King Abdul Aziz Al Saud

Founder of the Kingdom of Saudi Arabia

King Abdullah Bin Abdul Aziz Al Saud

Custodian of the Two Holy Mosques

Prince Sultan Bin Abdul Aziz Al Saud

The Crown Prince, Deputy Premier

Minister of Defence and Aviation

and Inspector General

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STC 2007 Annual Report Contents

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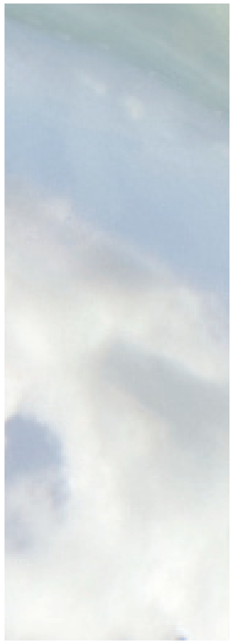
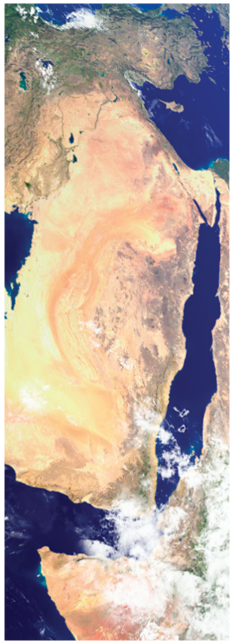


Our Vision

"To provide timely integrated telecom solutions that provide optimum value to all stakeholders."



Our Mission

"To enrich people's personal lives and contribute to their business success by offering high quality communication services that reflect their true needs.
In achieving our mission, we will be the flagship of Saudi Arabian values and progress by acting as an economic and intellectual asset to our shareholders, customers and employees."

1- Chairman's Statement

H.E. Dr. Mohammed Bin Suliman Al-Jaser
Chairman

12.022

Net income (in millions SR)

Dear respected stakeholders

May Allah's Peace and Blessings be upon you

On behalf of the BOD members, it is with pleasure that I present to you the STC annual report for the fiscal year ended 31/12/2007 AD.

The year 2007 witnessed a myriad of STC landmark achievements, crowned by record profits, as net income amounted to SR 12,015 million, and operation income reached SR 12,637 million, with the number of clients rising to 21 million by the end of the year.

Those achievements were topped by implementing the Company's new strategy that keeps abreast of the new technological developments in the telecom industry, and goes in line with the challenges STC faces in a highly competitive market both locally and globally. It is also important to note the reactivation of the Company's policy in the field of foreign investment expansions. Despite fierce competition in the Saudi telecommunications market, STC managed to retain its pioneering rank, while committed to meeting the growing needs of an increasing clientele, through a diverse bouquet of creative services. STC also continued to achieve high profits, with a net income amounting to SR 12,022 million, operational income also amounted to SR 12,618 million, and a total number o clients exceeding 21 million clients by the end of the year.

In an endeavor to diversify sources of revenue so as to offer subscribers optimum value, STC managed to win a number of foreign investment opportunities in Malaysia, India, Indonesia and Kuwait in 2007, acquiring 25% of Maxis, 51% of NTS for a total of SR 11.4 million. STC also won the third mobile telephone license in Kuwait for SR 3.4 billion through a global auction, marking a new and significant era in the history of Saudi Telecom and assisting STC in realizing its aspirations of topping telecommunications companies in the region, while still going about searching for new ventures to boost its leadership across the domestic market and reinforce its standing in regional circles.

Within the framework of its social responsibility, STC plays a vital role in drawing and implementing social responsibility programs for companies; programs that span a number of fields such as health, education and sports, achieving unprecedented record results. STC has thus been lately listed in the Guinness World Records as the biggest sponsor of sports clubs.

In conclusion, after a brief rundown of STC achievements in 2007, and on behalf of my colleagues, members of the BOD, I wish to express gratitude to the Custodian of the Two Holy Shrines, and his respectable Crown Prince for the incessant attention they have extended to this sector. I am also indebted to all formal bodies in the Kingdom for their continued support, namely the Ministry of Communication and Information Technology as well as the CITC. I also wish to thank the stakeholders for their confidence and we promise to continue to live up to your expectations. We are also grateful to our staff for their distinguished efforts in making this yet another fruitful year that has witnessed outstanding achievements across local and foreign arenas.
May Allah's Peach and Blessings be upon you.

H.E. Dr. Mohammed Bin Suliman Al-Jaser
Chairman

2- President's Statement

Eng. Saud Bin Majed Al Daweesh
President

34.458

Total operating revenues (in millions SR)

Dear respected stakeholders
May Allah's Peace and Blessings be upon you

STC continues to achieve record results in terms of the size of transactions, as 2007 witnessed a boost in operational revenue amounting to SR 34,458 million, with a 6% increase compared to 2006 figures. The number of clients is also 22% higher compared to the same time last year.

As part of its diligence to offer its clients optimum services, and prioritizing them as the linchpin of its business, STC has launched its five year strategy hinging on 7 fundamental axes known collectively as "FORWARD"; an acronym that stands for Full personal communication potential, Offer wholesale services, Re-invent home communication, Win enterprise customers, Achieve external growth, Re-align for customer excellence and Derive operational efficiencies.

To carry out the first four precepts of the strategy, STC implemented a new organizational structure for all business units and Company sectors, relying on in-house national resources and the support of global consultation firms, to achieve one of the FORWARD strategies, viz. customer centricity.

Triggered by the fifth principle of the FORWARD strategy, STC managed to take vast strides along 2007 via major enterprises to make inroads in new markets in the Gulf and East Asia regions. STC purchased 25% of MAXIS, operating in Malaysia and India, 51% in PT Natrindo Telepon Seluler, launching Saudi Telecom into the fastest growing markets in the telecommunications sector globally, the population of which is estimated at more than 1.4 billion capita. By the end of the year, STC won the third telecommunication license in Kuwait, introducing the Company to a new and significant market, providing telecom services, extending the network and reinforcing the Company's standing across the domestic and international market.

Many experts have lauded the outstanding achievements of STC in general, the latest was a report published by the December 2007 edition of Forbes, a magazine specialized in business and finance, where STC was named the first among telecom companies in the region and the fourth biggest business across the region.

Eager to carry out business while minimizing costs and optimizing quality, STC implemented the concept of Shared Services through automating operations to reduce the time needed to complete them, which will result in operational efficiency.

STC does not solely offer communication services to more than 17 million mobile phones and 4 million landlines through a mega-sized communication network and service infrastructure across the Middle East. STC additionally plays a prominent role in social responsibility and through a number of specialized programs, e.g. Al-Wafaa Program, spanning education, sports and health.

We can thus safely conclude that despite the incessant success and gigantic profits achieved by STC, it is taking steady steps that reach far beyond profit making toward more sublime objectives, viz. society development and welfare. As such, on behalf of all STC employees, I wish to express my sincere gratitude to our wise leaders for their continued support of the Company. I also seize the opportunity to thank the Ministry of Communication and Information Technology, as well as the ICTC for their genuine and much appreciated cooperation. Special thanks also go to HE STC President and Members of the BOD for their generous support of the executive administration. Additionally, I wish to thank our respected clients and subscribers for the trust they have granted us, and to all STC employees for their distinguished efforts, which have contributed in maintaining the Company success.
May Allah's Peace and Blessings be upon you

Eng. Saud Bin Majed Al Daweesh
President

Members of the Board

From right to left:

Mr. Abdulaziz bin Habdan Alhabdan
Mr. Mohammed bin Saad Alshihri
Eng. Mohammed bin Umran Alumran
Dr. Muhammad bin Sulaiman Al-Jasser
Mr. Mansour bin Mahmoud Abdulghafar
Mr. Abdulrahman bin Abdulaziz Mazi
Mr. Mohammad bin Abdullah Alkharashi
Mr. Mansour bin Salih Almeeman
Mr. Khalid bin Abdulrahman Alrajhi

Our Leaders

From right to left:

1- Saud bin Majed Al-Daweesh .... President of Saudi Telecom
2- Omar bin Mohammed Al-Turkey .... Vice President of Shared Services
3- Ziad bin Thamer Al-Otaibi .... Vice President of Network
4- Saad bin Thafir Al-Qahtani .... Vice President of Home
5- Saad bin Ahmed Dimyati .... Vice President of Wholesale
6- Ibrahim bin Saleh Al-Thubai'y .... Vice President of Information Technology
7- Amine bin Fahad Al-Shady .... Vice President of Finance
8- Salah bin Mohammed Al-Zamil .... Vice President of Human Resources
9- Hamood bin Mohammed Al-Qaseer.......................... Vice President of Regularity Affairs
10- Jamil bin Abdullah Al-Mulhim .... Vice President of Personal
11- Sameer bin As'ad Matbooli .... Vice President of Enterprise
12- Khalid bin Abdulrahman Al-Jasir............................ Vice President of Corporate Strategy

3- BOD Report on the Company Performance and Activities During the Fiscal Year 2007

Dear Saudi Telecom stakeholders
May Allah's Peace and Blessings be upon you

The BOD is happy to present to the respected stakeholders the brief annual report on the Company performance and activities for the fiscal year 2007, which reflects sustained progress in Company performance across its various areas of activity. The role played by STC is visible in developing the Saudi telecommunications sector, in a manner that serves the Saudi society and efficiently contributes in boosting the national economy, resulting in rewarding dividends for stakeholders.
Below is a brief rundown of the Company management, as well as financial and technical performance and activities throughout 2007:

A. The Board of Directors:

► Structure of the BOD and categories of members:
The seventeenth article of STC statute defines the number of BOD members as nine, in accordance with section (a) of the twelfth article of the guiding Corporate Governance Regulations issued by CMA via decree number 1-212-2006, dated 21/10/1427 AH, pertaining to the number of members. Additionally, the two positions of STC Chairman and STC Executive President shall be independent, as stipulated by the said regulations. The following table lists names of BOD members, their categories and membership in the BOD of Saudi joint stock companies.

Names of BOD members, their categories and membership in other Saudi joint stock companies:

No.	Name	Membership in other board of directors	Membership categorization
1	H.E. Dr. Mohammed Bin Suliman Al-Jaser Chairman and head of the Executive Committee	• Arab Petroleum Investments Corporations (Chairman) • Saudi Arabian Mining Company (Maaden)	Non-executive Non-independent
2	H.E. Mr. Mohammed Bin Abdullah Al-Kharashi Vice Chairman, head of the Compensations Committee and Executive Committee Member	• Saudi Industrial Investment Group (SIIG) • Tawuniya • HH Saudi Research and Marketing	Non-executive Independent
3	Mr. Mansour Bin Mahmoud AbdulGhaffar (Head of the Audit Committee)	• Saudi Cable Company • Alujain Corporation	Non-executive Non-independent
4	Mr. Mansour Bin Saleh Al-Meman Executive Committee Member and Member of the Compensations Committee	• Southern Province Cement Co. • Riyad Bank • Tadawul Saudi Stock Market	Non-executive Non-independent
5	Mr. Mohammed Bin Saad Al-Shehri Executive Committee Member	--	Non-executive Non-independent
6	Mr. Abdulaziz Bin Habdan Al-Habdan Member Member of the Compensations Committee	• Banque Saudi Fransi	Non-executive Independent
7	Eng. Mohammed Bin Omran Al-Omran Executive Committee Member	Tadawul Saudi Orix Leasing Company	Non-executive Independent
8	Mr. Abdulrahman Bin Abdulaziz Mazi Member of the Compensations Committee	• Technical Investments Co. (BOD members and managing director • Syriatel Mobile Telecom – A Syrian joint stock company • Vitel Holding Company – A UAE joint stock company	Non-executive Independent
9	Mr. Khalid Bin Abdulrahman Al-Rajhi Member of the Audit Committee	• Saudi Cement Company • Al Bilad Bank • Walaa Insurance	Non-executive Independent

BOD Committees:

BOD committees for the current session (the third) as follows:

- The Executive Committee:
  The Executive Committee is made up of five members:
  1. H.E. Dr. Mohammed Bin Suliman Al-Jaser (head)
  2. H.E. Mr. Mohammed Bin Abdullah Al-Kharashi
  3. Mr. Mansour Bin Saleh Al-Meman
  4. Mr. Mohammed Bin Saad Al-Shehri
  5. Eng. Mohammed Bin Omran Al-Omran
  The Executive committee is charged with reviewing strategies, as well as domestic and global activities of the Company in basic and non-basic areas of work, and granting them approval as per authorities vested in them by the BOD. The committee held eight meetings throughout 2007.

- The Compensations Committee:
  The Compensations Committee is made up of four members:
  1. H.E. Mr. Mohammed Bin Abdullah Al-Kharashi (head)
  2. Mr. Mansour Bin Saleh Al-Meman
  3. Mr. Abdulrahman Bin Abdulaziz Mazi
  4. Mr. Abdulaziz Bin Habdan Al-Habdan
  The Committee is charged with laying down, approving and endorsing an operation mechanism, structuring salaries in accordance with market criteria and ensuring fair implementation thereof in a manner that motivates the administration and employees to undertake their jobs. The Committee held nine meetings throughout 2007.

- The Audit Committee:
  The Audit Committee is made up of four members:
  1. Mr. Mansour Bin Mahmoud AbdulGhaffar (head)
  2. Mr. Khalid Bin Abdulrahman Al-Rajhi
  3. Abdulziz Bin Ibrahim Al Omor
  4. Dr. Ahmad Bin Abdullah Al-Mughames
  As per Corporate Governance Regulations, all Audit Committee members are non-executive. The Committee is charged with reviewing STC financial and administrative policies and procedures, and compiling financial reports and their outcome. The Committee also reviews the reports and observations of the Internal Audit periodically and regularly in a manner that endures the efficiency of supervision and risk management in STC. The Committee held ten meetings throughout 2007.

Members participation in BOD and Committees meetings:

The following table shows the number of Board as well as subcommittees meetings in the third session, and members' attendance throughout 2007:

Members attendance of meetings of the BOD and subcommittees (third session) for the year 2007:

	BOD meeting	Executive Committee	Compensations Committee	Audit Committee
No	10	8	9	10
Name				
H.E. Dr. Mohammed Bin Suliman Al-Jaser	9	8		
H.E. Mohammed Bin Abdullah Al-Kharashi	10	8	9	
Mr. Mansour Bin Saleh Al-Meman	9	7	9	
Mr. Mohammed Bin Saad Al-Shehri	10	8		
Mr. Mansour Bin Mahmoud AbdulGhaffar	8			10
Mr. Abdulaziz Bin Habdan Al-Habdan	9		9	
Eng. Mohammed Bin Omran Al-Omran	8	6		
Mr. Abdulrahman Bin Abdulaziz Mazi	10		8	
Mr. Khalid Bin Abdulrahman Al-Rajhi	9			8

Some members were unable to attend some of the BOD and Committees meetings on account of their being outside KSA.

Bod Members Ownership in Subsidiary Companies:

BOD member H.E. Abdulrahman Bin Abdulaziz Mazi owns 10.83% of the Technical Investments Co., the second founding member of Saudi Tejari with 40%, and 80% of the National Information Systems Co., the second founding member of Saudi Tejari with 10%. It is noteworthy that the decision to incorporate STC as a founding member in Tejari was taken by H.E. Abdulrahman Mazi, as a BOD member in the current session.

BOD Members Interests:

Apart from the above, STC has not entered into any businesses or contracts involving substantial interests to BOD members, the CEO, financial manager or any person related to them.

Corporate Governance:

STC endorsed Corporate Governance Regulations in February 2005, made up of 31 principles covering the entirety of corporate governance statute articles, issued by the Capital Market Authority (CMA) in 2006, as well as some of the best international practices in governance, in a manner that does not disagree with the statutes and rules issued by relevant bodies in KSA. STC has also approved a written Disclosure Policy determining what should be disclosed, when, how and by whom. The policy was published on the STC website. As such, STC has complied with the guiding Corporate Governance Regulations, as issued by CMA by decree 1-212-2006, dated 21/10/1427 AH, in terms of the number of committees, their make-up, members' independence, as well as several other articles of the statute.

The following table details how far STC conforms to Saudi Executive Rules of Corporate Governance issued by CMA:

No	Article number in Corporate Governance Regulations	Compliance	Partial compliance	Non-compliance	Details
1	Third: Stakeholders equities	•			
2	Fourth: Facilitating stakeholders exercising their rights and access to information	•			
3	Fifth: Stakeholders’ rights relating to the General Assembly	•			
4	Sixth: Voting rights		•		Has been implemented except the two articles relating to: cumulative voting and the Company’s access to annual reports of investors with a legal personality, who act on behalf of others, such as investment funds, to learn about their voting policies, their actual voting, and how they handle any substantial conflict in interest that may affect exercising the basic rights of their investments. The said articles are currently under study.
5	Seventh: Stakeholders equities in assets’ profits		•		Generally defined in the Company Statute, and a detailed study is currently being prepared for dividends.
6	Eighth: Disclosure-related policies and procedures	•			
7	Ninth: Disclosure in the BOD		•		Fully implemented except the section relating to the compensations and remunerations paid to five senior officials who received the highest compensations and remunerations, as the Company is currently undergoing a process of restructuring.
8	Tenth: Major responsibilities of BOD		•		Full compliance has been achieved except: No clear and specific membership policies, criteria, and procedures have been laid down and put into effect after being passed by the General Assembly. STC, at present, relies on instructions and regulations issued by the Ministry of Commerce and relevant bodies.
9	Eleventh: BOD responsibilities	•			
10	Twelfth: BOD structure	•			
11	Thirteenth: BOD Committees and their independence		•		Complied with except: Nominations and Compensations Committee, as the Compensations Committee shoulders many of the tasks of the Nominations and Compensations Committee.
12	Fourteenth: The Audit Committee	•			
13	Fifteenth: Nominations and Compensations Committee		•		The Compensations Committee is currently shouldering a large part of the Nominations and Compensations Committee.
14	Sixteenth: BOD meetings and agenda	•			
15	Seventeenth: BOD members remunerations and compensations	•			
16	Eighteenth: Conflict of interest in the BOD	•			

► The Internal Supervision:

The BOD hereby acknowledges that balance sheets have been compiled correctly, and therefore the BOD has no doubts regarding the ability of STC to continue its activities.

The BOD attests that the internal supervision which compiles financial statements relies on proper bases and operates adequately and efficiently. The Supervision Committee, stemming from the BOD, oversees the internal audit of the Company, which regularly checks the adequacy and efficiency of the internal supervision system. This is part of the Company's target, namely to attain a reasonable degree of persuasion concerning the soundness and efficiency of the internal supervision system in the Company.

► The Internal Audit:

The Internal Audit is an objective and independent checking and advisory action that aims at adding value and improving the Company operation. An internal audit assists an organization in achieving its objectives through providing a regular input on assessing and improving the efficiency of risk management, supervision as well as operation, subject to the Internal Audit of the Company. The Internal Audit has carried out several regular and special audits, which resulted in reducing income loss, minimizing cost, in addition to taking part in reviewing preliminary and final financial statements and coordinating the work of external audit bodies.

► Potential Risk:

No economic sector is free from potential risk. Undoubtedly, some risks may be involved in STC operation in accordance with developments in the telecom sector in KSA which is witnessing rapid changes. Major risks lie in opening new markets, the advent of new competitors, fiercer competition, resulting in higher clients' expectations and demands, and the need to offer distinguished, varied, high-quality services, and finally the fast-paced technological progress, which now stands as a major challenge to many companies, compelling them to adopt new high-cost technologies that may involve substantial risks. The Company has undoubtedly taken that into consideration, when laying out its FORWARD strategy for the coming years, in a manner that preserves its leading status in the market.

B. Financial performance:

STC achieved tangible growth in the size of its operation and consolidated financial outcome, as operating income amounted to SR 34,458 million by the end of the fiscal year 2007, with an increase rate of 6.4%, compared to the same period last year, despite reduction in prices of services offered to customers. This can be accounted for in terms of an increase in the number of STC customers, which culminated in a wider range of mobile phones usage as well as an increase in incoming long-distance and local calls. Mobile phones earnings rose by 11.3%, while operating activities income maintained the same level. Operating expenses rose by 10.61% compared to the same period last year. As for the percentage of operating expenses out of the operating income for 2007, it amounted to 63.4%, compared to 61% for the same period last year. Basic earnings per share during this period reached SR 6.01 compared to SR 6.40 for the same period last year.

Owing to all that, the Company has a solid financial position as well as high cash flows and profits that positively reflected on stakeholders' equities that rose by the end of 2007 by 5.04%, despite the relatively higher dividends the Company paid.

Assets, liabilities and outcome of Company operations across the previous years (in SR thousands):

Statement List of income (in thousands):	2003 Unconsolidated	2004 Unconsolidated	2005 Unconsolidated	2006 Unconsolidated	2007 Consolidated
Activity earnings	27,292,018	30,498,663	32,539,943	32,393,571	34,457,807
Activity cost	(18,004,749)	(20,018,937)	(19,177,890)	(19,745,426)	21,839,906)
Total activity profit	9,287,269	10,479,726	13,362,053	12,648,145	12,617,901
Administrative and general expenses	Included in activity cost				
Other earnings and expenses, net	(535,846)	(912,642)	(622,943)	493,333	(171,688)
Zakat and taxes	(226,161)	(252,756)	(292,249)	(342,576)	(426,651)
Net income	8,525,262	9,314,328	12,446,861	12,798,902	12,012,733
List of financial position(in thousands):					
Current assets	8,883,638	10,296,468	11,950,144	13,362,282	13,977,435
Current liabilities	9,422,368	8,559,241	9,454,731	9,523,463	17,108,586
Working capital	(538,730)	1,737,227	2,495,413	3,838,819	(3,242,225)
Other long-term assets	981,893	1,039,717	1,507,392	1,899,342	6,608,940
Fixed and intangible assets	31,906,679	30,781,642	31,286,340	30,860,149	48,224,871
Total assets	41,772,210	42,117,827	44,743,876	46,121,773	68,811,246
Current liabilities	9,422,368	8,559,241	9,454,731	9,523,463	17,219,660
Long-term loans	-	-	-	-	13,019,303
Other liabilities	2,955,204	2,650,010	2,433,708	2,443,971	2,680,401
Total liabilities	12,377,572	11,209,251	11,888,439	11,967,434	32,919,364
Paid-up capital	15,000,000	15,000,000	15,000,000	20,000,000	20,000,000
Reserves, cyclical revenue and minority interests	14,397,590	15,911,918	17,858,779	14,154,339	15,891,882
Equities	29,394,638	30,908,576	32,855,437	34,154,339	34,154,339
Total liabilities and equities	41,772, 210	42,117,827	44,743,876	46,121,773	68,811,246

Company outstanding loans (in SR thousands):

They are composed of:

	2006 Unconsolidated	2007 Consolidated
Short-term	-	560,448
Long-term	-	13,019,303
	-	13,579,751

- **Binariang:**
  The balance of Sukuk on December 31, 2007 amounted to SR 5,520 million, and an amount of SR 2,060 million from banking facilities. They were obtained to finance the acquisition of outstanding shares of Maxis, the Malaysian holding group, so as to raise the ownership in it to 100%.

- **The Company:**
  During the third quarter 2007, the Company obtained financing facilities in the forms of Murabaha deals from several local banks to a total of SR 6,000 million, with maturity of 60 months and a commission margin equivalent to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.25%. Total utilized facilities as of December 31, 2007 amounted to SR 6,000 million.

  The Company has renewable short and medium-term facilities totaling SR 1,983 million in the forms of Murabaha and Tawarroq deals with several local banks, with varying maturities extending to December 2009, and with variable commission rates. None of the facilities were utilized during the period.

- **Difference from auditing standards issued by the Saudi Organization for Certified Public Accountants:**
  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 recently accelerating telecom sector regulation, which resulted in significant changes in the identification and segmentation of the telecom services sectors, and due to increased competition and the Company's strategic aim at raising the level of operational efficiency, the Company, in 2006, approved a new structure for its segments, which differs from the previous structure, thus requiring segmental information that differ significantly in their bases from the previous requirements.

A List of accounts payable, along with a brief description and reasons:

Items	2006 Unconsolidated	2007 Consolidated	Description	Reason
Zakat	342,576	384,631	What is paid in accordance with Zakat rules and principles, and the instructions of the Department of Zakat and Income Taxes in the Kingdom.	A regular requirement
Social insurance	256,469	261,817	What is paid in accordance with the rules and principles of the General Organization for Social Insurance in the Kingdom.	A regular requirement
Governmental fees	4,446,169	4,825,002	Governmental fees represent the expenses incurred in return for offering commercial services, issuing license and the frequency spectrum.	A regular requirement
Total payment to governmental bodies	5,045,214	5,471,450		

► Subsidiaries:

- Tejari Saudi Arabia:

• STC owns 50% of Tejari Saudi Arabia capital, totaling an amount of SR 28 million.

• Tejari Saudi Arabia, a limited liability company was established and operates in KSA.

• Tejari Saudi Arabia undertakes the following activities:

1. Establishing and operating platforms and electronic markets to undertake electronic purchases and sales, auctions, as well as all sorts of transactions among institutions and companies in both the public and private sector.
2. Offering solutions, systems, software, applications, telecom networks, databases, website hosting, as well as relevant e-commerce training and consultation.

Arabian Internet and Communications Services LLC (Awal Net):

• STC owns 100% of Arabian Internet and Communications Services LLC, totaling SR 10 million.

• Arabian Internet and Communications Services LLC was established and operates in KSA and is a limited liability company.

• Arabian Internet and Communications Services LLC undertakes the following activities:

1. Internet service providing
2. Telecom projects operation
3. Data transfer and processing

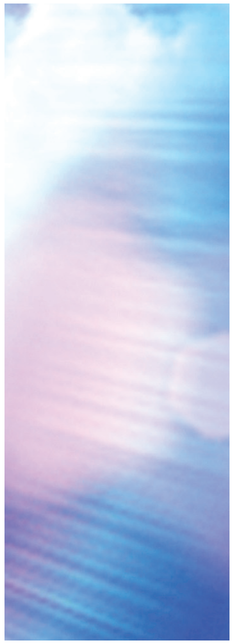
The Company's policy of paying dividends:

Dividend distribution depends on the Company's profits, its cash flow as well as future investments prospects of main and new investments, taking into consideration the necessity of maintaining a solid financial position to counter any change in the general conditions or any significant change in the telecom sector. The Company has always paid high dividends compared to net profits achieved and the net cash flow.

Despite expectations to pay annual dividends, there are no guarantees to continue to do so, nor are there guarantees as to the amount to be paid in any given year. Additionally, dividend distribution policy may be subject to change from time to time. Cash dividends shall be paid in Saudi Riyals.

Contribution in the National Product:

The Company's contribution in the National Product since 2000 and until the end of 2007 exceed SR 73 billion, in the form of fees paid to the government as well as annual profit.



Social Responsibility

C. STC Social Responsibility:

STC derives its strength and high standing from the support of the State and individuals, with whom STC joins hands to lead this homeland toward a better future. As such, the Company constantly seeks to be involved in society, being an inseparable part of it, in attempt to pay back a small portion of this homeland's generosity. STC is currently implementing Al-Wafaa programs, offering a number of unprecedented initiatives, among them are:

- **Al-Wafaa Health Program:**
  In 2007, STC launched 22 health centers in a number of KSA provinces, as part of the "Al-Wafaa Health Program"; the largest private sector initiative of its kind. The objective is to enhance health services in KSA directly and regularly through a SR 100 million financial aid, granted by the Company to set up and equip primary health care centers in cities and remote villages in dire need of health care. This donation will be a substantial support to the Ministry of Health programs, receiving more than 60 million reviewers annually. The program was warmly welcomed by citizens and officials alike.

- **Al-Wafaa Education Program:**
  STC has always displayed a keenness on maintaining the leading role it plays in society. Hence, within the framework of Al-Wafaa Education Program, and in cooperation with the Technical and Vocational Training Corporation, STC has undertaken the training and rehabilitation of more than 1,300 young men and women with special needs, sons and daughters of martyrs of duty, prisoners, ex-convicts, needy families and orphans, in technical, professional and administrative domains. Throughout the year, four phases of the program were completed with outstanding success, enabling those who joined the program to make use of job vacancies in the local market, encouraging freelance work and enhancing business in small facilities.

  STC has always dedicated the largest part of its attention to the technical aspect, concluding a partnership deal with King Abdulaziz City for Science & Technology (KACST) to establish an Information Technology and Communications Business Incubator. This is achieved through setting up companies that would support the development drive in KSA, support youth with a sense of creativity and create new jobs. Added to all that is bolstering national initiatives through the strategic alliance between (KACST) and STC to transfer data and localize technology, through teaming up with foreign experts, marketing scientific and technical output to the benefit of (KACST) and Saudi universities and institutes, and seeking to find sources that would partake in developing the Company business, thus contributing in domestic investment and diversifying the Company income.

► **Discounts for people with special needs:** STC is keen on adopting and supporting charitable and humanitarian objectives, aimed at all society strata, especially those with special needs. In yet another humanitarian initiative targeting this valued section of society, STC offer 50% discount to mobile customers. The Company also played a part in awareness-raising by anticipating and preventing disability, through a SR 5 million donation to the Prince Salman Center for Disability Research, as a founding member. Furthermore, the Company supports Disabled Children Association programs by approving and signing postcards designed by children belonging to the Association, where they expressed their happiness about the Company's generous support to a group of children we hold dear to our hearts.

► **Premium Numbers auction to the benefit of Disabled Children Association:** Crowning its distinguished efforts to the benefit of Disabled Children Association, STC held a premium numbers auction in support of children belonging to the Association. The auction yielded SR 4 million in a single day, paid in return for only 70 special mobile numbers. The auction, the first of its kind to be held in KSA, was organized and fully supervised by the Company staff. The resounding success of the event will spur other sectors in the future to follow suit. All revenues were dedicated to the Disabled Children Association. This pioneering step, taken by the Company, overrides profit-making objectives to a more sublime goal, viz. taking part in developing and advancing society. This was glamorously manifested in the echoing success of the event on both the local and regional arenas.

► **Adopting the Kidney Failure Association Campaign:** In a kind gesture on its part, STC adopted a fund-raising campaign in support of the dialysis program for kidney failure patients to the benefit of Prince Fahd bin Salman Charity for Kidney Failure Patients. The Company undertook the financial and technical support needed to design and direct the TV and press campaign. STC also offered millions of free SMS's to address millions of clients who could take part in supporting the campaign by sending an empty SMS to 5060, at the price of SR 10 for a single SMS.

Al-Wafaa Sports… Guinness World Records:

STC achieved a new world record number in the area of Al-Wafaa Sports, being the first corporation worldwide to sponsor all football league teams within a single country. STC exclusively sponsored all Saudi premium football league teams, thus stimulating development in various fields, particularly sports, which stems from the Kingdom's attention to youth and its keenness on guiding them and making optimum use of their energies to all-out national progress in KSA. STC can thus proudly claim precedence over homeland football team and setting new standards in sports investment.

In an unprecedented achievement, the Company managed to launch the new Teams Mobile coverage across the entire Arab region, with a view to opening premium investment channels that would generate steady revenue, to finance Saudi sports teams. This is the fastest way to upgrade Saudi sports, and equip the Saudi national soccer team with highly skilled players from various age groups.

"Team Mobile" is a vital tool in bolstering communication among teams, fans, the administration and players, whether through short messaging, multi-media messaging, or 3G services which have served to raise public sports awareness about their favorite teams. Services also comprise exclusive broadcasting of soccer events of customers' teams, as well as establishing direct contact with sports stars, administration officials, training staff and keeping abreast of their latest news.

Warm interaction and participation on the National Day:

Proud of belonging to the land of the two Holy Shrines and seeking to mark the most significant national event, STC partook in the 77th National Day of KSA, treating both citizens and residing expats to free mobile or landline calls across Saudi cities throughout the day. Also, all Al-Jawal and Al-Hatif customers (subscribers of all plans) enjoyed free 3.5G video calls.

Journey of Change to FORWARD

D. STC Journey of Change to 'FORWARD' a Customer-Centred Strategy:

STC defined its strategic priorities for the coming years along seven main axes, collectively known as "FORWARD"; an acronym epitomizing a key message and a central strategy for the Company:
Fulfil Personal Communication Potential

- **Fulfill personal Communication Potential:**
  Continue growing the personal communication market by broadly deploying 3.5G technology, expanding convergence offerings and providing top-class customer experience.

- **Offer wholesale services:**
  Pursue wholesale growth opportunities by expanding reach and broadening service offering in both the national and regional markets.

- **Re-invent home communication:**
  Accelerate retail broadband adoption through rapid deployment and multi-play applications.

- **Win enterprise Customers:**
  Broaden enterprise customer base by tailoring integrated and managed communication solutions.

- **Achieve external growth:**
  Pursue telecom-related non-organic growth opportunities inside and outside Saudi Arabia.

- **Re-align for customer Excellence:**
  Build customer-centric operating model with aligned people, processes and systems.

- **Derive operational efficiencies:**
  Optimize costs and improve efficiency through shared services implementation, and manpower, network and IT optimization.

Through concerted efforts, this strategy can be translated into a tangible reality, thus maintaining the Company's leading position and outstanding ranking, making it customers' preferred choice.

17 (million)

ALJAWAL Subscribers

Fulfill personal Communication Potential:

Coinciding with the substantial investments injected by STC for the development of the high-speed third generation network, as the individual service unit is the first provider of this service, and in continuation of the large-scale unprecedented growth witnessed by the Company on the regional level, the number of mobile phone customers rose to more than 17 million customers, while the number of high-speed 3.5G users exceeded 2 million customers, a record high in the number of users of this service on the level of mobile phone operators in the region. This confirms the success of the strategy applied by the Company in providing distinctive services to clients, while maintaining its current customers.

Not only do customers enjoy the third-generation high-speed service within KSA, ALJAWAL now offers such services to its clients abroad, having connected them with several countries and operators:

- Video calling with 24 countries
- Roaming with Sawa card with 88 operators
- Roaming for internet and multi-media services with 185 operators
- 3G Roaming with 23 operators
- International multi-media with 76 operators

ALJAWAL launched a basket of services and new discounts that add a new sense of leadership in mobile phone services across in the Saudi market, extending even beyond that to offer unprecedented services on the regional level, based on a comprehensive study of the Saudi market. Those services include:

- Volume Discount: This service applies a percentage discount that proportionally becomes higher with the increase in the bill value within a certain extent. This service is offered only to business customers.
- MVPN: It is a service that has been especially tailored for companies and corporations of varying magnitudes. MVPN offers customers the advantage of connecting their personal mobile phones in a private network so they can make voice and video calls using short code numbers at 30% less cost.
- RBT: Replaces the regular waiting tone with another of your choice for your callers to enjoy while your phone rings.
- Collect Call service: Allows ALJAWAL customer to make phone calls on the account of the receiving party.

• VSMS: Allows a customer to send a short voice message for a maximum of 60 seconds, instantly notifying the receiving party with an SMS so they can listen to it at their convenience without any subscription or activation fees.

• PPT: It is a service through which a mobile phone can be used as a wireless device to talk directly with one or several persons.

• Aeromobile: Allows roaming on planes, in cooperation with Aero Mobile Co. so customers can stay connected all the time.

• Push Mail: Allows all ALJAWAL customers to send and receive email messages anytime and anywhere within or outside KSA.

• SAWA Visit: It is a service offering visitors of KSA (tourists, performers of Umrah or Hajj, businessmen, others, etc.) a SAWA line with a 25% discount for international calls.

• Family ALJAWAL: It is a service that meets the family needs, allowing a 5 line subscription for a total of SR 100 for all numbers, thus saving over SR 200 monthly. Customers also get to enjoy a 25% discount on calls within the family group, along with a number of free SMS's, MMS's and video calling minutes among users of the package.

• Jawaly for children: This is a postpaid phone to offer parents greater peace of mind as well as closeness among family members, through a mobile phone and an especially tailored SIM card to help parents locate a child with accuracy of up to 20m. Additionally, parents can set up a safety zone for the system to keep track of their child.

• LRN: This is a service that allows visitors of KSA from all parts of the world carrying their own mobile phones to receive a local prepaid mobile phone number immediately upon selecting Al-Jawal network, without having to purchase a new SIM through state-of-the-art technology.

• Reporting stolen phones: It is a service that prevents the switching on and reuse of mobile phones owned by customers in case they are stolen or lost. ALJAWAL customers can request their lost phones to be switched off free of charge.

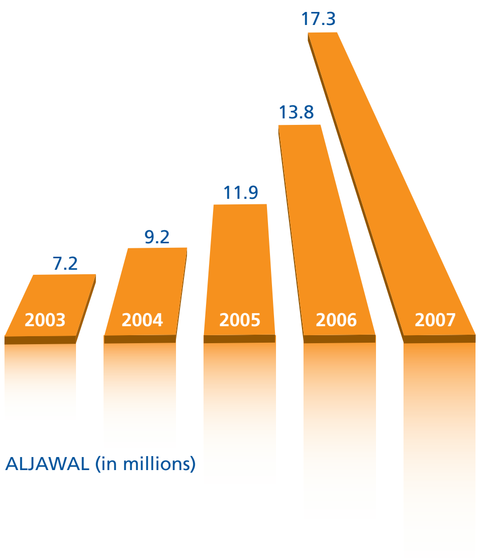
• SAWA and LANA single charge card: This service allows customers to use a single pre-paid card to recharge both SAWA and LANA lines.

• Budget Control Service (BCS): It is a free service that allows post-paid ALJAWAL customer to use SAWA re-charge cards in order to maintain connectivity without restriction, as is the case in pre-paid cards, and for the same SAWA tariff. This is a bonus service to all ALJAWAL customers offered free of charge and in return for no monthly subscription.

• Al-Jawal Messenger: This service allows customer the ability to chat instantly among ALJAWAL customers and Internet users whether it is phone-to-phone, or phone-to-PC and through widely-used chatting applications.

• Qitaf partners program "shopping vouchers": This is the largest customer loyalty program in the Middle East in terms of the number of subscribers.

ALJAWAL lines rose from 2003 to 2007 by 140%



ALJAWAL (in millions)

The Company has spared no effort to preserve its ALJAWAL customers, through a bouquet of offers, such as:

• A discount on a SAWA minute from SR 0.65 to SR 0.55, thus making it easier to connect with others.

• 50% discounts on international calls to many countries on their national days (e.g. Bahrain, Sudan, U.A.E., etc).

• Unprecedented 50% discounts on ALJAWAL international calls for all world countries, without an exception, for two weeks.

• 50% discounts on all services for post-paid ALJAWAL customers with special needs.

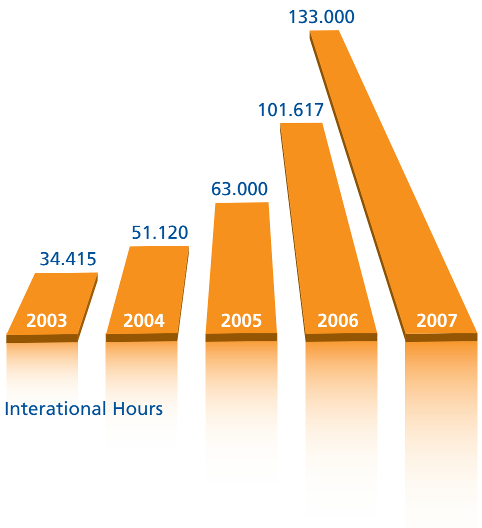
• The Company has offered two new ALJAWAL net packages at competitive prices; “Jawal Net Unlimited” for SR 450 a month with no restrictions on daily or monthly use, or additional fees, and “JawalNet 5Gb” for a monthly subscription of SR 240 in return for 5 Gigabytes a month, with SR 2 charged for every additional megabyte.

• A 144% increase in the number of interactive services, rising from 895 codes to 2183 codes by the end of 2007.

• Launching new services complementing data services trough JawalNet such as jawalNet USB modem, with a sales rate of over 70%, in addition to PCMCIA data card, with a 100% sales rate of supplies in 2007.

Offer wholesale services:

In order to take advantage of opportunities for expansion in wholesale services through deploying services across domestic and international markets, and out of STC's keenness to preserve its customers' interests, the Company enhanced the level of all services and operations through adherence to global standards and benchmarks in all areas. As such, the Company managed to assume a remarkable standing at regional and international levels, boasting the largest network landline and mobile phones infrastructure in the Middle East. STC is also ranked ninth among leading companies in telecommunications services globally in terms of market value and is the second at the Asian level, thus asserting its continued approach to provide high quality services to its customers. In the domain of wholesale services at the local and regional levels, the Company has managed to bring about many expansions and achievements, which were:



Expansions in the international network in KSA:

• Increasing the number of telephone traffic circuits operating through international switchboards to reach more than 133,000 international circuits, making it possible to absorb the increasing growth in international telephone traffic International telephone traffic circuits increased from 2003 to 2007 by 286%

• Introducing and activating the new Jeddah International switchboard JIN3, relying on advanced new techniques and great potential, to contribute to smooth international telephone traffic, especially to Islamic countries and during the pilgrimage season in 1428 AH.

• Increasing the capacity of interconnection lines of the two bridge switchboards to the global Internet in both Jeddah and Riyadh, which serve ISP's and operators in neighboring countries. International interconnection lines reached 2.5 bit Gb/s in 2007, with a 136% increases than in 2006.

Expansions in the international network globally and regionally:

The Company aims of international network expansions on the regional and international level through worldwide and regional contributions is to provide infrastructure and modify it to meet all future needs of the Company within KSA and neighboring countries, using the best available technologies and also to keep up with global developments in the provision and diversity of services at the highest levels of quality, especially that the Company's international network is one of the fastest growing in the Middle East.

Those expansions will contribute in achieving the strategic, economic and operational objectives of the Company, at special advantages, viz. reduced investment risks and availability of international capacities at the best cost, in terms of economic feasibility and high operational efficiency, through providing an international infrastructure for all Company services (telephone, Internet and information) with maximum reliability and continuity. That can be achieved through diversification of international means of connectivity, in terms of tracks and service providers in corresponding countries, which include:

Marine Cable:

The Company has continued its vital participation and pioneering role in regional marine cable projects to expand its international network, as the Company is currently involved in the preparatory activities for the following regional marine cables:

• Completion of preparatory activities with a number of leading global companies in France, Italy, Egypt, Lebanon, the UAE, India and Pakistan for the construction and maintenance of the intercontinental marine cable project, known as the I-Me-We, linking Saudi Arabia with France and Italy to the west, passing through Lebanon and Egypt, and India to the East via UAE and Pakistan. The partnership agreement and contract for the implementation of the project with Alcatel Lucent has already been signed.
• Signing the submarine cable for East Africa, which extends from South Africa till Port Sudan in Sudan, linking to cable (SAS-1) and spanning Saudi Arabia and Sudan in solidarity with a number of African and global companies.

• Increasing the Company's share in the fourth intercontinental submarine cable project, which will result in a significant increase in the capacities owned in the cable, amounting to 214% of the current capacities. Given this expansion, the fourth intercontinental submarine cable will arrive at full capacity, totaling 1.28 Terabit/s.

• The Company has been able to provide additional capacities on the submarine cable Flag at a rate of 10 Gigabits/s, after upgrading its operational capacity through the use of absolute right over the lifetime of the cable. The upgrade will be activated through the station in Jeddah to support absolute diversity in Internet paths.

Terrestrial links with neighboring countries:

Throughout 2007, the Company has shown keenness on expanding and diversifying terrestrial interconnection lines with neighboring countries. Reserve lines with Jordan, Yemen and Bahrain have been established, in agreement with a number of key operators and new operators in those states.

Achievements in the field of providing services and expansions:

Based on expansions in infrastructure and international network, the Company has been able to bring about many unprecedented achievements, including:

- Absorbing augmenting international telephone traffic among Company subscribers and subscribers in the second operator of mobile phone under the exclusive agreement for the transfer of international traffic. Outbound international telephone traffic increased by a rate 34%, whereas inbound telephone traffic marked a mere 4% increase compared with the year 2006.

- The number of subscribers on the two bridge switchboards rose to 13 service providers and regional operators in 8 neighboring countries.

- The Company has expanded significantly in the provision of international capacities services via submarine cable and terrestrial links to neighboring countries. A number of long-term agreements (15 years) and short-term ones have been signed, including an agreement with (Bayanat Al Oula Co.), as well as telecommunications companies in Qatar, Sudan, Jordan, Bahrain, and Ethiopia.

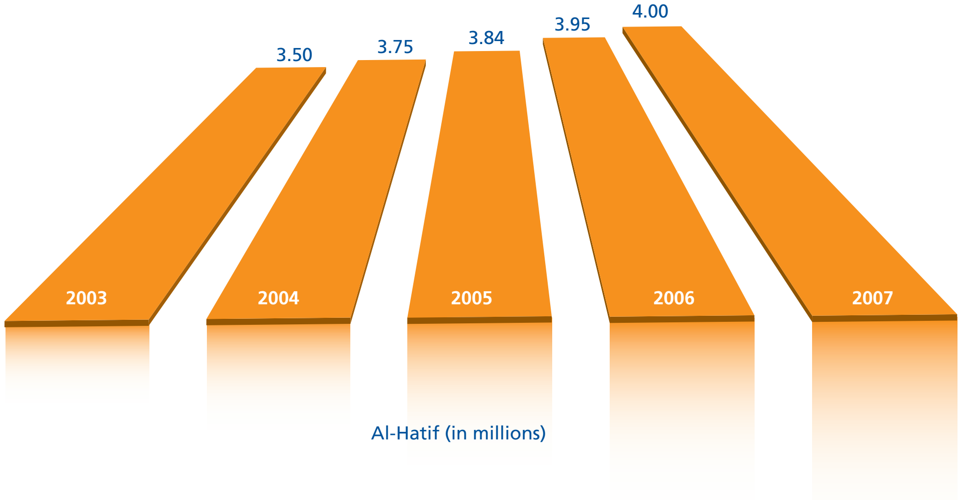
- The Company managed to transform the risk of opening the telecom market in Saudi Arabia into opportunities to increase revenues. In addition to services offered to the second operator of mobile phones and licensed data operators, the Company was prompt to introduce its capabilities through Al-Hatif, ALJAWAL and other services to new licensed operators (the third mobile phone operator), and (the three new fixed phone operators) with the purpose of providing such services to them. Consultations are still under way in order to reach joint agreements.

34%

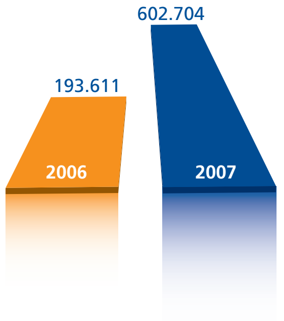
Increase in ALHATIF Outgoing International Calls

Re-invent home communication:

• Phone lines witnessed a 14% increase between 2003 and 2007



• Customers’ digital lines rose by 211% in 2007



Number of customers lines (DSL)

Through providing fixed broadband services to our customers, supported by new applications, content services and accelerating their deployment in KSA, that concept served to upgrade Saudi telecom services across the residential sector in 2007, through the launch of a number of services and discounts which added a new dimension to customers, given the advent of competitors, including:

• Afaq DSL at 1, 2 and 4 Megabit speeds: Ensures high-speed data transfer. For Internet users, this feature warrants speedy browsing and downloading of data.

• Afaq Wireless: This wireless broadband service is for fixed telephones, offered as a temporary solution for waiting requests for Afaq DSL (which shall not be in service over the coming period for technical reasons), based on their precedence in demand and location of mobile phone coverage (the third generation).

• Afaq Comprehensive: It is a service that offers the customer access to Afaq DSL as well as the Internet service through one bill.

• Collect Call service: This is a service that charges the cost of the call to the receiving party, after securing the latter’s agreement to shoulder call cost amounting to SR 3 for the first minute and SR 1 minutes for each subsequent minute or part thereof, by calling the Customers Service Center on a toll-free number (8004400400).

The Company has continued to revise prices of services it offers to the residential sector in order to maintain its outstanding competitive edge, offering many discounts and promotions, including:

• 50% discounts on international calls to many countries on their national days (e.g. Bahrain, Sudan, U.A.E., etc).

• 50% discount on all international calls from phone booths and pre-paid cards on the occasion of Lesser and Greater Bairam.

• Launching a number of free establishing campaigns for services such as (Afaq SL, Dtoll free 800 numbers, and single code number to dial 9200).

• 64% reduction in subscription rates by Saudi Net.

• Launching the Favorite Country service, offering customers a 25% discount on outgoing international calls for five numbers to be selected.

• A 40% discount campaign on international calls every weekend for three months.

• A campaign for establishing a telephone line with Afaq DSL service free of charge.

211%

Increase in customers lines (DSL)

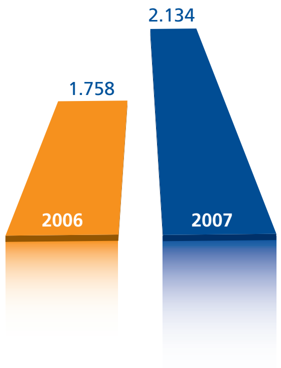
21%

Increase in working lines for ALHATIF Free service (800)

98%

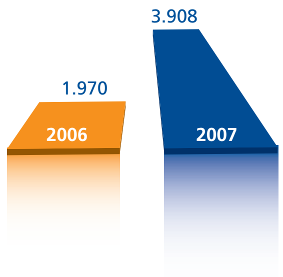
Increase in working lines Unified Number service (9200)

- The number of working toll-free lines (800) in 2007 rose by 21%



Number of working lines
for Al-Hatif free service (800)

- The number of working single code number lines (9200) in 2007 rose by 98%



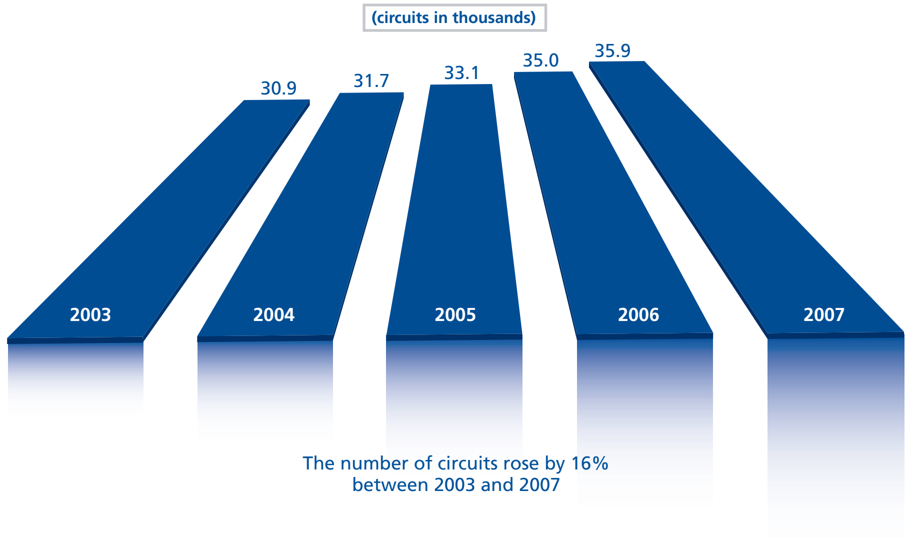
Number of working lines
for the unified Number service (9200)

Win Enterprise Customers:

To support the growth witnessed by the national economy and the spread of communication and information technology applications in the various governmental and private sectors, as well as the growth in the use of the Internet in society, STC contributed in providing networking and Internet services, which are the most important components of the infrastructure of telecommunications and information technology services in Saudi Arabia. Such services have become essential and necessary for those sectors where they are heavily dependant on the performance of business, especially with the growth of electronic transactions and the significant expansion in branches of banks, corporations and government sectors and their connection to central information systems in such sectors.

Given the national initiatives in the domains of e-government and e-learning and the dissemination of personal computers, the information and data transfer services sector is expected to witness significant growth, and the Company has prepared adequate plans to meet this growth.

Throughout 2007, the Company has continued to focus its attention on services based on Internet Protocol such as virtual private networks through enhancing



The number of circuits rose by 16% between 2003 and 2007

customers' awareness about this cutting-edge technology, its characteristics and importance in providing flexibility in the computer networking and supporting IP-based applications. The network is currently being developed to offer new features that support high-quality audio and video, offering varying levels of service quality depending on the requirements of different applications used by the customer. Hence, the Company has launched many services such as:

- Wireless communications service (WiMax): Provides far-reaching broadband Internet service.

- Managed Router Service: A service that enables customers to rely on the Company to manage client telecom networks country-wide, and to ensure the provision of security and reliability.

- Space communications service (Sky-IP): A communications service for creating and connecting customers' IP-VPN.
- Dedicated Internet Access (DIA): This is a service giving customers access to the Internet through a bandwidth dedicated to them.

The Company has continued to revise prices of its services to maintain its distinctive competitive edge. It has changed the tariffs of IP-VPN service, Filtered Internet International Access Service, Filtered Direct International Internet Service, the basic tariff for the National Backbone Access Service Internet and DIA.

STC has also offered several IP-VPN promotions (a reminder campaign of IP-VPN service, the free creation of IP-VPN service campaign, and a double-speed campaign to for IP-VPN services).

Achieve External Growth:

Consistent with the strategy of STC to expand its investments in telecom-related sectors within Saudi Arabia and elsewhere, and achieve extensive outreach in such a manner that would contribute to the Company's revenue from external and internal sources, STC announced that it managed to win a number of investment opportunities, including:

► Acquiring (25%) of (Maxis) in Malaysia and (51%) of (NTS) in Indonesia:

NTS maxis.

STC has achieved a breakthrough with its first foreign possession, entering into a strategic partnership with the principal co-owners in (Maxis), the leading integrated telecommunications company in Malaysia, which owns several mobile telecom companies in Indonesia and India. Investment in the deal amounted to SR 11.4 billion. In accordance with the agreement, STC has acquired a share amounting to (25%) in (Maxis), and another equivalent to (51%) in (PT Natrindo Telepon Selule (NTS) for mobile communications, an affiliate of (Maxis) in Indonesia. STC also participates in SR 3.4 billion financing, to be paid equally by STC and other partners.

► Acquiring 26% of the third mobile communications license in Kuwait:

The Company won the third mobile telecommunications license in Kuwait, through a SR 3.4 billion investment. A global auction was held, where the STC bid ranked first among bids from companies and regional and local alliances. The Company now owns a 26% share of the license. This comes as part of the Company strategy that took into consideration all strategic, commercial, financial, technical and organizational considerations, as well as growth rates and opportunities for competition.

► Acquiring 100% of Awal Net Co:

اول نت AwalNet

Thanks to this deal, STC has achieved its first domestic acquisition, acquiring 100% of Awal Net Co., through a SR 102 million contract. Awal Net tops the list of ISPs in KSA, with a market share of approximately (25-30%). It also occupies a distinctive position in the area of business solutions and content services, in addition to the outstanding rank it won in the international ISP rankings.

Re-align for Customers Excellence:

Triggered by defined strategic customer-centered goals and directions that are based on growth and efficiency, STC developed its "Forward" strategies to ensure the achievement of those goals and directions, especially after developing and expanding the Company's markets outside Saudi Arabia, and the consequent adoption of the Customer Centricity notion in all its work.

To complement this trend, the STC cultural development centre listed the values and behavioral traits required to inculcate the Customer Centricity culture. The values and attributes hinge on the best methods applied globally in the field of the Customer Centricity, and on in-depth analysis of companies operations, as well as the observations and suggestions of clients and staff.

On this basis, the Company – thanks to the concerted efforts of its youth – designed an organizational and functional structure for all business units and company sectors, relying on in-house national resources and the support of global consultation firms. A number of regulatory approaches, followed by major international companies operating in the field of telecommunications, have been adopted, such as:

- True Shared Services
- Customer Segmentation
- Strategic Human Resources

Based on this trend, and as one of the important steps towards turning the Company into a global corporation with national expertise, the Company has applied its new organizational structure, which consists of the following:

- Personnel Services Unit
- Residential Sector Services Unit
- Business Services Unit
- Sector Operators Services Unit
- Network Sector
- Strategic Affairs Sector
- Organizational Affairs Sector
- Financial Sector
- Information Technology Sector
- Common Services Sector
- Strategic Investment Unit
- General Administration of Corporate Communication

Derive Operational Efficiencies:

The application of the concept of True Shared Services, as manifested in raising the efficiency and quality of work, reducing cost, optimizing service delivery, ensuring speedy handling of work variables and responding to the needs of domestic customers is reflected on the overall level of provision of services to STC clients, in a manner that achieves operational efficiency. The concept can also be noticed in the efforts of the Company to raise operational efficiency in customer service; the Company has launched the STC Online portal (www.stc.com.sa), allowing a customer to undertake several services, such making credit card payments, modifying services settings and the postal address of invoices, installing and transferring a telephone, as well as having access to invoices and details and unbilled amounts, making use of the Qitaf program, complaining about a bill, analyzing and uploading an invoice and sending free messages to any mobile in the world around the clock.

The Company has also paid attention to human resources, being an instrumental factor in the success of its business. STC sought to achieve the highest degree of staff satisfaction so as to enhance their sense of belonging to the Company and to motivate them to continue to do their best. STC has launched a number of staff-oriented programs and services, including the following:

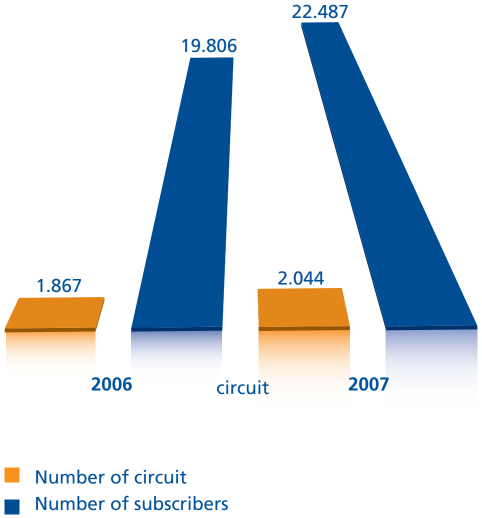
► Employee Care program:

The Company continued to implement its program, which aims to improve the labor force and enhance the in-house work environment, by allowing staff who wish to leave work to quit and pay them their pension entitlements. A total of 988 employees benefited from that program in 2007. The program is also expected to save about SR 6 billion to the Company over a period of ten years since its launch.

► Social Solidarity Fund:

The Fund aims to bolster ties of brotherhood, cooperation and solidarity among participating Company employees and contribute to overcome whatever livelihood difficulties their colleagues in work might encounter. The Fund provides non-refundable financial aid for those in need and provides paid-back goodwill loans to participants in the program. The Company contributed with SR 5 million in the first year of the fund inception and an annual support of SR 2 million.

The Company proceeded to implement its program aimed at improving the performance of the labor force and develop the in-house work environment. Therefore, it focused on the capacity building of its staff, holding 2044 training courses where more than 22,000 trainees benefited, representing 108% of its employees, who are 20,809 in number by the end of 2007, 90% of whom are Saudis.



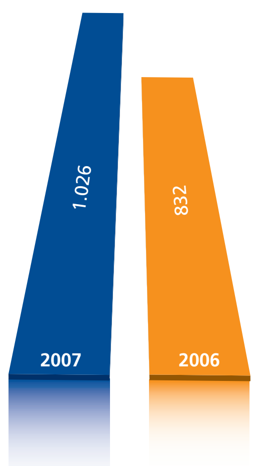
Because productivity is one of the important elements in assessing the capacity of the Company and its employees, performance rates of the staff continued to increase, as follows:

Productivity of employees on the basis of the total operating lines (landlines + mobile phones).

STC employees' productivity on the basis of the average income of an employee.

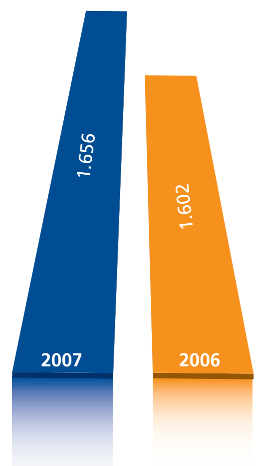
90%

percentage of Saudis in the company



Total lines/ Total employees

3%



Employee Salaries (in thousands SR)

23%

5 (Riyal)

Earning per share

Board recommendations and dividends and bonuses distribution:

► The proposed distribution:

of dividends in 2007

The BOD proposed distributing profits at the end of the fiscal year in 2007 on a basis of SR 5 per share.

► BOD members' remuneration:

Bonuses and allowances paid to members of the BOD for their attendance of Board meetings and its subcommittees - in the year ending in 2007 – totaled SR 1,956,000. The Board recommends dispensing an amount of SR 200,000 for each member as an annual bonus in 2007, in accordance with article (46) of the Statute of the Company.

► Recommendations:

STC BOD recommends to your respected association the following:

1. Approval of the BOD report for the fiscal year ended 31/12/2007.

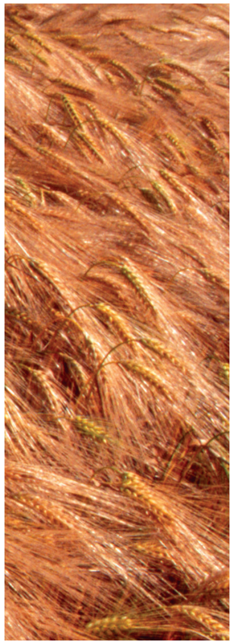
2. Approval of the consolidated Financial Statements of the Company and the auditor>s report for the fiscal year ended 31/12/2007.

3. Approval of the BOD proposal to distribute dividends for the fourth quarter of the fiscal year 2007, on a basis of SR 1.25 per share, in addition to what has been distributed for the first three quarters in 2007, amounting to SR 3.75 per share. Total dividends distributed for the fiscal year 2007 is thus SR 5 per share.

4. Approval of the selection of the Company auditors from among candidates by the Audit Committee to review the financial statements for the fiscal year in 2008 and the quarterly financial statements and determine their emoluments.

► Conclusion:

The Company BOD praises Allah for His help, and expresses gratitude to the Custodian of the Two Holy Shrines, King Abdullah Bin Abdul Aziz, his Crown Prince and his government, noting the support, care and encouragement they generously granted STC in its quest to develop performance and improve services. The Board is also grateful to STC customers and stakeholders for their confidence and to the entire staff of the Company for their dedication and devotion in the performance of their work. The Board affirms the Company's incessant endeavors to develop its business in order to meet customers' needs, realize stakeholders> aspirations, serve social objectives, and underlines the Company's leading position in the telecom sector in the Kingdom.



Financial Statements

Auditors' Report

TO: The Shareholders of the Saudi Telecom Company
(A Saudi Joint Stock Company)
Riyadh – Kingdom of Saudi Arabia

We have audited the consolidated balance sheet of the Saudi Telecom Company (a Joint Stock Company) as of December 31, 2007 and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, including the related notes which are considered an integral part of these consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management in accordance with the provisions of the Companies' Law submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the Kingdom of Saudi Arabia, which require that we plan and perform the audit to obtain reasonable assurance that 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 degree of assurance to enable us to express an opinion on the consolidated financial statements.

As stated in note 29, segmental information was not disclosed in the notes to the Company's consolidated financial statements as required by generally accepted accounting standards in the Kingdom of Saudi Arabia.

In our opinion, except for the non-disclosure of the segmental information referred to in the preceding paragraph, the consolidated financial statements mentioned above, taken as a whole:

- Present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007, and the results of its operations, and consolidated cash flows for the year then ended, in accordance with the Accounting Standards commonly accepted in the Kingdom of Saudi Arabia and appropriate to the conditions of the Company; and
- Comply with the requirements of the Companies' Law and the Company's Articles of Association with respect to the preparation and presentation of the consolidated financial statements.

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Gihad M. Al-Amri
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February 19, 2008

Consolidated Balance Sheet as of December 31, 2007 (in SR thousands)

	Notes	2007 (Consolidated)	2006 (Unconsolidated)
Assets			
Current Assets:			
Cash and cash equivalents	3	7,618,128	2,909,321
Short-term investments	4	-	5,599,000
Accounts receivable, net	5	4,972,988	3,938,639
Inventories, net	6	367,675	149,700
Prepayments and other current assets	7	1,018,644	765,622
Total current assets		13,977,435	13,362,282
Non-current assets:			
Property, installations and equipment, net	8	34,369,297	30,128,383
Intangible assets, net	9	13,855,574	731,766
Investments	10	2,406,625	1,140,159
Other non-current assets	11	4,202,315	759,183
Total non-current assets		54,833,811	32,759,491
Total assets		**68,811,246**	**46,121,773**
Liabilities & shareholders' equity			
Current liabilities:			
Accounts payable	12	3,082,080	1,959,937
Dividends payable	13	56,860	65,006
Other payables	14	6,160,443	2,355,215
Accrued expenses	15	5,586,722	3,749,277
Deferred revenues – current portion		1,773,107	1,394,028
Loans	16	560,448	-
Total current liabilities		17,219,660	9,523,463

Attached notes (1 – 31) form an integral part of these financial statements.

Consolidated Balance Sheet as of December 31, 2007 (in SR thousands)

	Notes	2007 (Consolidated)	2006 (Unconsolidated)
Non-current liabilities:			
Deferred revenues		437,240	623,569
Loans	16	13,019,303	-
Employees' end-of-service benefits	17	1,932,297	1,820,402
Other payables		310,864	-
Total non-current liabilities		15,699,704	2,443,971
Total liabilities		32,919,364	11,967,434
Shareholders' equity			
Minority interest			
Authorized capital, issued & outstanding	18	20,000,000	20,000,000
Statutory reserve	19	7,020,710	5,818,458
Retained earnings		8,658,704	8,339,223
Financial statements' translation differences		196,839	-
Unrealized loss on other investments	10	-	(3,342)
Total shareholders' equity		35,876,253	34,154,339
Minority interests		15,629	-
Total shareholders' equity		35,891,882	34,154,339
Total liabilities & shareholders' equities		**68,811,246**	**46,121,773**

Attached notes (1 – 31) form an integral part of these financial statements.

Consolidated Statement of Income for the Year Ended December 31, 2007 (in SR thousands)

	Notes	2007 (Consolidated)	2006 (Unconsolidated)
Operating revenues			
Wireless		25,164,725	22,630,797
Wired lines		9,293,082	9,762,774
Total operating revenues	20	34,457,807	32,393,571
Operating expenses			
Government charges	21	(4,825,002)	(4,446,169)
Access charges		(4,426,666)	(3,809,662)
Employee costs	22	(4,274,597)	(4,283,758)
Depreciation and amortization	9,8	(4,098,287)	(3,835,792)
Administrative and marketing expenses	23	(2,442,472)	(1,932,412)
Repairs and maintenance		(1,772,882)	(1,437,633)
Total operating expenses		(21,839,906)	(19,745,426)
Operating income		12,617,901	12,648,145
Other income and expenses			
Cost of early retirement program		(547,580)	(500,000)
Returns	10.4.3	333,145	416,613
Earnings from investments accounted for under the equity method	10	30,561	101,631
Other, net	24	12,186	475,089
Other income and expenses, net		(171,688)	493,333
Net income before minority interest, Zakat and tax		12,446,213	13,141,478
Minority interest		2,171	-
Net income before Zakat and tax		12,448,384	13,141,478
Provision for Zakat	25	(384,631)	(342,576)
Provision for tax		(42,020)	-
Net income		**12,021,733**	**12,798,902**
Basic earnings per share in Saudi Riyals		**6,01**	**6,40**

Attached notes (1 – 31) form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended December 31, 2007

(in SR thousands)

	Notes	2007 (Consolidated)	2006 (Unconsolidated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		12,021,733	12,798,902
Adjustments to reconcile net income with net cash produced by operating activities:			
Depreciation and amortization		4,098,287	3,835,792
Doubtful debt expenses		523,055	435,602
Returns from investments accounted for under the equity method		(30,561)	(101,631)
Losses (Gains) on sale/ disposal of property, installations and equipment		15,868	(12,600)
Losses on disposal / sale of other investments		3,375	2,450
Provision for capital work in progress		-	(24,057)
Changes in:			
Accounts receivable		(1,557,404)	(750,607)
Inventories		(217,975)	3,588
Prepayments and other current assets		(253,022)	(292,221)
Other non-current assets		(3,443,132)	(243,828)
Accounts payable		1,122,143	(646,038)
Other payables		4,116,092	219,719
Accrued expenses		1,837,445	572,543
Deferred revenues		192,750	(132,848)
Employees' end-of-service benefit provision		111,895	207,862
Net cash flow produced by operating activities		18,540,549	15,872,628

Attached notes (1 – 31) form an integral part of these financial statements.

Consolidated Statement of Cash Flows for the Year Ended December 31, 2007
(in SR thousands)

	Notes	2007 (Consolidated)	2006 (Unconsolidated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Capital expenditures		(8,334,770)	(3,392,713)
Short-term investments		5,599,000	(1,904,000)
Intangible assets		(12,846,116)	-
Investments		(1,371,703)	(164,700)
Dividends of investments accounted for under the equity Method		17,224	18,209
Proceeds from sale of other investments		-	97,550
Proceeds from sale of property, installations and equipment		17,389	19,769
Net cash used in investment activities		(16,918,976)	(5,325,885)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(10,508,146)	(11,642,243)
Loans, net		13,579,751	-
Minority interests		15,629	-
Net cash produced by (used in) finance activities		3,087,234	(11,642,243)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,708,807	(1,095,500)
CASH AND CASH EQUIVALENTS AT YEAR-START		2,909,321	4,004,821
CASH AND CASH EQUIVALENTS AT YEAR-END		**7,618,128**	**2,909,321**
Non-Cash item: Financial statements' translation differences		**196,839**	-

Attached notes (1 – 31) form an integral part of these financial statements.

Equity Change Statements for the Year Ended December 31, 2007 (in SR thousands)

	Note	Capital	Statutory reserve	Retained earnings	Financial statements' translation differences	Minority interests	Unrealized loss on other investments	Total equity
Balance in 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	13	-	-	(11,500,000)	-	-	-	(11,500,000)
Transferred to capital	18	5,000,000	-	(5,000,000)	-	-	-	-
Transferred to statutory reserves	19	-	1,279,890	(1,279,890)	-	-	-	-
Balance in December 31, 2006		**20,000,000**	**5,818,458**	**8,339,223**	-	-	**(3,342)**	**34,154,339**
Net income		-	-	12,021,733	-	-	-	12,021,733
Dividends	13	-	-	(10,500,000)	-	-	-	(10,500,000)
Transferred to statutory reserves	19	-	1,202,252	(1,202,252)	-	-	-	-
Investment exclusion	10	-	-	-	-	-	3,342	3,342
Financial statements Translation differences		-	-	-	196,839	-	-	196,839
Minority interests		-	-	-	-	15,629	-	15,629
Balance in December 31, 2007		**20,000,000**	**7,020,710**	**8,658,704**	**196,839**	**15,629**	-	**35,891,882**

Attached notes (1 – 31) form an integral part of these financial statements.

Consolidated Financial Statements for the Year Ended December 31, 2007

1. General

The Saudi Telecom Company (the "Company") was established as a Saudi joint stock company pursuant to Royal Decree No. M/35, dated 24 Dhul Hijja 1418H (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 1418H (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 1423H (September 9, 2002), the Government sold 30% of its stake.

The Company commenced its operations as provider of telecommunications services throughout the Kingdom of Saudi Arabia (the "Kingdom") on 6 Muharram 1419H (May 2, 1998), and received its Commercial Registration No. 1010150269 as a Saudi joint stock company on 4 Rabi> I, 1419H (June 29, 1998). The Company's head office is located in Riyadh.

The Company has various investments in subsidiaries, associates and joint ventures collectively known as (the "Group"). The details of these investments are as follows:

Company Name	Ownership Share	Accounting Treatment
Arab Internet and Communications Services Co. (AwalNet) – Saudi Arabia	100%	Full Consolidation
Tejari Saudi Arabia Co. – Saudi Arabia	50%	Full Consolidation
Binariang GSM SDN BHD ("Binariang") - Malaysia	25%	Proportionate Consolidation
PT Natrindo Telepon Seluler ("NTS") - Indonesia	51%	Proportionate Consolidation
Arab Satellite Communications Organization ("ArabSat") – Saudi Arabia	36.66%	Equity Method
Arab Submarine Cables Company Ltd. – Saudi Arabia	45.72%	Equity Method
The 3rd Mobile Communications - Kuwait	26%	(to be determined later)

The main activities of the Group comprise provision of versatile telecommunications services including mobile (2nd and 3rd generations), landline local, national and international telephone services, telex, telegraph and data services such as data transmission, leased lines, internet services and e-commerce.

Arab Internet and Communications Services Co. (AwalNet)

The Arab Internet and Communications Services Co. (a limited liability Company) was founded in April 2002. It provides Internet services, operates telecommunications projects, transmits and handles information.

Tejari Saudi Arabia Co.

Tejari Saudi Arabia was founded (as a limited liability company) in November 2006 for the purpose of establishing, operating and managing markets and electronic platforms and providing all services related to electronic business transactions.

Binariang GSM Holding Group - Malysia

This Malaysian group is a holding investment company and fully owns the Malaysian Maksys holding group. Maksys (a limited liability company) works in mobile telecommunications sector in Malaysia and has investments in this area both in India and Indonesia. Maksys company owns 44% of the Indonesian company. The Company acquired 25% of the Binariang company in September 2007.

NTS - Indonesia

NTS Company obtained a license to operate the 3rd generation of mobile network in Indonesia. The Company is expected to start providing its services commercially in the first quarter of 2008. The Company acquired 51% of NTS Company in September 2007.

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 transfer, fax and telex), TV 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 founded in September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2007

Connecting the Kingdom of Saudi Arabia to the Republic of Sudan and to any other State for telecommunications purposes. The Company's operating activity took effect as from June 2003.

The 3rd Mobile Telecom Company – Kuwait

In December 2007, this Company acquired 26% of the KD 50 million share capital of NewTel Mobile Communications in Kuwait at a consideration of SR 3,422 million. The amount was paid in January 2008. The investment will be classified under the appropriate category after finalizing the legal formalities.

2 - Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom. The financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended December 31, 2007.

Intra-Group balances and transactions and any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Preparing financial statements in conformity with the accounting standards generally accepted in the Kingdom requires the use of accounting estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the financial statements' period. The significant accounting policies are summarized below:

a) Financial Statements Period

The Group's fiscal year begins on January 1 and ends on December 31 of every Gregorian year.

b) Revenue Recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to or usage of exchange networks and facilities. Usage revenues are based on fractions of traffic minutes processed, applying rates approved by the Communications and Information Technology Commission ("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.

• Wireless revenues are mainly composed of mobile, international and national roaming services while wired line revenues are composed mainly of fixed lines, international settlements, leased circuits, data and internet services.

• The current accounting treatment of the face value reductions granted to prepaid cards distributors has been reviewed, and has accordingly been treated as discounts resulting in revenue being recorded net instead of gross.

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.

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) Doubtful Debt Provision

The Group reviews accounts receivable to create the required provision against doubtful debts. When creating a provision, consideration is given to the type of service rendered (mobile, land lines, telex, international settlements,...etc.), customer category, debt life span, Group's past experience in debt collection and the general economic situation.

f) Inventories

• Inventory, consisting primarily of cables, spare parts and consumables, is recorded using weighted average cost net of provisions. Inventory items, such as emergency backup equipment that can not be transferred but considered essential for the network assets, are recorded in the properties, installations and equipment. Other inventory items, found under the custody of the contractor who is responsible for upgrading and expanding network, are recorded in «capital work in progress».

• The Group creates a provision for obsolete and slow-moving stocks based on a separate study of the usage of the major inventory categories. When proved impractical, the provision is based on groups or categories of inventory items, taking into account that items which may require substantial reduction in value has been taken in consideration when creating such a provision.

g) Property, Installations and Equipment and Depreciation

1. Prior to May 2, 1998, Telecom Division had not maintained sufficiently detailed historical information to record property, installations and equipment based on the historical cost. Consequently, all property, installations and equipment transferred by the Telecom Division on May 2, 1998 had 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, installations and equipment
  Depreciated replacement cost

2. Apart from that mentioned in (1) above, property, installations and equipment acquired by the Group are recorded at historical cost.

3. The cost of the network comprises all expenditures down 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, installations and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful life spans:

Years	
Buildings	20 – 50
Telecommunications installations and equipment	4 – 25
Other assets	3 – 7

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. Gains and losses resulting from the disposal / sale of property, installations and equipment are determined by comparing the proceeds with the book values of the disposed of / sold assets, and the gains or losses are included in the statement of income.

7. Leases of property, installations and equipment where the Group eye'm substantial, all benefits and risks of ownership would be classified as finance leases. Finance leases are capitalized at the inception of such a lease at lower than fair value and the present value of the minimum lease payments.

Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability under the finance lease. Assets leased under finance leases are depreciated over their estimated useful life spans.

h) Computer Software Costs

• Costs of operating systems and application software purchased from vendors are capitalized upon meeting capitalization criteria, including enhancement of asset productivity or a noticeable increase in the useful life span of the asset. These costs are amortized over the estimated period for which the benefits will be received.

• Internally-developed operating software costs are capitalized when meeting capitalization criteria, including tasking a defined internal work group to develop programs and determine readily the related costs. These costs are amortized over the estimated period for which the benefits will be received.

• Internally-developed application software costs would be considered expenses when incurred, and if operating system software costs can't be identified separately from the associated hardware costs, the operating system software costs are entered as part of the hardware.

• Subsequent costs of additions, modifications or upgrades of software, whether operating or application packages, are expensed as incurred.

• Software training and data conversion costs are expensed as incurred.

i) Intangible Assets

Goodwill

• Goodwill emerged when buying a stake in a subsidiary or a joint venture. It represents an excess acquisition cost to be incurred by the Group's share in the fair value of the net assets of the joint venture at the date of acquisition. If the excess is negative, it would be recognized immediately in the consolidated statement of income.

• Goodwill is usually measured against cost and decreased with any losses incurred when its value decreased.

Frequency Spectrum Rights and Second / third Generation Licenses

These intangible assets are recorded when acquired at cost and are amortized starting from the date of service provisioning on a straight line basis over their useful life spans or statutory durations, whichever is shorter.

j) Impairment of non-current Assets

The Group reviews periodically non-current assets for impairment whenever events or changes in circumstances occur. When such indications are present, the recoverable amount of the asset should be estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit to which the asset relates is to be used instead. The excess amount of the asset over its recoverable amount is treated as impairment in its value to be recognized in the statement of income of the period in which it occurs. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount (except for goodwill) will be reversed and recorded as income in the statement of income of the period in which such reversal is determined.

k) Investments Subsidiaries

Entities controlled by the Company are classified as subsidiaries. Control is defined as the power to use or direct the use of another entity` assets in order to achieve economic benefits. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date control commences until the date it ceases.

Investments in Joint Ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control. That is when the Strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of all the parties sharing control.

Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities.

In the consolidated financial statements, the Group reports its interests in jointly-controlled entities using proportionate consolidation, whereby the Company's share of the assets, liabilities, income and expenses of jointly-controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.

Goodwill emerging on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill.

Investments Accounted for Under the Equity Method

Associates are those corporations or other entities, on which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associate but not the power to exercise control over those polices.

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 investor, the investor distributed dividends and any changes in the investor's equity, to reflect the Company's share in the investor's net assets. These investments are reflected in the consolidated balance sheet as non-current assets, and the Company's share in the net income (loss) of the investor is presented in the consolidated statement of income.

Other Investments

• Registration of investment in securities available for sale is calculated on the basis of fair value, where the fair value of securities available for sale which have market value is calculated on the basis of this value. The securities available for sale, whose fair value could not be determined because of the absence of an active market for exchange or lack of other indicators through which a market value can objectively be determined, the cost would be the alternative fair value. Unrealized gains and losses are to be entered in to a separate item in the list of property rights in the consolidated financial position. Losses resulting from the permanent reduction in the fair value for less than the cost would be shown in the consolidated statement of income for the period in which the reduction occurred.

• Registration of investment in securities, which are maintained until maturity date would be based on the modified cost by the volume of depletion in pay raises or subtraction, if any losses resulting from the non-provisional depreciation in the fair value below cost within the consolidated statement of income for the period of reduction.

• Gains and losses resulting from selling securities that are available for sale are recorded during the period of occurrence. Any unrealized gains or losses previously recorded would be 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 in the Kingdom. Adjustments arising from final Zakat assessments are recorded in the period in which such assessments are approved.

m) Taxes

Taxes relating to entities invested in outside the Kingdom are calculated in accordance with tax laws applicable in their countries.

Deferred Tax Assets

Deferred tax assets of foreign entities are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences of the foreign entities can be utilized. This involves judgment regarding the future financial performance of the particular entity in which the deferred tax asset has been recognized.

n) Employees' End-of-Service Benefit Provision

The provision for employees' end-of-service benefits represents the amounts due and payable to employees upon the termination of their contracts, in accordance with the terms and conditions of the laws applicable in the Kingdom and the relevant countries of investment.

o) Foreign Currency Transactions

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Saudi Riyals.

Transactions and Balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the consolidated balance sheet date.

Gains and losses arising on the settlement of foreign currency transactions, and unrealized gains and losses resulting from the translation to Saudi Riyals of foreign currency denominated monetary balances are recorded in the consolidated statement of income.

Group's Companies (Translation of Financial Statements)

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.

- Retained earnings are translated as follows: retained earnings translated at the end of last year plus net income for the year as per the translated income statement less declared dividends translated at the rate prevailing on the date of declaration.

- Income statement items are translated using the weighted average rate for the period. Material gains and losses are translated at the rate prevailing on the date of their occurrence.

- All resulting exchange differences, if material, are recognized as a separate component of shareholders' equity.

When those entities are partially sold out or disposed of, exchange differences that were recorded in shareholders' equity should be recognized in the statement of income as part of the gains or losses on sale.

p) Contingent Liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. In this case the Group does not recognize the contingent liabilities but discloses them in the consolidated financial statements.

q) Government Charges

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

r) Access Charges

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

s) Administrative and Marketing Expenses

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

t) 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 period.

3 – Cash and Cash Equivalents

The Company invests part of its cash surplus in the accounts of Murabaha for maturity periods of 90 days or less in several local banks. The average rate of return on these accounts during 2007 was 4.8% (2006: 4.4%). The total revenues earned during 2007 SR 194.1 million (2006: SR 154.3 million).

Moreover, the Group's share of investment returns of subsidiaries and joint ventures in deposits totaled SR 21.8 million. The cash balance and cash equivalents at the year end consist of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Collection accounts	941,042	2,444,490
Short-term Murabaha deals	4,533,946	302,505
Short-term deposits	1,794,715	-
Disbursement accounts	348,425	162,326
	7,618,128	2,909,321

4 – Short-term Investments

The Company invests part of its cash surplus in Murabaha accounts for maturity periods exceeding 90 days. The average rate of return on these accounts during 2007 has been 5% (2006: 5.3%). The total revenue earned during 2007 was SR 108.8 million (2006: SR 254.4 million).

5 - Accounts Receivable, Net

(a) Accounts Receivable on December 31 consists of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Billed Accounts Receivable	4,255,052	3,143,447
Unbilled Accounts Receivable	1,455,890	1,370,632
	5,710,942	4,514,079
Doubtful Debt Provision	(737,954)	(575,440)
	4,972,988	3,938,639

Following is the movement of provision of doubtful debt during the year:

(in SR thousands)	2007 Consolidated	2006 Consolidated
Balance as of January 1	575,440	543,910
Additions (Note 23)	523,055	435,602
	1,098,495	979,512
Doubtful Debts	(360,541)	(404,072)
Balance in December 31	737,954	575,440

(b) Since inception, the Company validates revenues of services provided to some customers upon collection when the Company has high degree of uncertainty in the possibility of collecting them. The Company is currently seeking to collect such revenues. The uncollected revenues in this category for 2007 amounted to SR 106 million (2006: SR 104 million), with an annual average rate of SR 207 million for the previous eight years preceding the year 2007.

(c) The Group concluded agreements with foreign operators of communications networks whereby debit and credit balances are cleared for the same operator. Net amounts appeared in the creditor and debtor accounts in December 31 were as follows:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Receivables, Net	1,438,203	655,044
Payables, Net	2,189,108	991,337

(d) The Company, in accordance with paragraph (VII) of the Council of Ministers' Resolution No. 171 referred to in Note 1, reconciles the amounts of government charges owed to the Government against accumulated funds due on agencies for communications services rendered thereto.

6 - Inventories, Net

Following is the movement during the year:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Balance by Jan,1	158,963	163,744
Additions	715,916	465,419
Usage	(462,039)	(470,200)
	382,840	158,963
Inventory provision	(15,165)	(9,263)
Balance as of Dec, 31	367,675	149,700

7 – Prepayments and Other Current Assets

Prepayments and other current assets are made up of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Frequency evacuation project	292,118	272,906
Advanced payments to vendors	210,795	126,150
Prepaid tax	102,629	-
Prepaid rent	75,358	56,019
Employee housing loans-current (Note 11)	50,596	51,498
Returns and accrued receivables	49,583	169,048
Refundable deposits	31,554	-
Other	206,011	90,001
	1,018,644	765,622

The frequency evacuation project agreed 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 cost of the project (SR 250) has been discounted 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. (See Note 14)

8 – Properties, Installations & Equipment, Net

(in SR thousands)	Land & Buildings	Telecom Network & Equipment	Other Assets	Capital Works in Progress	Total 2007 Consolidated	Total 2006 Unconsolidated
Gross Book Value						
by Jan, 1	9,946,241	47,665,874	1,137,853	3,419,756	62,169,724	59,363,727
Additions	3,927	210,337	101,947	5,427,764	5,743,975	3,392,713
Transfers	464,824	3,959,945	11,034	(4,435,803)	-	-
Group's Stake in Total Asset Costs of Companies Invested therein	51,848	3,399,580	207,015	546,338	4,204,781	-
Disposals	-	(93,172)	(50,495)	-	(143,667)	(587,860)
Balance as of Dec, 31	10,466,840	55,142,564	1,407,354	4,958,055	71,974,813	62,168,580
Accumulated Depreciation in Jan, 1	4,172,179	27,006,632	862,530	-	32,041,341	28,831,137
Depreciation	271,771	3,475,761	126,241	-	3,873,773	3,813,808
Group's Share in Total Accumulated depreciation in companies invested therein	8,323	1,650,821	141,668	-	1,800,812	-
Provision for Capital Work in progress	-	-	-	-	-	(389,251)
Disposals	-	(60,117)	(50,293)	-	(110,410)	(215,497)
Balance as of Dec, 31	4,452,273	32,073,097	1,080,146	-	37,605,516	32,040,197
Book Value, net	6,014,567	23,069,467	327,208	4,958,055	34,369,297	30,128,383

(A) Lands and Buildings referred to above include lands of SR 2,326 million as in December 31, 2007 (2006: SR 2,299 million).

(B) In accordance with the Royal Decree, referred to in Note (1) above, the ownership of assets had been transferred to the Company in May 2, 1998, though the transfer of legal ownership of certain land parcels is still under way. The value of land parcels whose legal ownership has been transferred to the Company as of December 31, 2007 totaled SR 1,813 million, and work is still in progress to transfer the ownership of the remaining land whose value is about SR 486 million.

9 - Intangible Assets, Net

Intangible assets include the goodwill arising on the acquisition of the Group's shares in Binariang and NTS, in addition to the Company's share in the goodwill recorded in the financial statements of Binariang at the date of acquisition.

The Company was not able to use the fair value of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 25% of Binariang and 51% of NTS. Likewise, Binariang was not able to use the fair value of the net assets on the date of acquisition for the calculation of goodwill arising on its acquisition of 100% of Maxis Group, due to the non-completion of the fair value determination reports before finalizing the consolidated financial statements, since the time available after completing the acquisition process on September 11, 2007 was very short. Fair values of net assets will be used to determine the goodwill after finishing the relevant study. The amounts recorded as goodwill might accordingly be adjusted. Details of intangible assets are as follows:

The break down of the intangible assets is as follows:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Goodwill resulting from consolidating Binariang Holding Company	9,965,798	-
Goodwill resulting from Buying 25% of Binariang HLD Group	1,681,189	-
Goodwill Resulting from Buying 51% of NTS Company	856,726	-
Licenses	876,229	731,766
Other	475,632	-
	13,855,574	731,766

10 – Investments

Investments are made up of the following:

(in SR thousands)	2007 Consolidated		2006 Unconsolidated	
	Ownership		Ownership	
Investments registered as per equity method				
Arab Satellite Communications Org, (ArabSat)	36,66%	936,489	36,66%	925,647
Arab Submarine Cables Company, Ltd,	45,72%	52,275	44,29%	49,779
Tejari Saudi Arabia Co,		-	50,00%	14,700
		988,764		990,126
Investment in SUKUK		1,265,625		-
Group's stake of other investments in Binariang Group		2,236		-
Other investments:				
Held to Maturity Date				
Investment in SABIC's SUKUK		150,000		150,000
Available for sale – at market value				
Investment in New ICO Company		-		33
Total other investments		2,406,625		1,140,159

The accounting treatment of investment in Tejari Saudi Arabia has been shifted from ownership equities method to consolidated method at the beginning of the fourth quarter 2007. following:

Investment in SUKUK

This investment, undertaken by a subsidiary of the Group in December 2007, represents the Group's investment stake in SUKUK. It is a 10 year funding duration, and the inflation-adjusted average profit margin rate among Kuala Lumpur banks «Klibor» plus 0.45%. Note that this funding is included in the party-related processes in the group.

Sabic SUKUK

SUKUK were purchased from the Saudi Basic Industries Company «SABIC» during the month of July 2006 with an amount of SR 150 million, and validity period of 5 years until July 2011, and return rate equivalent to the rate exchangeable among Saudi Arabia's banks «Saibor» plus 0.40%. Realized proceeds derived from these SUKUK throughout 2007 totaled SR 8.3 million (2006: SR 3.7 million).

Investment in the New Company, ICO

In the first quarter of 2007, investment fund in the New Company ICO was disposed of since the realized losses totaled SR 3.4 million.

11 - Other non-Current Assets

Other non - current assets are made up of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Financial Compensation for Acquiring 26% of the 3rd Mobile Telecom Company – Kuwait (See Note1)	3,421,562	-
Staff Housing Loans	633,429	703,687
Deferred Expenses	58,745	55,496
Other	88,579	-
	4,202,315	759,183

The Company started granting interest-free housing loans to its staff during 2005 in accordance with the set parameters. These loans were being recorded under the expenses as of December 31, 2007.

12 - Accounts Payable

Accounts payable are made up of the following:

(in SR thousands)	2007 Consolidated	Unconsolidated
Govt, Charges (See Note 5-D)	1,018,561	672,852
External Network Settlements (See Note 5-C)	1,178,577	862,191
Commercial	811,616	386,811
Capital	63,687	38,083
Accrued to Relevant Parties	9,639	-
	3,082,080	1,959,937

13 – Accrued Dividends

The following is the movement of the accrued dividends during the year:

(in SR thousands)	2007	2006
Balance by Jan, 1	65,006	207,249
Dividends Approved for Fourth Quarter 2006	3,000,000	-
Dividends Approved for First Quarter 2007	2,500,000	-
Dividends Approved for Second Quarter 2007	2,500,000	-
Dividends Approved for Third Quarter 2007	2,500,000	-
Dividends Approved for Fourth Quarter 2005	-	3,000,000
Dividends Approved for First Quarter 2006	-	2,500,000
Dividends Approved for Second Quarter 2006	-	3,000,000
Dividends Approved for Third Quarter 2006	-	3,000,000
	10,565,006	11,707,249
Payments During the Year	(10,508,146)	(11,642,243)
Balance as of Dec, 31	56,860	65,006

14 – Other Payables

Other payables are made up of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Financial compensation for acquiring 26% of the 3rd Mobile Telecom Company - Kuwait	3,421,562	-
Suppliers' retentions	1,184,560	867,279
Withholding tax provision	439,823	260,410
Zakat provision (See Note 25)	323,794	296,799
Outsourced staff entitlement settlements	282,052	282,052
Frequency evacuation project (See Note 7)	250,000	250,000
Other	258,652	398,675
	6,160,443	2,355,215

The amount of investment in the 3rd Mobile Telecom Company in Kuwait has been repaid in January 2008 (See Note 1).

15 - Accrued Expenses

Accrued Expenses are made up of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Capital Expenditure	2,243,440	1,583,649
Trade	1,882,908	1,029,007
Employee Accruals	946,729	938,950
Land Provision	184,075	197,671
Other	329,570	-
	5,586,722	3,749,277

16 – Loans

Loans include:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Current part	560,448	-
Non-current part	13,019,303	-
	13,579,751	-

► Binariang

The Group's stake of Sukuk amounted to SR 5,520 million and of bank facilities to SR 2,060 million as of Dec. 31, 2007. These Sukuk were used to finance the acquisition of current shares of Maxis, the Malaysian holding group, which raises the ownership stake of Binariang holding group therein to 100%.

► The Company

During the third quarter 2007, the Company obtained financing facilities in a form of Murabaha deals from several local banks amounting to a total of SR 6,000 million, with maturity of 60 months and commission margin equivalent to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.25%. Total utilized facilities as of December 31, 2007 amounted to SR 6,000 million.

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

17 – End-of-Service Benefit Provision

Following is the end-of-service benefit provision movement during the year:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Balance by Jan, 1	1,820,402	1,612,540
Additions (See Note 22)	293,619	325,760
Payments	(181,724)	(117,898)
Balance as of Dec, 31	1,932,297	1,820,402

The provision is calculated on the basis of vested benefits to which the employees are entitled should they quit at the balance sheet time by using the employees' latest salaries and allowances and years of service in the Company. Companies of the Group apply end-of-service benefit program in accordance with the laws in force in the relevant countries.

18 – Share Capital

The Company's capital is SR 20,000 million divided into 2,000 million shares with a nominal value of SR 10 per share paid in full. The ratio of shares owned by the Government as in December 31, 2007 and 2006 70% of the Company's shares.

The Company's extraordinary general assembly at its meeting held on 13 Rabi> I,1427H (April 11, 2006) to increase the Company's capital from SR 15,000 million to SR 20,000 million, by granting one free share for every three shares, with a total value of SR 5,000 million to be transferred from the retained profits. Accordingly, the number of shares has been increased to 2,000 million.

19 – Statutory Reserve

As a rule, 10% of the Company's net income is annually set aside for the statutory reserve to be equivalent to 50% of the value of the issued capital. This reserve is not for distribution to Company's shareholders. The Company in 2007 set aside SR 1,202 million (2006: SR 1,280 million). The total statutory reserve balance in December 31, 2007 reached SR 7,021 million, representing a proportion of 35% of the Company's capital (December 31, 2006: SR 5,818 million, representing a proportion of 29% of the Company's capital).

20 - Operating Revenues

Operating revenues consist of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Usage Charges	28,066,325	26,442,270
Subscription Fees	5,721,101	5,150,241
Activation Fees	496,991	586,437
Other	173,390	214,623
	34,457,807	32,393,571

21- Government Charges

Government charges for the period consist of the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Provision of Service Commercially	4,272,832	3,993,517
License Fees	307,258	284,903
Frequent Spectrum	244,912	167,749
	4,825,002	4,446,169

22 - Staffing Costs

Staffing costs comprise the following:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Salaries and Allowances	2,990,807	2,964,289
Incentives & Awards	313,315	397,316
End-of-Service Awards	293,619	325,760
Social Insurance	261,817	256,469
Health Insurance	180,642	153,415
Other	234,397	186,509
	4,274,597	4,283,758

23 – Administrative & Marketing Expenses

The administrative & marketing expenses are made up of:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Selling commissions & advertising expenses	565,776	411,320
Doubtful debt expenses (See Note 5)	523,055	435,602
Rentals of equipment, properties & vehicles	197,329	137,890
Commissions on funding by Murabaha & Sukuk	189,047	-
Consultancy services	184,464	199,898
Utilities expenses	180,924	151,607
Printing Telephone cards & office supplies	176,625	245,637
Other	425,252	350,458
	2,442,472	1,932,412

24 – Other Revenues & Expenses, Net

This item is made up of:

(in SR thousands)	2007 Consolidated	2006 Unconsolidated
Various revenues	274,969	551,019
Losses on selling other investments (See Note 10)	(3,375)	(2,450)
Selling (losses) / profits / exclusion of properties, installations and equipment	(15,868)	12,600
Various expenses	(243,540)	(86,080)
	12,186	475,089

The versatile expenses in 2007 are made up of SR 50 million, representing the disbursed amount during the period of donation extended by the Ministry to the MOH in the framework of «Health Fulfillment» program whose total costs amount to SR 100 million (2006: SR 25 million).

25 – Zakat

(a) Company's Zakat Base

(in SR thousands)	2007	2006
Capital – Beginning of Year	20,000,000	15,000,000
Additions:		
Retained Profits – Beginning of the Year	8,339,223	13,320,211
Statutory Reserve – Beginning of Year	5,818,458	4,538,568
Appropriations – Beginning of Year	2,899,576	3,016,639
Net Modified Income	12,884,007	13,703,066
Total Additions	29,941,264	34,578,484
Deductions:		
No Properties, Installations, Equipment, Capital Works in – progress & Intangible Assets (Limited to Shareholders' Equity before Zakat)	(32,659,406)	(30,860,149)
Dividends Paid	(10,508,146)	(11,642,243)
Investments	(11,014,207)	(1,140,159)
Non-Current Deferred Costs	(35,164)	(55,496)
Total Deductions	(54,216,923)	(43,698,047)
Zakat Base	(4,275,659)	5,880,437

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

(in SR thousands)	2007	2006
Balance by Jan, 1	296,799	284,325
Due Amounts for the Year	384,631	342,576
Amounts Prepaid During the Year	(357,636)	(330,102)
Balance as of Dec, 31	323,794	296,799

Final Zakat assessments have been obtained for the years since inception through 2003. The final Zakat assessments for 2004, 2005 and 2006 have not yet been finalized. The Company has received a Zakat Certificate which is valid up to 24 Rabie II 1429H (April 30, 2008).

c) Joint Ventures

The Group assessed the accrued Zakat on the joint ventures as being considered independent accounts, on which the case there was no need to create a provision for this year.

26- Related Party Transactions

Government Agencies

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

Revenues and expenses related to Government agencies in 2007 (including government charges discussed in note 21 above) amounted to SR 827 million and SR 4,685 million, respectively (2006: SR 673 million and SR 5,361 million, respectively).
Amounts payable to government agencies at Dec. 31, 2007 totaled SR 792 million (2006: SR 1,255 million) respectively.

Amounts receivable from government agencies at Dec. 31, 2007 totaled SR 792 million (2006: SR 1255 million). Amounts receivable from government agencies at Dec. 31, 2007 and 2006 are not material due to the settlement referred to in Note (5-D).

Investments Accounted for Under the Equity Method

During 2007, the Company incurred charges of approximately SR 12 million in favor of ArabSat for using the services of the satellite (2006: SR 14 million), while expenses incurred in favor of the Arab Submarine Cables Co. approximated SR 4 million (2006: SR 6 million).

Investments in Joint Ventures

The deals the Company undertook with joint ventures were not significant relatively for the period from the date of acquisition through the year-end except for the investment in SUKUK which totaled SR 1,265 million (See Note 10).

27- Commitments And Contingencies

Commitments

(a) The Group 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 1,703 million on December 31, 2007.

(b) Certain land and buildings, for use in the Company's operations, are leased under operating lease commitments expiring at various future dates. During 2007, total rent expense under operating leases amounted to SR 177 million.

Contingencies

The Group, 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 Group's financial position nor on the results of its operations as reflected in the consolidated financial statements.

28 – Financial Instruments

► Fair Value

It is the amount that can be used to exchange an asset or payment of obligation between the informed parties and willing to deal under fair dealing conditions. The management does not believe that the fair value of the Group's financial assets and liabilities is different from the book value.

► Risk Rates of Return

Risk rates of return are multiple risks related to the impact of changes in market rates of return on the financial position of the Group and cash flows. The Group manages its flow of cash through control timing between the received cash flow and the used cash flow. The cash surplus is invested to increase the Company's income of revenues through funds maintained as Murabaha, short - and long-term deposits. However, the risk of rates of return in this regard is not considered essential.

The risks of exchange rate changes
It is the risk of change in the value of financial instruments due to changes in exchange rates of foreign currencies. Administration monitors fluctuations in foreign exchange rates and their effects on the shoulder Consolidated Financial Statements.

► Credit Risk

Risk is the inability of other parties to fulfill their obligations to the group, leading the group to incur financial loss. Consisting of financial instruments that may be subjected to dangers of indebtedness focused mainly cash balances and accounts receivable. The group deposited cash balances in a number of major high credits rated financial institutions and started a policy to reduce the volume of assets held in each financial institution. The Group does not believe that there is a significant risk of non-performance by these large financial institutions. The Group does not consider itself vulnerable to focus indebtedness in relation to the accounts of debtors owing to its diverse customer base (residential, professional, major businesses and public institutions) which operate in a variety of work areas that are spread over several regions.

► Liquidity Risk

It is a risk of exposure to the difficulties in raising the necessary funds to meet the obligations 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 risk in relation to liquidity.

29- 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 recently accelerating telecom sector regulation, which resulted in significant changes in the identification and segmentation of the telecom services sectors, and due to increased competition and the Company's strategic aim at raising the level of operational efficiency, the Company, in 2006, approved a new structure for its segments which differs from the previous structure, thus requiring segmental information that differ significantly in their bases from the previous requirements.

30- Subsequent Events

The Board of Directors, in its meeting of 11 Muharram 1429H (January 20, 2008), proposed dividends for the fourth quarter 2007 amounting to SR 2,500 million, at the rate of SR 1.25 per share, resulting in a total dividend for 2007 of SR 5.00 per share. In January 2008, the Company signed an initial agreement with the controlling shareholder of Oger Telecom Limited (Oger Telecom), which operates in Turkey and South Africa, for the purchase of a 35% interest in Oger Telecom for SR 9.6 billion. Legal formalities to conclude the deal are expected to be finalized by the end of the first quarter 2008.

31- Reclassification

Certain accounting data in the period ended December 31, 2006 have been reclassified to conform to the classifications used for the period ended December 31, 2007.