الاتصالات السعودية
SAUDI TELECOM

a Saudi Joint Stock Company

Interim Consolidated Financial Statements for the Third Quarter 2007

Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2007 (Unaudited)

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2007 (Unaudited)

AL JURAID & COMPANY
MEMBER FIRM OF
PRICEWATERHOUSECOOPERS
P.O. Box 8282
Riyadh 11482
Saudi Arabia
Tel : 966 (1) 4654240
Fax : 966 (1) 4651663

Dr. M. Al Amri & Co.
Accountants & Consultants
P.O. Box 8736
Riyadh 11492
Saudi Arabia
Tel : 966 (1) 4192349
Fax: 966 (1) 4193047

INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

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

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) as of September 30, 2007 and the related interim consolidated statement of income for the three-month and nine-month periods ended September 30, 2007 and the interim consolidated statement of cash flows for the nine-month period then ended including the related notes. These interim consolidated financial statements are the responsibility of the Company's management and were presented to us with all the information and explanations which we requested.

Our review was a limited review in accordance with the standard interim financial statements review issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. Such limited review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 7, segmental information was not disclosed in the notes to the financial statements as required by generally accepted accounting standards in the Kingdom of Saudi Arabia.

Based on our review, except for non-disclosure of the segmental information referred to in the preceding paragraph, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Al Juraid & Company
Member firm of
PricewaterhouseCoopers

Rashid S. Al Rashoud
(License No. 366)

Dr. M. Al Amri & Co.
Independent member of
Baker Tilly International

Gihad M. Al-Amri
(License No. 362)

October 22, 2007
10 Shawwal, 1428H

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of September 30, 2007 (Unaudited)
(Saudi Riyals in thousands)

	Notes	2007 (Consolidated)	2006 (Not Consolidated)
ASSETS			
Current assets:			
Cash and cash equivalents		5,057,992	4,231,374
Short-term investments		-	4,808,000
Accounts receivable, net		4,700,691	4,923,446
Inventories, net		369,885	158,728
Prepayments and other current assets		1,002,012	664,702
Total current assets		11,130,580	14,786,250
Non-current assets:			
Property, plant and equipment, net		33,023,262	30,069,991
Intangible assets, net	3	13,601,185	741,187
Investments		1,253,571	1,125,236
Other non-current assets		754,964	740,125
Total non-current assets		48,632,982	32,676,539
Total assets		**59,763,562**	**47,462,789**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		3,334,020	2,503,710
Dividends payable		56,339	166,521
Other payables		2,779,699	2,299,425
Accrued expenses		3,795,944	4,329,222
Deferred revenues - current		1,461,834	1,307,662
Borrowings - current	4	5,453,640	-
Total current liabilities		16,881,476	10,606,540
Non-current liabilities:			
Other payables		308,557	-
Deferred revenues		479,981	676,855
Murabaha facilities and borrowings	4	5,104,371	-
Employees' end of service benefits		1,869,538	1,811,442
Total non-current liabilities		7,762,447	2,488,297
Total liabilities		24,643,923	13,094,837
Shareholders' equity:			
Authorized, issued and outstanding shares: 2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		6,718,828	5,539,820
Retained earnings		8,400,811	8,831,474
Unrealized loss on other investments		-	(3,342)
Total shareholders' equity		35,119,639	34,367,952
Total liabilities and shareholders' equity		**59,763,562**	**47,462,789**

The accompanying notes from 1 to 9 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Income for the Three and Nine-Month Periods Ended September 30, 2007 (Unaudited)
(Saudi Riyals in thousands)

	Notes	Three Months ended September 30,		Nine Months ended September 30,	
		2007	2006	2007	2006
Operating Revenues		(Consolidated)	(Not Consolidated)	(Consolidated)	(Not Consolidated)
Wireless		6,326,813	5,514,688	18,018,574	17,214,022
Wireline		2,257,314	2,540,689	6,804,063	7,358,131
Total operating revenues		8,584,127	8,055,377	24,822,637	24,572,153
Operating Expenses					
Government charges	5	(1,077,910)	(1,066,513)	(3,498,565)	(3,342,903)
Access charges		(1,152,071)	(1,095,853)	(3,040,542)	(2,751,115)
Employee costs		(884,835)	(968,080)	(3,082,623)	(3,217,256)
Depreciation and amortization		(970,230)	(944,147)	(2,853,356)	(2,789,815)
Administrative and marketing expenses		(659,742)	(487,555)	(1,521,199)	(1,328,622)
Repairs and maintenance		(340,045)	(358,571)	(1,180,021)	(1,067,742)
Total operating expenses		(5,084,833)	(4,920,719)	(15,176,306)	(14,497,453)
Operating Income		3,499,294	3,134,658	9,646,331	10,074,700
Other Income and Expenses					
Cost of early retirement program		(295,648)	(125,000)	(545,648)	(375,000)
Commissions		76,898	102,155	275,140	315,790
Earnings from investments accounted for under the equity method		10,897	35,789	28,559	87,410
Other, net		(67,893)	151,853	(86,386)	176,257
Other income and expenses, net		(275,746)	164,797	(328,335)	204,457
Net Income before Zakat		3,223,548	3,299,455	9,317,996	10,279,157
Provision for Zakat		(83,517)	(97,444)	(356,038)	(266,642)
Net Income		**3,140,031**	**3,202,011**	**8,961,958**	**10,012,515**
Basic earnings per share in Saudi Riyals		**1.57**	**1.60**	**4.48**	**5,01**

The accompanying notes from 1 to 9 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Nine-Month Period Ended September 30, 2007 (Unaudited)
(Saudi Riyals in thousands)

	2007 (Consolidated)	2006 (Not Consolidated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	8,961,958	10,012,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,853,356	2,789,815
Doubtful debts expense	322,245	270,596
Provision for capital work in progress	-	(24,057)
Losses (Gains) on sale/ disposal of property, plant and equipment	33,228	(6,756)
Earnings from investments accounted for under the equity method	(28,559)	(87,410)
Losses on disposal / sale of other investments	3,375	2,450
Changes in:		
Accounts receivable	(1,084,297)	(1,570,408)
Inventories	(220,185)	(5,440)
Prepayments and other current assets	(236,390)	(191,301)
Other non-current assets	4,219	(224,770)
Accounts payable	1,374,083	(102,265)
Other payables	733,041	163,929
Accrued expenses	46,667	1,152,488
Deferred revenues	(75,782)	(165,928)
Employees' end of service benefits	49,136	198,902
Net cash provided by operating activities	12,736,095	12,212,360
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(5,753,197)	(2,290,852)
Short-term investments	5,599,000	(1,113,000)
Intangible assets	(12,897,686)	-
Investment in Arabian Internet and Communications Services Co.	(100,482)	-
Dividends received from investments accounted for under the equity method	15,597	18,211
Investment in Sabic's Sukuk	-	(150,000)
Proceeds from sale of other investments	-	97,550
Investment in Tejari Saudi Arabia	-	(14,000)
Proceeds from sale of property, plant and equipment	-	7,012
Net cash used in investing activities	(13,136,768)	(3,445,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Murabaha facilities and borrowings	10,558,011	-
Dividends paid	(8,008,667)	(8,540,728)
Net cash provided by (used in) financing activities	2,549,344	(8,540,728)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,148,671	226,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,909,321	4,004,821
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**5,057,992**	**4,231,374**

The accompanying notes from 1 to 9 form an integral part of these interim consolidated financial statements.

1 GENERAL

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

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

The Company 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	Accounting Treatment
Binariang GSM SDN BHD ("Binariang") - Malaysia	25%	Proportionate Consolidation
PT Natrindo Telepon Seluler ("NTS") - Indonesia	51%	Proportionate Consolidation
Arab Satellite Communications Organization ("Arabsat")	36.66%	Equity Method
Arabian Internet and Communications Services Co.	97%	Equity Method
Arab Submarine Cables Company Ltd.	45.72%	Equity Method
Tejari Saudi Arabia	50%	Equity Method

The main activities of the Group comprise the provision of a variety of telecommunications services which include mobile, fixed local national and international telephone services, telex, telegraph and data services such as data transmission, leased lines, internet services and e-commerce.

Due to immateriality, the financial statements of the Arabian Internet and Communications services Co. and Tejari Saudi Arabia have not been consolidated.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements are prepared in accordance with 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 September 30, 2007.

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

The preparation of the financial statements in conformity with 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 revenue and expenses during the financial period.

The significant accounting policies are summarized below:

a) Period of the financial statements

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

The interim consolidated financial statements are prepared on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period.

b) Interim results

The results of operations for the interim period may not represent a proper indication of the annual results of operations.

c) Revenue recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying rates approved by the 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 composed mainly of mobile, international and national roaming services, while wireline revenues are composed mainly of fixed lines, international settlements, leased circuits, data and internet services.
- 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.

d) 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.

e) Accounts receivable

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

f) Property, plant and equipment and depreciation

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

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

2. Other than what is mentioned in (1) above, property, plant and equipment acquired by the Group are recorded at historical cost.

3. Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.

4. Property, plant and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful lives:

	Years
Buildings	20 – 50
Telecommunications plant 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, plant and equipment are determined by comparing the proceeds with the book values of disposed-off / sold assets, and the gains or losses are included in the interim statement of income.

7. Leases of property, plant and equipment where the Group assumes substantially all benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the 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 lives.

g) <u>Intangible assets</u>

Goodwill

- Goodwill arises on the acquisition of a share in joint ventures. It represents the excess of the cost of the acquisition over the Group' share in the fair value of the net assets of the joint venture at the date of acquisition. When the excess is negative it is recognized immediately in the consolidated statement of income.
- Goodwill is recorded at cost and is to be reduced by impairment losses (if any) .

Spectrum rights and Second/Third Generation licenses

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

h) <u>Impairment of non-current assets</u>

The Group reviews periodically non-current assets to determine whether they are impaired, whenever events or changes in circumstances indicate that. 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 of the carrying amount of the asset over its recoverable amount is treated as an impairment in its value to be recognized in the interim 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 interim statement of income of the period in which such reversal is determined.

i) Investments

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 venturer has an interest are referred to as jointly controlled entities.

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

k) Employees' end of service benefits

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

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) 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 interim 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 interim consolidated statement of income.

Entities of the Group (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 recognised 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.

n) <u>Contingent liabilities</u>

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 interim consolidated financial statements.

The Group recognises separately the contingent liabilities of the acquiree as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisition.

o) <u>Taxes</u>

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 recognised 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 judgement regarding the future financial performance of the particular entity in which the deferred tax asset has been recognised.

p) Government charges

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

q) Access charges

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

r) Administrative and marketing expenses

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

s) 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 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 values 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 values of net assets at 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 finalization of the interim consolidated financial statements as 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 during the forth quarter 2007. The amounts recorded as goodwill might accordingly be adjusted, but the resulting adjustment will not have an affect on the statement of income.

The companies invested in are:

Binariang GSM SDN BHD "Binariang" - Malaysia

Binariang is an investment holding company that owns 100% of Maxis, the Malaysian holding group. Maxis (a limited liability company) operates in the telecommunications sector in Malaysia, with investments in this sector in both of India and Indonesia. Maxis owns 44% of NTS – Indonesia. The Company acquired 25% of Binariang in September 2007.

PT Natrindo Telepon Seluler "NTS" - Indonesia

NTS obtained the license to operate a third generation mobile network in Indonesia and is expected to start the commercial provisioning of this service in the first quarter 2008. The Company acquired 51% of NTS in September 2007.

Intangible assets consist of the following:

(Thousands of Saudi Riyals)	2007	2006
Goodwill arising on the consolidation of Binariang	9,741,594	-
Goodwill arising on the acquisition of 25% in Binariang	1,681,189	-
Goodwill arising on the acquisition of 51% in NTS	856,726	-
Licenses and others	1,321,676	741,187
	13,601,185	741,187

4 MURABAHA FCILITIES AND BORROWINGS

They are composed of:

(Thousands of Saudi Riyals)	2007	2006
Short term	5,453,640	-
Long term	5,104,371	-
	10,558,011	-

Binariang

The balance of borrowings at September 30, 2007 amounted to SR 6,058 million. Borrowings were obtained to partially 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. Maturity is 60 months, and commission margin is equivalent to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.25%. The amounts utilized of the facilities as of September 30, 2007 amounted to SR 4,500 million.

The Company has renewable short and medium-term facilities in the forms of Murabaha and Tawarroq deals with several local banks, with varying maturities spreading to December 2007, and variable commission rates. None of the facilities were utilized during the period.

5 GOVERNMENT CHARGES

The Government charges the Company fees in exchange for granting the Company the right to operate and provide Kingdom-wide telecommunications services. These charges are based on net revenue. Net revenue is defined as total operating revenues from providing telecommunications services commercially less outside and local operators` rights. The Government charges for the period were calculated as follows:

(Thousands of Saudi Riyals)	Three Months ended September 30,		Nine Months ended September 30,	
	2007	2006	2007	2006
Commercial service provisioning	947,394	964,667	3,108,772	3,022,587
License fees	66,220	67,737	216,926	217,987
Frequency spectrum	64,296	34,109	172,867	102,329
	1,077,910	1,066,513	3,498,565	3,342,903

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

(a) Commercial Service Provisioning

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

(b) License Fees

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

(c) Frequency Spectrum

The fees for usage of the frequency spectrum are calculated in accordance with the pricing list issued by the CITC, the application date of which corresponds to 25 Dhul Quada 1425 H (January 6, 2005). The new method of calculating the fees depends on various factors, the most important of which being the locations and widths of required frequencies, distances covered and technologies applied. The Company reviewed the frequency tables in order to specify its actual requirements and, accordingly, determine the ultimate cost, which resulted in a reduction in the fees recalculated by the Company during 2006. During the second quarter 2007 an agreement has been reached with CITC on the final frequencies table, and the amounts due have been settled accordingly.

6 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Company enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 1,607 million on September 30, 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 the third quarter 2007, total rent expense under operating leases amounted to SR 30 million (Third quarter 2006: SR 31 million).

Contingencies

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

7 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.

8 SUBSEQUENT EVENTS

The Board of Directors, in its meeting of 10 Shawal 1428 H (October 22, 2007), approved interim dividends for the third quarter 2007 amounting to SR 2,500 million, at the rate of SR 1.25 per share.

9 RECLASSIFICATION

Certain accounting data in the period ended September 30, 2006 have been reclassified to conform to the classifications used for the period ended September 30, 2007.