Retained earnings – beginning of the year	13,320,211	12,618,036
Statutory reserve – beginning of the year	4,538,568	3,293,882
Provisions – beginning of the year	3,016,639	2,967,270
Adjusted net income	13,703,066	11,689,956
Total additions	34,578,484	30,569,144

Deductions:		
Net property, plant & equipment, capital work in progress and intangible assets (limited to shareholders' equity before Zakat)	(30,860,149)	(31,286,340)
Dividends paid	(11,642,243)	(10,340,529)
Investments	(1,140,159)	(992,037)
Non-current deferred costs	(55,496)	(73,993)
Total deductions	(43,698,047)	(42,692,899)
Zakat base	5,880,437	2,876,245

Since the Zakat base is less than the adjusted net income, the Zakat rate of 2.5% is applied to adjusted net income to determine the Zakat charge.

(b) Zakat provision

(Thousands of Saudi Riyals)	**2006**	**2005**
Balance at January 1	284,325	233,640
Charge for the year	342,576	292,249
Amounts paid during the year	(330,102)	(241,564)
Balance at December 31	296,799	284,325

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004 and 2005 have not yet been finalized. The Company has received a Zakat Certificate which is valid up to 13 Rabie II 1428 H (April 30, 2007).

27 BORROWINGS

The Company has renewable short and medium-term facilities in the forms of "Murabaha" and "Tawarroq" deals with local banks, with varying maturities spreading to December 2009, and variable commission rates. None of the facilities were utilized during the year.

28 RELATED PARTY TRANSACTIONS

Government entities

The Company provides various voice, data and other services to the Government.

Revenues and expenses related to Government entities in 2006 (including Government charges discussed in Note 21 above) amounted to SR 827 million and SR 4,685 million, respectively (2005: SR 673 million and SR 5,361 million, respectively).

Amounts payable to Government entities at December 31, 2006 totaled SR 792 million (2005: SR 1,255 million). Amounts receivable from Government entities at December 31, 2006 and 2005 are not material due to the settlement referred to in Note (5-d).

Investments accounted for under the equity method

During the year, the Company incurred charges of approximately SR 12 million in favour of Arabsat with respect to satellite utilization (2005: SR 14 million), while expenses incurred in favour of the Arab Submarine Cables Co. approximated SR 4 million (2005: SR 6 million).

29 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Company enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 696 million on December 31, 2006 (December 31, 2005: SR 367 million).

(b) Certain land and buildings, for use in the Company's operations, are leased under operating lease commitments expiring at various future dates. During the year 2006, total rent expense under operating leases amounted to SR 111 million (2005: SR 96 million).

Contingencies

The Company, in the normal course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Company's financial position nor on the results of its operations as reflected in the financial statements.

30 FINANCIAL INSTRUMENTS

Fair value

The carrying values of all financial instruments approximate their fair values at December 31, 2006 and 2005, as discussed below:

- For cash and cash equivalents, accounts receivable and payable and other receivables and payables, fair value is deemed to approximate their carrying amount due to their short-term nature.
- For marketable equity instruments, fair value is based on quoted market prices.
- For government bonds and borrowings, fair value is based on discounted cash flows.

The Company does not utilize derivative financial instruments to manage foreign currency exchange and commission rate risks due to factors explained below:

Commission rate risk

This comprises various risks related to the effect of changes in commission rates on the Company's financial position and cash flows. The Company did not have material assets or liabilities with floating commission rates on December 31, 2006. The Company manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the Company's commission income through holding balances in short-term and long-term bank deposits, but the related commission rate risk is not considered to be significant. Consequently, the Company has not used derivative financial instruments to mitigate exposure to commission rate risk.

Currency risk

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates, and believes that the Company is not exposed to significant currency risk since the Company's functional currency is the Saudi Riyal, in which the Company transacts, which is currently fixed, within a narrow margin, against the U.S. dollar.

Credit risk

It is the risk that other parties will fail to discharge their obligations and cause the Company to incur a financial loss. Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Company deposits its cash balances with a number of major high credit rated financial institutions and has a policy of limiting its balances deposited with each institution. The Company does not believe that there is a significant risk of non-performance by these financial institutions. The Company does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base (residential, professional, large business and public entities) operating in various industries and located in many regions.

Liquidity risk

It is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by periodically ensuring its availability in amounts sufficient to meet any future commitments. The Company does not consider itself exposed to significant risks in relation to liquidity.

The Company believes that it is not exposed to any significant risks in relation to the aforementioned.

31 SEGMENT INFORMATION

The objective of the Segment Reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information about each of the main operating segments, and hence its non-application does not affect the overall results of the Company's operations.

Within the framework of the telecom sector regulation, which resulted in significant changes in the identification and segmentation of the telecom services sectors, and due to increasing competition and the Company's strategic aim at raising the level of operational efficiency, the Company approved a new structure for its segments which differs from the current structure, thus requiring segmental information that differ significantly in their bases from the previous requirements.

32 REDUCTION IN SERVICE RATES

In September 2006, the Company announced major discounts in the SAWA recharge cards and the tariff of national and local calls, in addition to earlier announcements of comprehensive varying tariff reductions in international calls and mobile, fixed line, internet and leased circuits services.

33 LICENSE

Within the scope of regulating the telecommunications sector, the CITC issued in December 2003 a license to the Company to provide telecommunications services. The Company has raised its objections to the concerned parties on what it considers affecting some of its rights.

34 SUBSEQUENT EVENTS

The Board of Directors, in its meeting of 4 Muharram 1428 H (January 23, 2007), proposed dividends for the fourth quarter 2006 amounting to SR 3,000 million, at the rate of SR 1.50 per share, resulting in a total dividend for 2006 of SR 5.75 per share.

35 RECLASSIFICATION

Certain year 2005 accounting data have been reclassified to conform to the year 2006 classifications.

36 INTERIM FINACIAL STATEMENTS (UNAUDITED)

Following are the quarterly income statements:

(Thousands of Saudi Riyals)	**First Quarter**		**Second Quarter**		**Third Quarter**		**Fourth Quarter**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Total operating revenues	8,515,114	7,918,233	8,624,772	8,038,267	8,405,989	8,105,095	8,240,014	8,478,348
Total operating expenses	(5,049,316)	(4,605,797)	(5,150,528)	(5,115,826)	(5,271,331)	(4,389,410)	(5,666,569)	(5,066,857)
Operating income	**3,465,798**	**3,312,436**	**3,474,244**	**2,922,441**	**3,134,658**	**3,715,685**	**2,573,445**	**3,411,491**
Other income and expenses								
Cost of manpower improvement program	(125,000)	(352,456)	(125,000)	(56,048)	(125,000)	(55,700)	(125,000)	(55,699)
Commissions	126,650	41,391	86,985	41,153	102,155	51,100	100,823	73,630
Earnings from investments accounted for under the equity method	24,562	18,665	27,059	39,023	35,789	615	14,221	48,377
Other, net	5,215	60,767	19,189	24,610	151,853	(377,342)	298,832	(125,029)
Net income before zakat	**3,497,225**	**3,080,803**	**3,482,477**	**2,971,179**	**3,299,455**	**3,334,358**	**2,862,321**	**3,352,770**
Provision for zakat	(82,518)	(69,851)	(86,680)	(68,041)	(97,444)	(72,364)	(75,934)	(81,993)
Net income	**3,414,707**	**3,010,952**	**3,395,797**	**2,903,138**	**3,202,011**	**3,261,994**	**2,786,387**	**3,270,777**
Basic earnings per share in Saudi Riyals	1.71	1.51	1.70	1.45	1.60	1.63	1.39	1.64