Annual Report 2006

mobily

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

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

بسم الله الرحمن الرحيم

Contents

Board of Directors

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.

Khalid Omar Al Kaf Chief Executive Officer
Honours degree in computer engineering, George Washington University, USA; 17 years in progressively senior positions in the telecommunications industry, working in France, Japan, and the UAE.

Mohammad Hassan Omran
Engineering degree in electronics and communications, Cairo University, Egypt; chairman and CEO of Etisalat and its fully-owned subsidiaries and chairman of Thuraya; board member of Arabsat, the largest Arab satellite communications organisation.

Salim Al-Sharhan
BSc in accounting, United Arab Emirates University, UAE; chief fnancial offcer 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, investment department, Aljomaih Holding Company; chairman, Bahrain Steel and Iron Company.

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

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

Dr Mazen Ibrahim Hassounah
MSc and PhD in planning, University of Toronto, Canada; 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, The Capital Group.

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

Chairman's statement

Far-sighted leadership, innovation, and professional best practice in every aspect of operations will always be the guiding principles of Mobily's mission to grow brand value by delivering a superior customer experience. Chairman of the board of directors, Abdulaziz bin Saleh Alsaghyir, describes how this policy yielded such impressive results for 2006, and shares his vision for the future success of the company.

A commitment to leadership

During the year under review, Mobily demonstrated a remarkable capacity to achieve results. For a new entrant in a relatively underdeveloped sphere of business, Mobily was able to establish a strong market presence very quickly – a credit to the outstanding initiative, drive, and expertise displayed by the board, management, and employees alike.

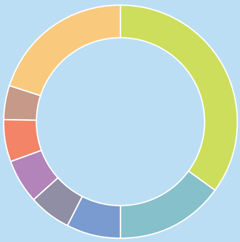
Although our licence requirement specifed that we should service seven cities by June, 2005, our launch a month before that reached as many as 32 cities and we now cover 90.2 per cent of the population.

From the extensive rollout of physical infrastructure to complex Islamic refnancing, every aspect of the business has been distinguished by smooth effciency. The results speak for themselves and establish our commitment to leadership – to be the pace-setters in creating world-class mobile telecommunications for the people of Saudi Arabia.

Our subscribers now total more than six million. Agreements with seven partners mean that our products and services are available in all parts of the Kingdom, from 3,610 points-of-sale and through 19 Mobily branded megastore and fagship outlets. Internationally, we have roaming agreements in place with 315 operators in more than 150 countries.

Such achievements are indicative of Mobily's aggressive strategy for delivering continued growth and customer service excellence, now and in the future. We will maintain our emphasis on innovation and sophisticated products, backed by investment in the best infrastructure. In doing so, we will continue to enhance our technological platform, encompassing the broad spectrum of customers from the corporate market to small and medium enterprises, from city dwellers to those living in remote rural areas.

In this respect, Mobily – along with Integrated Telecom Company and Bayanat Al-Oula – is well advanced with the development of Saudi Arabia's new fbre optic network. When fully completed in 2008, at a total cost of SAR 1 billion, the network will comprise seven rings with a total length of 12,600 km. It will replace lines leased from Saudi Telecom (STC), enabling Mobily to diversify its investments, achieve higher returns for shareholders, and increase the market value of our company. All leading telecom companies recognise that the future lies in investing in such voice and data convergent networks, with high bandwidth backbones to carry the new range of media.



Shareholder structure

Etisalat	35%
GOSI	15%
Abdel Aziz Al Saghyir Investment Co.	7.5%
Al Jomaih Holding Co.	6%
Rana Investment Co.	6%
Riyadh Cables Group of Companies	6%
Abdullah & Said M.O. Binzagr Co.	4.5%
Free Float	20%

The financial returns from Mobily's strategic vision and capital investment are already becoming evident. In 2006 a net profit of SAR 700 million was achieved, compared with a net loss of SAR 1.2 billion in 2005. Revenues reached SAR 6.2 billion, against the previous year's SAR 1.7 billion.

Enthusiastic response from the international and regional banking sector to participate in restructuring Mobily's financing has also illustrated the strength and credentials of the company. The requirement of SAR 10.78 billion was oversubscribed 2.3 times, underlining the confidence that Mobily's leadership has inspired among financiers. This will be further enhanced by our development and adoption of best-practice corporate governance policies.

We will also continue to focus on our people, who are our principal asset – developing their potential, maintaining open lines of communication, and defining a clear vision of our objectives and how they can be achieved.

We are already rated as a 'magnet' employer and we will use this advantage to attract the best personnel, retaining their loyalty and rewarding their success. Employees now number roughly 2,400 – of whom 82 per cent are Saudi nationals. During 2006, they benefited from 23,079 days of training, while employee reward schemes were introduced as a further incentive to performance and personnel retention.

Just as a far-sighted approach has contributed to Mobily's achievements to date, we look to the future with similar vision, initiative, and dynamic leadership. Many telecommunications opportunities exist beyond the borders of Saudi Arabia. Mobily has shown that it has the ability to perform and compete successfully, and international expansion is always within our future reach.

I thank shareholders for their continued support and the confidence they have placed in us, and look forward to a prosperous and successful future together.

Abdulaziz bin Saleh Alsaghyir
Chairman

CEO's review

Mobily closed 2006 on a high note, having exceeded performance goals and prepared the way for the next stage of dynamic growth. Chief Executive Officer Khalid Al Kaf reviews the highlights of the year and outlines the company's future plans and strategies. He attributes Mobily's outstanding performance to a clear vision of where the company is going, and empowering people to take responsibility for speedy and efficient delivery and customer satisfaction.

'Family' culture drives success

The 12 months to December 31 2006 – our first full year of operations – marked a decisive period in Mobily's progress towards achieving its operational and financial objectives. We set up a nationwide physical infrastructure comprising more than 3,000 base stations, and extending cellular telecom access to 90 per cent of Saudi Arabia's population. We established our brand identity, launched a series of innovative products, developed an extensive point-of-sale network, built a subscriber base of just over six million, and achieved 34 per cent market share. We changed the way people in Saudi Arabia communicate with each other (and with the world at large), improving the competitiveness of our business clients and enhancing the lifestyle of individual customers.

Financially, we generated total revenue of SAR 6.2 billion, operating cash flow of SAR 1.32 billion, and net profit of SAR 700 million. EBITDA, which turned positive last year after only seven months of operation, continued to show solid growth, reaching SAR 2.0 billion at the end of 2006. These results were achieved well ahead of schedule, and are an encouraging indication of the company's potential.

In the coming year, we will restructure our financing and replace existing obligations on a more favourable basis, which will be evident in future financial results. We will also continue to expand our high-quality network coverage to reach more than 96 per cent of the population, delivering a consistent and focused growth strategy that will further increase our subscriber base and market share.

Further opportunity is presented by the trend towards industry convergence of mobile communications, internet, fixed line communications, and broadcast media. This trend is particularly significant in the Saudi market, and is expected to accelerate with the development of wireless technologies that are revolutionising customer expectations.

Mobily's goal is to be the leading unified provider of seamless telecom services, and to form strategic alliances that contribute to this – whether with a fixed line operator, or with specialist providers of applications, content, web services, or devices. The proposed licensing of a third GSM network will create further opportunities for strategic alliances, where Mobily will cooperate in making its infrastructure available to create mutually beneficial advantages and cost savings to all parties, not least customers.

In our next phase of development, we will focus on aggressive brand development, segmented value propositions, and maintaining our policy of market-responsive pricing rather than absolute price-level comparisons. High-end customers, who are accustomed to service excellence, uninterrupted availability, and the latest technological gadgets, will benefit from sophisticated mobile solutions.

Internally, we will achieve administrative efficiencies and improved customer service experience from the establishment of the Bangalore Infotech Centre in India, a specialist Mobily subsidiary dedicated to developing software systems and support applications for our company.

This will provide state-of-the-art programs to support our end-to-end processes, backed by the right technology and applied by highly skilled professionals to deliver excellence in every aspect of our activities.

The Bangalore IT operation will be led and managed by Saudi nationals, refecting Mobily's commitment to the recruitment and development of Saudi nationals. Currently, 82 per cent of our 2,400 employees are Saudis.

At Mobily, we have always believed in treating our people with trust and care. We trust that they have the abilities and resources to perform to the best of their potential and empower them to do so; and we care that their welfare and job satisfaction conform to the highest standards. The benefits show quite clearly in the company's milestone achievements during 2006, especially the high levels of customer satisfaction that are evident from the growth in our subscriber base.

Management experts often stress the value of 'teamwork', but at Mobily we go a step further: we are a 'family' where members work together, help each other, and share a common goal. More than any single factor, this deep-rooted culture of cooperation and mutual support has contributed to the outstanding progress that Mobily has made in a relatively short space of time. Our people feel they belong; they feel appreciated; and consequently they are committed to successfully implementing their operational responsibilities.

All departments across the spectrum of our functions – operations, finance, administration, IT, human resources, marketing, sales and public relations – have contributed equally to serving our customers, the business sector and public and private institutions, and the community in which we live and work. I thank them most sincerely for their hard work and dedication, confident that they will always be the foundation of Mobily's success – today and in the future.

Khalid Omar Al Kaf
Chief Executive Officer

Mobily at a glance

Within 18 months of being licensed as Saudi Arabia's first 3G and second GSM service provider, Mobily has transformed the Kingdom's inter-connectivity and access to the world at large. Market take-up of mobile phones was running at only 40 per cent before Mobily's entry in May 2005. At the end of 2006, market take-up had grown to over 70 per cent, with Mobily securing just over six million subscribers and 34 per cent market share.

A mobile success story

Mobily – formally known as the 'Etihad Etisalat Company' – was established to bid for telecommunications licences in Saudi Arabia, following the Kingdom's moves to economic liberalisation.

The shareholders' consortium comprises: Etisalat (the UAE-based telecom operator that is the third largest company in the Middle East); GOSI (General Organisation for Social Insurance – the public entity responsible for the enforcement, collection, and administration of social insurance and pensions in Saudi Arabia); and fve Saudi companies engaged in a variety of trading, investment, and manufacturing activities – Abdulaziz Alsaghyir Commercial Investment Company, Abdullah & Said Binzagr Company, Aljomaih Holding Company, Rana Investment Company, and Riyadh Cables Group of Companies.

Etisalat and GOSI between them own 50 per cent of Mobily, the fve companies have a combined holding of 30 per cent, and the remaining 20 per cent is publicly owned.

Mobily was awarded Saudi Arabia's frst 3G and second GSM licence in July 2004, securing the rights to install, own, and operate a mobile cellular network in all areas of the Kingdom. The licences also permitted connection with overseas operators for international services and are valid for 25 years from date of award, renewable subject to approval.

The Mobily brand (the name means 'my mobile' in Arabic) was offcially launched in February 2005, followed in May by the successful introduction of GSM services. Although the licence requirement called for service launch in seven cities by June 2005, the May debut reached no fewer than 32 cities – marking the beginning of the transformation in Saudi Arabia's overall mobile telecoms market.

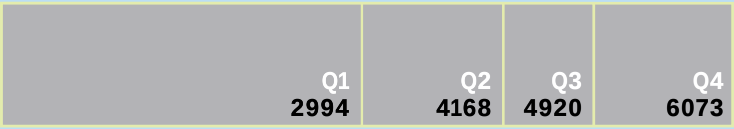
Mobily's innovative products and intelligent pricing policies have since reduced the barriers to mobile market entry, driving up market penetration in the wake of increased territorial coverage, particularly through the introduction of products previously unavailable in the Kingdom.

With more than 3,000 base stations set up since beginning operations, Mobily has far exceeded the stipulations of its licence – extending coverage to almost 80 per cent of the population by end-June 2005, and reaching 90 per cent at the close of 2006.

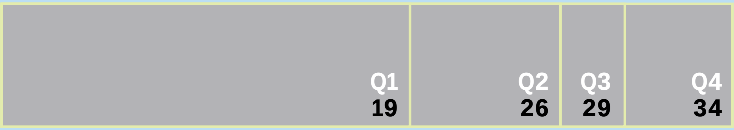
In June 2006, Mobily launched 3.5G services – the frst operator to do so in Saudi Arabia. The product is now available in more than 20 cities, served by more than 900 3.5G-capable base stations, and catering to more than 500,000 subscribers by the end of 2006.

To give customers the widest possible coverage, a national roaming agreement was signed with Saudi Telecom (STC), as well as subsequent international roaming agreements with 315 operators in more than 150 countries.

Subscribers in 2006 (thousands)



Market share (%)



Mobily's operational achievements have been matched by its fnancial performance. The company was EBITDA positive within only seven months of operation; turned cash-fow positive during 2006; and generated revenue of SAR 6.2 billion ($1.65 billion) in 2006.

With Saudi Arabia being the largest telecommunications market in the Middle East, characterised by relatively high population growth with favourable demographics, a booming economy, and vast potential for further growth, Mobily is ideally placed to capitalise on the strong market position it has established.

The population age distribution is weighted towards the younger generation. Nearly half are under the age of 20, the primary drivers for growth in mobile phone usage. In the corporate sector, the percentage of mobile phone subscription has not even reached double fgures. Both sectors represent excellent growth potential.

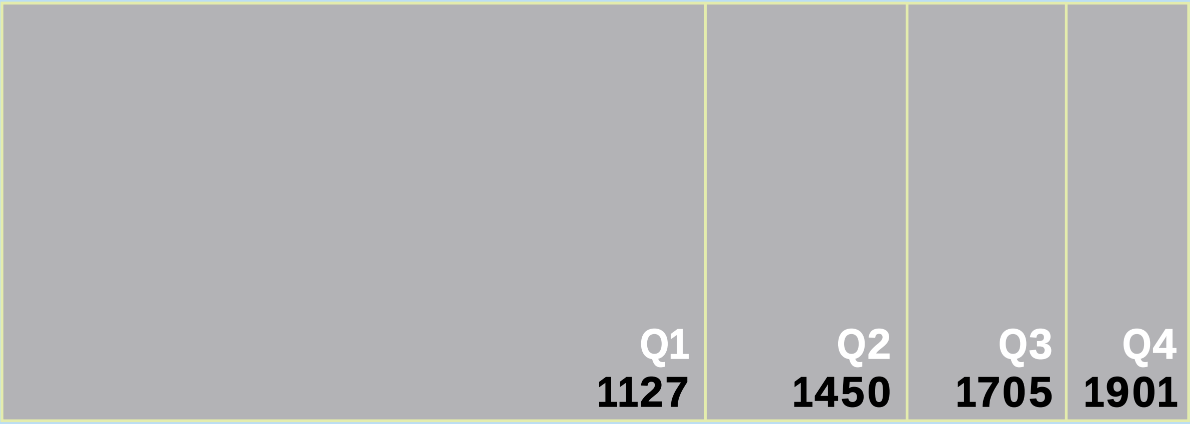
Opportunities will be driven by the growing affordability of mobile telephony, an increasingly favourable regulatory framework, and a market that is hungry for the entertainment that mobile telecoms and content download can provide.

Independent research estimates that the number of mobile subscribers in Saudi Arabia will grow to more than 23 million in 2009. As yet, market take-up is only about 70 per cent, compared to more than 100 per cent in several neighbouring Gulf states, further underlining the potential for future growth.

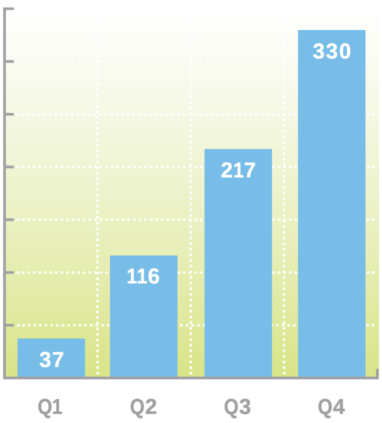
Mobily has already demonstrated its ability to secure and grow market share through a powerful mix of technology, innovation, and customer benefts – and is confdent of continuing to be the preferred service provider for the new wave of mobile users.

Key performance indicators

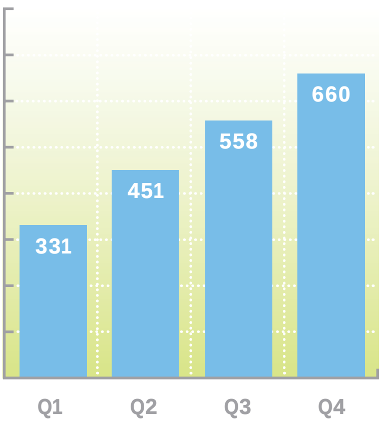
2006 Revenue (million SAR)



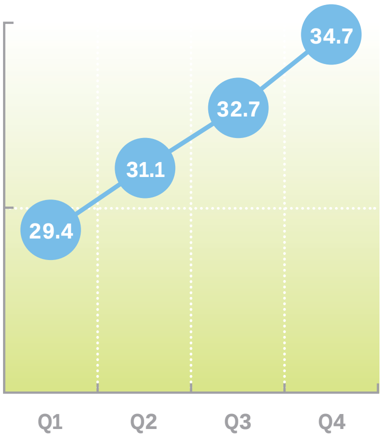
Net income (million SAR)



EBITDA (million SAR)



EBITDA margin (%)



KPIs	2006	2005
Operating Revenue (thousand SAR)	6,183,236	1,661,737
EBITDA (thousand SAR)	2,000,503	(112,767)
EBITDA margin (%)	32%	-7%
Operating income (thousand SAR)	1,155,524	(851,908)
Net income (thousand SAR)	700,358	(1,167,379)
Net income (%)	11%	-70%
Basic earning/loss per share (SAR)	1.40	-2.34

Mobily's milestones to success

Since being formally established by a Royal Decree issued on August 18 2004, Mobily's progress over its relatively short existence has been marked by a series of significant milestones that track its emergence as a leading player in the dynamic world of mobile telecoms. The Mobily success story has even achieved global recognition, with the international GSM Association identifying the company as 'the fastest-growing mobile operator in the Middle East and North Africa' in 2006.

2004

July
Mobily awarded Saudi Arabia's first 3G and second GSM licences

July
Completion of Islamic financing for $2.35 billion, biggest Islamic financing in history

September
Build-out of Mobily's GSM network begins

October
Initial public offering of 20 million Mobily shares oversubscribed 51 times

2005

May
Mobily launches commercial GSM services in 32 cities (licence requirement only seven), bringing coverage to 79.2 per cent of the population

August
More than one million subscribers achieved

December
Mobily turns EBITDA positive

2006

June
Mobily launches 3.5G service – the first in the Kingdom

September
Mobily turns cash-flow positive

December
Mobily subscribers total just over six million, representing 34 per cent market share; 3.5G subscribers exceed 500,000

December
Population coverage exceeds 90 per cent, with more than 3,000 base-stations

December
Mobily available at more than 3,600 points of sale across the Kingdom

Always there... for customers

Mobily has made mobile communication accessible and affordable for millions of new users in Saudi Arabia. An extensive level of network coverage, innovative new products, and intelligent pricing to suit all budgets underpin the drive to bring the best of modern telecoms within everyone's reach. For the first time, everyone can afford to stay in touch with family and friends. And high-end users are discovering the value of internet and email on the move. Mobily is always there for customers...

By doubling holy site capacity

Mobily completed network coverage of all the holy sites in Makkah and Medina in time for the Hajj season. The company doubled its capacity at Arafat, Muzdalifah, Mina, and in the vicinity of the two Holy Mosques. For the frst time, pilgrims were able to use the powerful 3.5G services, not only voice and SMS communications.

Mobily's prepaid Rahal card for pilgrims enabled them to stay in touch through special round-the-clock rates for international calls, with the result that more than 500,000 from outside Saudi Arabia used the Mobily network during the Hajj, up from 100,000 the previous year.

With the latest in 3.5G features

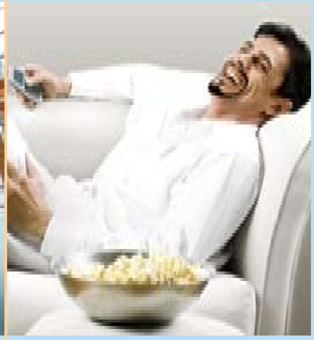
Mobily's 3.5G users became the frst in Saudi Arabia to enjoy live mobile TV transmission, tuning in to programmes from Al Arabiyah, CNBC Arabiyah, Saudi TV, Rotana Cinema, and many more. High-speed internet is also provided, as well as video/audio on demand. No monthly fees are required for video telephony, which is charged at a very economical per-minute rate that is also available to prepaid subscribers.

With Mobily's 3.5G multi-player gaming, users can play the latest interactive games with family and friends, enjoying full colour and polyphonic sound.

By adding the personal touch

Creating individuality is a key factor for mobile phone users, and all Mobily customers can take advantage of a special feature that enables them to personalise the sound heard by those who call them – another Mobily frst. Using the Rannan 'ring back tone' service, they can replace the standard bleeping with their own distinctive call-sign, chosen from a wide collection that includes Islamic tones, songs, music, comic rings, and many more.

Users are equally conscious of the unique nature of their own mobile number, so Mobily's Raqme service has been introduced to enable them to keep their existing number if switching to Mobily from another operator. The Raqme facility is free of charges or set-up fees, irrespective of the service package chosen from Mobily – whether prepaid or post-paid.



With innovative benefits

Mobily customers get more than just a mobile phone connection. They enjoy a host of benefits such as:

Friend Finder helps customers who want to know where their friends are, and sends the right map to find them.

My Location if a customer is lost, the Mobily Map Service displays maps and addresses.

Kalemni this 'call me back' service allows customers to send a message to any mobile user whenever there isn't enough credit to make a call.

MMS videos, photographs, sound, and text can be shared with friends and families. For a small monthly fee, users can add news services from CNN and Al Arabiyah, receiving regular SMS updates on the latest events in current affairs, politics, sport, business, and entertainment, as well as weather reports and stock market information.

Mobily 3lhawa gives customers live access to the best portal content across a wide spectrum of interests, from news and entertainment to Islamic categories, sport, business, fun downloads, and much more.

With enhanced services

At home, in the workplace, and on the move, Mobily fulfls customer needs by providing extra services that save them time and effort, removing complications and stress. With more than 3,600 points of sale, including one in London for top-ups, customers everywhere have easy access to the Mobily experience. Services also include:

Mobily Al Jawhara specific shops in all major cities cater exclusively for female customers, managed and staffed by highly-trained ladies.

Credit Transfer lets customers transfer credit from their Mobily account to that of any other prepaid customer.

Mobily Auto automatic terminals being installed across all major Mobily outlets enable customers to pay their Mobily bills (instantly reactivating the service) or recharge their prepaid credit.

M.Pay another smart way of paying bills or recharging credit, available at most Mobily points of sale.

International roaming in more than 150 countries.

Menu Service customers have quick and direct access to all Mobily services through an interactive text menu, even while roaming.

Always there... for business

Mobily is committed to giving the Saudi business community world-class integrated telecom solutions that meet their needs, thus stimulating higher levels of business usage than the single-digit market uptake that historically prevailed. From industry-leading services such as mobile high-speed internet access, to more advanced wireless applications, Mobily promises to be always there for business...

With growing business-specifc services

In July 2006, Mobily became the frst telecom operators in Saudi Arabia to launch a business brand targeting the corporate sector, namely Mobily Business – as distinct from the company's mass-market consumer offerings.

This was followed in September with the introduction of BlackBerry services, again a 'frst' in Saudi Arabia, in cooperation with Research in Motion (RIM) and Emitac Mobile Solutions (EMS).

With unique phones that do more

Mobily offers the BlackBerry 8700g handset to corporate customers. BlackBerry is a comprehensive wireless solution with security features that provide mobile professionals with wireless access to email, phone, internet, SMS, organiser, and corporate data applications from a single device.

With technologies that provide increased processing power and faster data transmission, BlackBerry enables users to increase productivity by staying connected while away from their offces. International roaming is provided in almost 50 countries.

By serving new market segments

Mobily is attracting increased traffc from a new market segment, by providing a platform for becoming a trusted partner with corporate clients as a valued supplier of sophisticated mobile solutions.

More than 20 banks and corporate institutions had signed up for BlackBerry by the end of 2006.

The corporate and business sector has historically been underserviced. Only a very small percentage of companies issue mobile phones to employees, despite the high volume of business-related traffc on personal mobile phones.

By removing historical barriers to mobile usage

Mobily has responded by making it easier for companies to become mobile subscribers, introducing innovative customer-tailored offerings that are attractive to corporate users but were not previously available. The Mobily Business pricing scheme makes corporate mobile telephony a far more attractive proposition, as does the provision of frst-class support services.

With a frm commitment to customer care

A dedicated 'corporate sales' division and call centre are the main differentiators of Mobily Business. The over-riding objective is to give corporate entities the telecom resources needed to sustain the success of their business operations.

The 'corporate sales' division comprises telecom experts who provide solutions and services for corporate customers and public and private sector institutions, customised to match each client's unique circumstances.

Each client is allocated a key account manager who is skilled in analysing telecom spending and allied criteria, responding with quick and professional recommendations that meet requirements cost effectively.

Specialist support staff are located at the biggest Mobily stores in Riyadh, Jeddah and Dammam, where corporate customers can visit or call to obtain professional advice on all their telecom needs.

By helping volume users

Mobily's bulk SMS service provides the facility for high-volume users to connect directly to the network for mass-mailing of text messages. Whether for communication with internal staff, suppliers, or customers, bulk SMS is a timely and cost-effective business tool that gets results.

Always there... for communities

For Mobily, delivering a friendly future extends beyond providing great products and services. Being a premier corporate citizen is equally important in fulfilling the company's mission. Mobily is therefore committed to improving the economic, social, and cultural well-being of the society it serves. Mobily is always there for communities...

By sharing emotions

Saudi Arabia's passion for football came to a head at the 2006 FIFA World Cup in Germany, where the national team was one of 32 to qualify for the fnals – sponsored by Mobily and watched by millions around the globe.

The Saudi Arabia Olympics Committee – the nation's highest offcial sports authority – is backed by Mobily, which also sponsors 8 sports and 13 federations in the biggest sports programme in Saudi history. The Saudi team at the 15th Asian Games, held in Doha, Qatar during 2006, took part under Mobily sponsorship.

At home, sports fans were able to enjoy the Mobily 6th International Youth Tennis Championship and the Mobily Desert Challenge Championship for rally-driving, while the national Volleyball Federation and Horsemanship Association also benefted from Mobily's backing.

By belief in people

Mobily sponsored the Saudi team taking part in the Disabled World Cup football in Germany, staged in parallel with the FIFA World Cup, where their professional counterparts appeared with Mobily backing.

The company's commitment to helping the disabled is taken further through membership of The Prince Salman Centre for Disability Research, where Mobily makes substantial contributions to funding.

Helping make Saudi's roads safer was the motivation for Mobily's traffc awareness campaign, with the aim of encouraging responsible driving habits and reducing the number of tragic accidents that occur.

Through economic stimulus

Mobily lends its support to several events that encourage job creation and economic growth in Saudi Arabia.

During 2006 these included:

- The employment activities 'open day' at King Fahd University of Petroleum & Minerals
- The 2nd Gold & Jewellery Expo
- The Saudi Exporters Summit at the Riyadh Chamber of Commerce
- Gitex (IT exhibition)
- Saudi's frst International Conference on Tourism and Handicrafts

Through Islamic values

As well as doubling cellular capacity for pilgrims to Saudi Arabia's holy sites, Mobily shared in the spirit of the Hajj ritual by providing pilgrims with one million umbrellas and one million bottles of water, as well as copious supplies of dates.

During Ramadan, Mobily provided Iftar meals to 500,000 passengers in all classes on all fights by Saudi Arabian Airlines. And during Eid, Mobily staff visited hospital patients and distributed gifts, fowers, and mobile phone accessories.

With dedication to social responsibility

Mobily is pledged to operate in a way that is economically, socially, and culturally sustainable. With consistent focus on being a good corporate citizen, Mobily will continue to implement business practices that support long-term sustainable growth, while improving the quality of life in the communities it serves.

Saudi Arabian economic review

Saudi Arabia

Population (million)	23.9
GDP per Capita (US $)	14,581
Nominal GDP (US $ Billion)	347.91
Nominal GDP change %	12.4%
Real GDP change %	4.2%

The economic boom in Saudi Arabia continues to gather strength, fuelled by sustained high levels of oil revenues, record trade and budget surpluses, high growth, and low infation. The Government's fscal position can support growth in spending for years, and mega projects under way will maintain the economic high through 2010 and beyond.

Oil remains the anchor of the Saudi economy, with record export earnings being achieved. Even with Government providing strong fscal stimulus, oil revenues are not being spent as quickly as they are being earned, with about $7 billion per month accumulating as foreign exchange at the central bank.

Underlying strength in oil markets is generated by exceptional global economic growth, high demand, and concerns about distribution policies in the world's oil-producing regions.

Saudi Arabian spending on large infrastructure is at an all-time high. Assessments of activity indicate that close to 40 major projects are under way or have a high likelihood of implementation over the next few years – with a total investment of around $300 billion. Hydrocarbons dominate – crude oil production, refning, and petrochemicals production – especially in terms of private sector investment, but the projects involve a wide array of industries and are geographically dispersed around the Kingdom.

Nominal GDP growth was expected to reach about 20 per cent during 2006, with real GDP growth estimated at 5.9 per cent. Growth forecasts for the non-oil private sector are put at 8.9 per cent in real terms, the highest for years. Strong oil export earnings underpin a projected current account surplus of more than $100 billion – the eighth successive year of surplus.

Financial statements

Auditors' report to the shareholders

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

We have audited the accompanying balance sheet of Etihad Etisalat Company – Joint Stock Company, ("the Company") as of 31 December 2006 and the related statements of income, cash fows and changes in shareholders' equity for the period then ended, and the attached notes from (1) through (23) which form an integral part of these fnancial statements. These fnancial statements have been prepared by the management in accordance with Article 123 of the Companies Regulations and submitted to us together with all the information and explanations which we required.

Our audit was conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the fnancial statements. These fnancial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these fnancial statements based on our audit.

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

1) Present fairly the fnancial position of the Etihad Etisalat Company – Joint Stock Company at 31 December 2006 and the results of its operations, changes in cash fows and shareholders' equity for the year then ended in accordance with generally accepted accounting standards appropriate to the circumstances of the Company.

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

Abdullah H. Al Fozan
License No. 348
20 Muharram 1428 H
Corresponding to 8 February 2007

Income statement

	Notes	From 1/1/2006 to 31/12/2006	From 14/12/2004 to 31/12/2005 Restated
Services revenue	(14)	6 183 236	1 661 737
Cost of providing services	(15)	(2 661 184)	(967 240)
Gross margin		**3 522 052**	**694 497**
Operating expenses			
Selling and marketing expenses	(16)	(702 670)	(274 298)
General and administrative expenses	(17)	(694 704)	(480 316)
Depreciation and amortization	(6,7)	(844 979)	(739 141)
Provisions		(124 174)	(52 650)
Total operating expenses		**(2 366 527)**	**(1 546 405)**
Operating income / (loss)		**1 155 525**	**(851 908)**
Financing costs		(478 680)	(347 641)
Other revenues		23 513	32 170
Net income / (loss) for the year		**700 358**	**(1 167 379)**
Basic earnings / (loss) per share	(18)	**1.401**	**(2.335)**

The accompanying notes (1) through (23) form an integral part of these financial statements.

Balance sheet

	Notes	2006	2005 Restated
ASSETS			
Current assets			
Cash and cash equivalents	(3)	547 523	185 172
Accounts receivable (net)	(4)	739 228	166 822
Inventories		38 048	32 075
Other current assets	(5)	716 688	782 765
Total current assets		**2 041 487**	**1 166 834**
Non current assets			
Property and equipment (net)	(6)	3 847 532	2 723 840
License acquisition fees (net)	(7)	11 800 160	12 313 626
Total non-current assets		**15 647 692**	**15 037 466**
Total assets		**17 689 179**	**16 204 300**
LIABILITIES & SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term loans	(8)	7 839 943	7 348 129
Creditors	(9)	1 516 376	876 118
Due to related parties	(10)	179 335	193 251
Other current liabilities	(11)	320 294	218 017
Accrued expenses	(12)	1 687 156	2 133 514
Total current liabilities		**11 543 104**	**10 769 029**
Non current liabilities			
Provision for employees' end of service benefts		13 096	2 650
Founding shareholders' loan	(13)	1 600 000	1 600 000
Total non current liabilities		**1 613 096**	**1 602 650**
Total liabilities		**13 156 200**	**12 371 679**
Shareholders' equity			
Paid up capital	(1)	5 000 000	5 000 000
Accumulated losses	(20)	(467 021)	(1 167 379)
Total shareholders' equity		**4 532 979**	**3 832 621**
Total liabilities & shareholders' equity		**17 689 179**	**16 204 300**

Chief Financial Offcer:
Thamer Mohammed Al Hosani

Managing Director and Chief Executive Offcer:
Khaled Omar Al Kaf

The accompanying notes (1) through (23) form an integral part of these fnancial statements.

Cash flows statement

	Notes	2006	2005 Restated
Cash fows from operating activities			
Net income / (loss)		700 358	(1 167 379)
Adjustments to reconcile net income / (loss) to net cash from operating activities			
Amortization of license acquisition fee	(7)	513 466	665 613
Depreciation	(6)	331 513	73 528
Provision for employees' end of service benefts		10 698	2 650
Provision for doubtful accounts		113 476	50 000
Changes in working capital:			
Accounts receivable		(685 882)	(216 822)
Inventories		(5 973)	(32 075)
Other current assets		66 077	(782 765)
Creditors		640 258	876 118
Due to related parties		(13 916)	193 251
Other current liabilities		102 277	218 017
Accrued expenses		(446 358)	2 133 514
Payment of employees' end of service benefts		(252)	-
Net cash generated from operating activities		**1 325 742**	**2 013 650**
Cash fows from investing activities			
Purchase of property and equipment	(6)	(1 455 205)	(2 797 368)
Payment for license fees	(7)	-	(12 979 239)
Net cash used in investing activities		**(1 455 205)**	**(15 776 607)**
Cash fows from fnancing activities			
Share capital		-	5 000 000
Short-term loan		491 814	7 348 129
Founding shareholders' loans		-	1 600 000
Net cash provided by financing activities		**491 814**	**13 948 129**
Net cash flows during the year		362 351	185 172
Cash and cash equivalents at the beginning of the year		185 172	-
Cash and cash equivalents at the end of the year	(3)	**547 523**	**185 172**

The accompanying notes (1) through (23) form an integral part of these fnancial statements.

Statement of changes in shareholder’s equity

	Capital	Accumulated losses	Total
Balance as of 1/1/2005	5 000 000	-	5 000 000
Net (loss) for the financial period ended December 31, 2005	-	(1 039 915)	(1 039 915)
Balance as of 31/12/2005	**5 000 000**	**(1 039 915)**	**3 960 085**
Prior year adjustment for the financial period ended December 31, 2005	-	(127 464)	(127 464)
Balance as of 31/12/2005 as restated	**5 000 000**	**(1 167 379)**	**3 832 621**
Net income for the financial period ended December 31, 2006	-	700 358	700 358
Balance as of 31/12/2006	**5 000 000**	**(467 021)**	**4 532 979**

The accompanying notes (1) through (23) form an integral part of these financial statements.

Notes to the financial statements

For the year ended December 31, 2006

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 considered the second authorized provider of mobile telecommunication services in the Kingdom of Saudi Arabia.

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

The company issued 100 million shares at par value SR 50. Per Capital Market Authority resolution # 2006-154-4 on 27 March 2006 a share split was implemented on April, 8th 2006 where by the share was split 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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with standards issued by Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies adopted are as follows:

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

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

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

d) 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.

e) Provisions A provision is recognised in the financial statements when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.
Allowance for doubtful accounts is calculated based on aging of account receivables and the company previous experience in collecting receivables.

f) Property and equipment Property and equipment, except land are stated at cost less accumulated depreciation.
Land and capital work in progress are stated at cost. Routine repair and maintenance costs are expensed as incurred.
Depreciation on property and equipment is charged to income using straight line method so as to write off the historical cost of the assets over their estimated useful lives at the rates given below for each class of assets.

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

Notes to the financial statements

For the year ended December 31, 2006

2. SIGNIFICANTACCOUNTING POLICIES (continued)

Major renewals and improvements are capitalized if they increase useful life and effciency of property and equipment. Minor repairs and renewals are expensed when incurred. The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized in the income statement.
Starting July 1, 2006 the Company has changed the estimated useful life for Leasehold improvements from 5 to 10 years, Computer, offce equipment and furniture from 4 to 5 years and Vehicles from 3 to 5 years.

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

h) License acquisition fees License acquisition fees are amortised over 25 years 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.
Starting January 1st, 2006 the Company changed the estimate for the useful life of the license to be 25 years instead of 20 years after SOCPA released its resolution number 9/2 dated 19/9/1426 H corresponding to 22/10/2005 G which allowed amortization of intangible assets on straight line method over the useful life of the assets on its regulatory life which ever less.

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

k) 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.

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

m) Expenses Selling and marketing expenses are those, which specifcally 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 classifed as general and administrative expenses.

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 fnancial assets and liabilities refected in the fnancial statements approximate 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 discounts and rebates for the period.

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.

3. CASH AND CASH EQUIVALENTS

	2006	2005
Cash in hand	468	474
Cash at banks	547 055	184 698
	547 523	**185 172**

4. ACCOUNTS RECEIVABLE, NET

	2006	2005
Subscribers	189 274	91 932
Allowance for doubtful accounts*	(77 693)	(50 000)
	111 581	**41 932**
Other telecom operators	497 885	-
Distributors	129 762	124 890
	739 228	**166 822**

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

	2006	2005
Balance as at 1st January	50 000	-
Additions during the year	113 476	50 000
	163 476	**50 000**
Bad debts	(85 783)	-
	77 693	**50 000**

5. OTHER CURRENT ASSETS

	2006	2005
Prepaid expenses	175 421	91 663
Suppliers advances **	243 227	352 341
Accrued revenue	227 060	321 614
Staff advances	2 178	2 423
Others	68 802	14 724
	716 688	**782 765**

** Suppliers advances include an amount of SR 229 million related to suppliers of telecommunication equipment.

Notes to the financial statements

For the year ended December 31, 2006

6. PROPERTY AND EQUIPMENT (NET)

	Land	Telecoms equipment	Computer equipment & software	Office equipment & Furniture	Vehicles	Leasehold Improvements	Capital work in progress	Total
Cost								
Cost as at 1/1/2006	3 182	2 007 413	22 828	28 011	220	17 549	718 165	2 797 368
Additions for the year	3 563	534 064	296 611	111 574	464	162 536	346 393	1 455 205
Total cost as at 31/12/2006	**6 745**	**2 541 477**	**319 439**	**139 585**	**684**	**180 085**	**1 064 558**	**4 252 573**
Accumulated depreciation								
Accumulated depreciation as at 1/1/2006	-	68 625	2 290	1 951	55	607	-	73 528
Depreciation for the year	-	209 743	60 351	30 641	280	30 498	-	331 513
Accumulated depreciation as at 31/12/2006	**-**	**278 368**	**62 641**	**32 592**	**335**	**31 105**	**-**	**405 041**
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**
Net book value as at 31/12/2005	3 182	1 938 788	20 538	26 060	165	16 942	718 165	2 723 840

Starting July 1, 2006 the Company has changed the estimated useful life for leasehold improvements from 5 to 10 years, computer, office equipment and furniture from 4 to 5 years and Vehicles from 3 to 5 years.

The effect of these changes is a decrease in depreciation expense by SAR 33.6 million and increase in net income by the same amount.

7. LICENSE ACQUISITION FEES (NET)

	Mobile telecommunication services license	3G license fees	Other licenses	Total license fees
Cost as at 1/1/2006	12 210 000	753 750	15 489	12 979 239
Additions for the year	-	-	-	-
Cost as at 31/12/2006	**12 210 000**	**753 750**	**15 489**	**12 979 239**
Less:				
Accumulated amortization as at 1/1/2006	627 458	37 897	258	665 613
Amortization for the year	482 606	29 827	1 033	513 466
Accumulated amortization as at 31/12/2006	1 110 064	67 724	1 291	1 179 079
Balance as at 31/12/2006	**11 099 936**	**686 026**	**14 198**	**11 800 160**
Balance as at 31/12/2005	11 582 542	715 853	15 231	12 313 626

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.

Starting January 1st, 2006 the Company changed the estimate for the useful life of the license to be 25 years instead of 20 years after SOCPA released its resolution number 9/2 dated 19/9/1426 H corresponding to 22/10/2005 G which allowed amortization of intangible assets on straight line method over the useful life or the regulatory life which ever less.

Based on the change in the estimated life of the license, amortization is calculated on the unamortized balance as of January 1, 2006 over the remaining useful life on the straight line method. This accounting treatment shall continue in future period unless a permanent impairment in the value occurs. The management does not believe there is evidence that the useful life of the assets is less than its regular life. Had the company continued using the old useful life (20 years), net income would have been less by SAR 135.7 million.

8. SHORT TERM LOANS

The Company entered into a financing arrangement with a group of local and international banks (the “Syndicate”). According to the agreement, Islamic bridge financing facility equivalent to SR 8.8 billion have been granted in US Dollars and Saudi Riyals in two tranches. Tranch A, amounting to SR 5.99 billion which is secured by guarantees from the founding shareholders, has been fully used by the Company for the part payment of license fee referred in note 7. SR 0.54 billion from Tranch B has also been used by the Company for the part payment of the license acquisition fees as mentioned above. The balance of Tranch B amounting to SR 0.78 billion has been used to purchase the required network material and equipment. The final maturity of this facility was in April 2006.

The Company settled the above mentioned loan on April 13, 2006 by raising a SR 7.125 billion Syndicated Islamic (Murabaha) Bridge Loan Facility, split in to Tranche “A” SR 6.0 billion and Tranche “B” SR 1.125 Billion. The new Murabaha mature on March 29, 2007. Murabaha costs for the two agreements is around 430 million Saudi Riyals. Furthermore, accrued Murabaha expense of SAR 322 million is also included under short term loan. The Tranch A is guaranteed by shareholders.

The Company also obtained from founding shareholders of SR 400 million to partially refinance the license acquisition fee refereed in note 7.

As the repayment date for the above facility is March 29, 2007, the Company has approached a group of reputable banks to raise a long term finance totalling 2.85 billion US dollars (10.7 billion Saudi Riyals) to settle the above loan as well as the shareholders loans.
The Company anticipates signing this long term financing loan before the end of first quarter of 2007. By raising this long term finance the Company does not anticipate any difficulty in meeting funding requirements over the next 12 month.

Notes to the financial statements

For the year ended December 31, 2006

9. CREDITORS

	2006	2005
Trade payables	758 431	160 726
Capital expenditure payables	757 945	715 392
	1 516 376	876 118

10. RELATED PARTY TRANSACTIONS

The Company entered into a management agreement with the Emirates Telecommunication Corporation ("ETC") as its operator effective from 14 August 2004. The agreement requires the ETC 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 SAR 37.5 million (USD 10 million) for services provided under the agreement. The term of the agreement is 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 ETC serves a 12 month notice of termination prior to the expiry of the applicable period.

There are founding shareholders' loan amounted to SR 1.6 billion and SR 400 million per note (8) and (13).

Following are other related parties associations:

			Transactions during the periods ended
Name	Nature of transactions	From 1/1/06 to 31/12/06	From 14/12/04 to 31/12/05
Emirates Telecommunication Corporation	-Management fees	37 500	51 814
	-Reimbursable costs to seconded staff	106 709	132 239
	-Telecom services	79 289	31 732
Riyadh Cable	-Financing cost	-	83
Emirates Data Clearing House	-Roaming services	12 156	1 952

The outstanding balances as at December 31, 2006 are as follows: -

Name	2006	2005
Emirates Telecommunication Corporation	176 262	191 382
Emirates Data Clearing House	3 073	1 952
Receivable from Riyadh Cable	-	(83)
	179 335	193 251

The nature of the related party relationships is as follows:

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

11. OTHER CURRENT LIABILITIES

	2006	2005
Deferred recharge	313 200	214 727
Others	7 094	3 290
	320 294	**218 017**

12. ACCRUED EXPENSES

	2006	2005
Telecommunication equipment suppliers	1 009 643	1 416 301
Other telecommunication operators	351 475	596 735
Leave salaries	15 705	6 683
Staff training accrual	6 143	4 061
Selling and marketing costs	105 071	23 111
Others	199 119	86 623
	1 687 156	**2 133 514**

13. FOUNDING SHAREHOLDERS' LOAN

The founding shareholders' contributed SR 1.6 billion free loan, which has been used for part payment of the license acquisition fee referred to in note 7.

14. SERVICES REVENUE

	From 1/1/06 to 31/12/06	From 14/12/04 to 31/12/05
Activation fees	19 883	5 444
Rental fees	213 786	39 920
Usage	4 708 040	1 294 759
Interconnect revenue	1 110 587	309 438
Visitor roaming	81 898	12 176
Others	49 042	-
	6 183 236	**1 661 737**

Notes to the financial statements

For the year ended December 31, 2006

15. COST OF PROVIDING SERVICES

	From 1/1/2006 to 31/12/2006	From 14/12/2006 to 31/12/2005
Consumption of inventories	85 533	44 307
Interconnection expenses	1 242 243	361 716
National and international roaming cost	364 130	256 730
License fees	44 600	9 206
Government revenue share	444 582	46 032
Frequency charge and rental	22 355	10 771
Transmission and international gateway cost	222 055	142 123
Technical repair & maintenance cost	107 619	47 652
Sites rental	114 165	46 543
Others	13 902	2 160
	2 661 184	**967 240**

16. SELLING AND MARKETING EXPENSES

	From 1/1/2006 to 31/12/2006	From 14/12/2006 to 31/12/2005
Advertising	280 400	190 285
Commissions	403 263	72 700
Others	19 007	11 313
	702 670	**274 298**

17. GENERAL AND ADMINISTRATIVE EXPENSES

	From 1/1/2006 to 31/12/2006	From 14/12/2004 to 31/12/2005
Staff expenses	356 625	140 595
Rental	30 664	22 715
Professional services	29 257	84 894
Travelling and accommodation	14 426	19 906
Management fees	37 500	51 814
Reimbursable costs to seconded staff	106 709	132 239
Remuneration and allowances to board members	2 005	372
Others	117 518	27 781
	694 704	**480 316**

18. EARNING / (LOSS) PER SHARE

Earning / (Loss) per share are calculated by dividing the net income / (loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

19. ZAKAT

No Zakat has been provided in the accompanying financial statements for the year
ended December 31, 2006 as the Zakat base is in negative and the accumulated losses exceeds the adjusted net income for the year.

	From 1/1/2006 to 31/12/2006	From 14/12/2004 to 31/12/2005
Shareholders' equity	3 832 621	5 000 000
Short term loan	7 348 129	7 348 129
Founding shareholders loan	1 600 000	1 600 000
Adjusted net income (loss) for the year	49 665	(1 114 729)
Opening balance of provisions	52 650	-
Liabilities against finance of fixed assets	1 725 035	-
	14 608 100	**12 833 400**
Deductions		
Net fixed assets	14 822 130	15 037 466
Suppliers advances to telecommunication equipment	229 415	338 335
Negative zakat bases	**(443 445)**	**(2 542 401)**

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

Net income (loss) for the year	700 358	(1 167 379)
Add / (deduct) back:		
Allowance for doubtful accounts	113 476	50 000
Provision for employees' end of service benefits	10 446	2 650
Depreciation and other expenses differences	(774 615)	-
	49 665	**(1 114 729)**

Notes to the financial statements
For the year ended December 31, 2006

20. FINANCIAL INSTRUMENTS

Financial assets of the Company comprise of cash in hand and at bank, Account receivable and other current assets. Financial liabilities of the Company comprise of short term loans, creditors, due to related parties, employees' end of service benefts, founding shareholders' loan and other current liabilities. Accounting policies for fnancial assets and liabilities are set out in note 2.

- Credit risk
  Financial assets, which potentially subject to concentration of credit risk, consist principally of cash in hand and at banks and account receivables. 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 account receivables from the customer.
- Foreign exchange risk
  The management closely monitors the exchange rate fuctuations. Based on their experience, the management does not believe it is necessary to account for foreign exchange risk.
- Murabaha rate risk
  The Company does not have any signifcant murabaha rate risk. Murabaha rates on bank deposits and short term loans are based on pre set murabaha costs based on prevailing market rates.
- 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 fnancial assets and liabilities are not materially different from their carrying amounts.
  The Company believes that it is not exposed to any signifcant risk as mentioned above.

21. PRIOR YEAR ADJUSTMENTS

Suppliers' invoices of SAR 108.87 million relating to prior year, and overstated revenue recorded in prior year of SAR 18.59 million have been recorded as a prior year adjustment in these fnancial statements. The fnancial statements for 2005 have been restated to conform with these adjustments.

22. CAPITAL CONTRACTUAL COMMITMENTS

Capital contractual commitments represent the fxed assets contracts entered into and not yet executed at the balance sheet date which amounted to SR 2 701 M as at December 31,2006 (SR 683 M as at December 31,2005).

The Company entered in strategic partnership to build, deploy, and operate the latest fber 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 other two 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, rings one and two are expected to be ready for service by the end of April 2007 and the other fve rings will be completed by December 2007. The estimated cost of the frst two rings is 300 million Saudi Riyals of which The Company's share is 100 million Saudi Riyals.

23. COMPARATIVE FIGURES

Some of the comparative fgures in the fnancial statements have been reclassifed to confrm with the classifcation of the fnancial statements as at December 31, 2006.

As the Company started commercial operation in May 25, 2005 it did not have signifcant balances for certain assets and liabilities as at December 31, 2005.

Accordingly, the comparative with 2006 show high differences.

For comparative purpose 2005 fgures fnancial statements have been reinstated to incorporate prior year adjustment mentioned in note 20 above.

Investor contact

This annual report has been prepared by Mobily's Investor Relations Department. For further information on any investor-related matters, please contact investorcontact@mobily.com.sa

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