



**a Saudi Joint Stock Company**

## **Interim Consolidated Financial Statements for the Third Quarter 2008**

**Interim Consolidated Financial Statements for the  
Three and Nine-Month Periods Ended September 30, 2008  
(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, 2008 (Unaudited)**

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### 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) ("the Company") as of September 30, 2008 and the related consolidated statements of income for the three-months and nine-month periods ended September 30, 2008 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.

We conducted our limited review in accordance with the standard for 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 consolidated 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 interim consolidated financial statements as required by generally accepted accounting standards in the Kingdom of Saudi Arabia.

Based on our limited 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.

PricewaterhouseCoopers Al Juraid



Rashid S. Al Rashoud  
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October 25, 2008  
25 Shawwal, 1429H

Dr. Mohamed Al Amri & Co.  
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**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Interim Consolidated Balance Sheet as of September 30, 2008 (Unaudited)**  
**(Saudi Riyals in thousands)**

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents		7,631,580	5,057,992
Short-term investments		331	-
Accounts receivable, net		8,560,534	4,700,691
Inventories, net		696,007	369,885
Prepayments and other current assets		<u>2,257,416</u>	<u>1,002,012</u>
<b>Total current assets</b>		<b><u>19,145,868</u></b>	<b><u>11,130,580</u></b>
<b>Non-current assets:</b>			
Property, plant and equipment, net		45,274,113	33,023,262
Intangible assets, net	3	30,476,111	13,601,185
Equity method and other investments		2,458,041	1,253,571
Other non-current assets		<u>5,699,087</u>	<u>754,964</u>
<b>Total non-current assets</b>		<b><u>83,907,352</u></b>	<b><u>48,632,982</u></b>
<b>Total assets</b>		<b><u>103,053,220</u></b>	<b><u>59,763,562</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		5,948,014	3,334,020
Dividends payable		47,037	56,339
Other payables		4,242,899	2,779,699
Accrued expenses		6,349,825	3,795,944
Deferred revenues – current portion		1,737,375	1,461,834
Borrowings – current portion	4	<u>4,736,681</u>	<u>5,453,640</u>
<b>Total current liabilities</b>		<b><u>23,061,831</u></b>	<b><u>16,881,476</u></b>
<b>Non-current liabilities:</b>			
Deferred revenues		324,440	479,981
Borrowings	4	28,191,874	5,104,371
Employees' end of service benefits		2,993,694	1,869,538
Other payables		<u>4,000,586</u>	<u>308,557</u>
<b>Total non-current liabilities</b>		<b><u>35,510,594</u></b>	<b><u>7,762,447</u></b>
<b>Total liabilities</b>		<b><u>58,572,425</u></b>	<b><u>24,643,923</u></b>
<b>Equity:</b>			
<b>Shareholders' equity</b>			
Authorized, issued and outstanding shares:			
2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		7,962,883	6,718,828
Retained earnings		11,109,350	8,400,811
Financial statements' translation differences		<u>(180,417)</u>	<u>-</u>
<b>Total Shareholders' equity</b>		<b><u>38,891,816</u></b>	<b><u>35,119,639</u></b>
Minority interest		<u>5,588,979</u>	<u>-</u>
<b>Total equity</b>		<b><u>44,480,795</u></b>	<b><u>35,119,639</u></b>
<b>Total liabilities and equity</b>		<b><u>103,053,220</u></b>	<b><u>59,763,562</u></b>

The accompanying notes from 1 to 10 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, 2008 (Unaudited)**  
**(Saudi Riyals in thousands)**

	<u>Notes</u>	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>					
Wireless		8,615,706	6,326,813	23,614,891	18,018,574
Wireline		<u>4,922,050</u>	<u>2,257,314</u>	<u>11,528,034</u>	<u>6,804,063</u>
<b>Total operating revenues</b>		<u>13,537,756</u>	<u>8,584,127</u>	<u>35,142,925</u>	<u>24,822,637</u>
<b>Operating Expenses</b>					
Government charges	5	(1,501,345)	(1,077,910)	(4,152,074)	(3,498,565)
Access charges		(1,643,704)	(1,152,071)	(4,290,563)	(3,040,542)
Employee costs		(1,585,201)	(884,835)	(4,321,558)	(3,082,623)
Depreciation and amortization		(1,877,222)	(970,230)	(4,659,157)	(2,853,356)
Administrative and marketing expenses		(2,210,615)	(677,004)	(4,717,429)	(1,538,461)
Repairs and maintenance		<u>(523,202)</u>	<u>(340,045)</u>	<u>(1,499,377)</u>	<u>(1,180,021)</u>
<b>Total operating expenses</b>		<u>(9,341,289)</u>	<u>(5,102,095)</u>	<u>(23,640,158)</u>	<u>(15,193,568)</u>
<b>Operating Income</b>		<u>4,196,467</u>	<u>3,482,032</u>	<u>11,502,767</u>	<u>9,629,069</u>
<b>Other Income and Expenses</b>					
Cost of early retirement program		(240,625)	(295,648)	(615,737)	(545,648)
Commissions and interest		87,584	76,898	896,722	275,140
Earnings from investments accounted for under the equity method		14,909	10,897	41,700	28,559
Others, net	6	<u>(386,212)</u>	<u>(50,631)</u>	<u>(742,292)</u>	<u>(69,124)</u>
<b>Other income and expenses, net</b>		<u>(524,344)</u>	<u>(258,484)</u>	<u>(419,607)</u>	<u>(311,073)</u>
<b>Net Income before Zakat, Tax and Minority interest</b>		3,672,123	3,223,548	11,083,160	9,317,996
Provision for Zakat		(98,736)	(83,517)	(288,801)	(356,038)
Provision for Tax		<u>(232,836)</u>	<u>-</u>	<u>(427,072)</u>	<u>-</u>
<b>Net Income before Minority interest</b>		3,340,551	3,140,031	10,367,287	8,961,958
Minority interest		<u>(328,222)</u>	<u>-</u>	<u>(485,807)</u>	<u>-</u>
<b>Net Income</b>		<u><b>3,012,329</b></u>	<u><b>3,140,031</b></u>	<u><b>9,881,480</b></u>	<u><b>8,961,958</b></u>
<b>Basic earnings per share on Operating Income (in Saudi Riyals)</b>		<u><b>2.10</b></u>	<u><b>1.74</b></u>	<u><b>5.75</b></u>	<u><b>4.81</b></u>
<b>Basic earnings per share on Other Operations (in Saudi Riyals)</b>		<u><b>(0.26)</b></u>	<u><b>(0.13)</b></u>	<u><b>(0.21)</b></u>	<u><b>(0.16)</b></u>
<b>Basic earnings per share on Net Income (in Saudi Riyals)</b>		<u><b>1.51</b></u>	<u><b>1.57</b></u>	<u><b>4.94</b></u>	<u><b>4.48</b></u>

The accompanying notes from 1 to 10 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, 2008 (Unaudited)**  
**(Saudi Riyals in thousands)**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	9,881,480	8,961,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,659,157	2,853,356
Doubtful debts expense	550,341	322,245
Provision for disposal of fixed assets	368,485	-
Earnings from investments accounted for under the equity method	(41,700)	(28,559)
Losses on sale/disposal of property, plant and equipment	40,516	33,228
Losses on disposal /sale of other investments	-	3,375
Changes in:		
Accounts receivable	(4,137,887)	(1,084,297)
Inventories	(328,332)	(220,185)
Prepayments and other current assets	(1,238,772)	(236,390)
Other non-current assets	(1,496,772)	4,219
Accounts payable	2,865,934	1,374,083
Other payables	1,772,178	733,041
Accrued expenses	763,103	46,667
Deferred revenues	(148,532)	(75,782)
Employees' end of service benefits	<u>1,061,397</u>	<u>49,136</u>
<b>Net cash provided by operating activities</b>	<u>14,570,596</u>	<u>12,736,095</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(15,605,093)	(5,753,197)
Short-term investments	(331)	5,599,000
Intangible assets, net	(17,397,503)	(12,897,686)
Equity method and other investments	(25,180)	(100,482)
Dividends received from investments accounted for under the equity method	15,464	15,597
Proceeds from sale of property, plant and equipment	<u>43,168</u>	<u>-</u>
<b>Net cash used in investing activities</b>	<u>(32,969,475)</u>	<u>(13,136,768)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(6,509,823)	(8,008,667)
Borrowings, net	19,348,804	10,558,011
Minority interest	<u>5,573,350</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>18,412,331</u>	<u>2,549,344</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	13,452	2,148,671
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>7,618,128</u>	<u>2,909,321</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><b>7,631,580</b></u>	<u><b>5,057,992</b></u>
<b>Non cash item:</b> Financial statements' translation differences	<u>(377,256)</u>	<u>-</u>

The accompanying notes from 1 to 10 form an integral part of these interim consolidated financial statements.

# **Saudi Telecom Company**

## **(a Saudi Joint Stock Company)**

### **Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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#### **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 for the financial statements purposes as (the "Group"). The details of these investments are as follows:

<u>Company Name</u>	<u>Ownership</u>	<u>Accounting Treatment</u>
Arabian Internet and Communications Services Co. - The Kingdom	100%	Full Consolidation
Tejari Saudi Arabia - The Kingdom	50%	Full Consolidation
Kuwaiti Telecom Company Ltd. - Kuwait	26%	to be determined later
Binariang GSM SDN BHD ("Binariang") - Malaysia	25%	Proportionate Consolidation
PT Natrindo Telepon Seluler ("NTS") - Indonesia	51%	Proportionate Consolidation
Oger Telecom Ltd. - U.A.E.	35%	Proportionate Consolidation
Arab Satellite Communications Organization ("Arabsat") - The Kingdom	36.66%	Equity Method
Arab Submarine Cables Company Ltd. - The Kingdom	45.72%	Equity Method

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

In December 2007, the Company acquired 26% of the KD 50 million share capital of the Kuwaiti Telecom Company Ltd, at a consideration of SR 3,422 million which was paid in January 2008. The treatment of the investment amount will be effected after the finalization of legal formalities. The company is still under establishment, and commercial operations are expected to commence during the fourth quarter 2008.

#### **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, 2008.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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The significant accounting policies used for the preparation of the interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year 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.

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.

**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.



**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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**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:

	<u>Years</u>
Buildings	20 – 50
Telecommunications plant and equipment	3 – 25
Other assets	2 – 8

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 consolidated statement of income.
7. Leases of property, plant and equipment where the Group assumes substantially all benefits and risks of ownership are classified as capital leases. Capital leases are recorded 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 capital lease.

Assets leased under capital leases are depreciated over their estimated useful lives.

**g) Intangible assets**

**Goodwill**

- Goodwill arises on the acquisition of stakes in subsidiaries and 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 subsidiary or 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.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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**h) Impairment of non-current assets**

The Group reviews periodically non-current assets to determine whether there are indications that they may be impaired. 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 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. Reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

**i) 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's assets in order to gain 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 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)**

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 policies.

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 consolidated balance sheet as non-current assets, and the Company's share in the net income (loss) of the investee is presented in the interim consolidated statement of income.

**Saudi Telecom Company**  
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**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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**j) 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.

**k) 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 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.

**l) 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.

**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 interim consolidated 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.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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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) 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. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the interim consolidated financial statements.

**o) 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.

**p) 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.

**q) Administrative and marketing expenses**

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

**r) Earnings per share**

Earnings per share are calculated by dividing operating income and other operations before eliminating minority interest, and 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, NTS and Oger Telecom Ltd, in addition to the Company's share in the goodwill recorded in the financial statements of Binariang and Oger Telecom Ltd.

During the second quarter 2008, Binariang used the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of Maxis Group. The Company used the fair values for recalculating goodwill arising on the acquisition of 25% of Binariang, and no material differences resulted in relation to the amount of goodwill recorded earlier.

The Company did not use the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 35% of Oger Telecom Ltd. Fair values of net assets will be used to determine the goodwill pending relevant valuation reports expected to be finished during 2008. The amounts recorded as goodwill might accordingly be reallocated.

## **Saudi Telecom Company** (a Saudi Joint Stock Company)

### **Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

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The companies invested in, which resulted in intangible assets, 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 it started the commercial provisioning of this service in the first quarter 2008. The Company acquired 51% of NTS in September 2007.

#### **Oger Telecom Ltd. - U.A.E.**

Oger Telecom Ltd. is a company registered in Dubai, the United Arab Emirates, having investments in companies operating in the telecommunications sector in Turkey and South Africa. The Company acquired 35% of Oger Telecom Ltd in April 2008.

Intangible assets consist of the following:

(Thousands of Saudi Riyals)	<b><u>2008</u></b>	<b><u>2007</u></b>
Licenses	12,358,436	7,274,015
Goodwill arising on the consolidation of financial statements	6,590,716	2,556,201
Trade marks and customer relations	4,932,470	722,243
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	3,205,699	-
Goodwill arising on the acquisition of 25% in Binariang	1,753,114	1,753,114
Goodwill arising on the acquisition of 51% in NTS	856,726	856,726
Others	<u>778,950</u>	<u>438,886</u>
	<b><u>30,476,111</u></b>	<b><u>13,601,185</u></b>

## **4 BORROWINGS**

They are composed of:

(Thousands of Saudi Riyals)	<b><u>2008</u></b>	<b><u>2007</u></b>
Short-term	4,736,681	5,453,640
Long-term	<u>28,191,874</u>	<u>5,104,371</u>
	<b><u>32,928,555</u></b>	<b><u>10,558,011</u></b>

As of September 30, 2008, the Group's share in the investees' borrowings amounted to SR 17,429 million.

#### **The Company**

During the third quarter 2007, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 60 months, the amounts utilized of the facilities as of September 30, 2008 amounted to SR 6,000 million.

During April 2008, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 120 months, the amounts utilized of the facilities as of September 30, 2008 amounted to SR 9,500 million.

**Saudi Telecom Company**  
(a Saudi Joint Stock Company)

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2008 (Unaudited)**

**5 GOVERNMENT CHARGES**

Government charges for the period consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
The Company	1,324,837	1,077,910	3,716,168	3,498,565
Other Group's companies	<u>176,508</u>	<u>-</u>	<u>435,906</u>	<u>-</u>
	<u>1,501,345</u>	<u>1,077,910</u>	<u>4,152,074</u>	<u>3,498,565</u>

**6 OTHER INCOME AND EXPENSES, NET**

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Miscellaneous revenue	81,438	37,026	147,496	167,418
Losses on sale/ disposal of property, plant and equipment	(38,951)	(3,475)	(40,516)	(33,228)
Losses on foreign currency exchange fluctuations	(242,932)	(5,420)	(257,807)	(4,660)
Miscellaneous expenses	<u>(185,767)</u>	<u>(78,762)</u>	<u>(591,465)</u>	<u>(198,654)</u>
	<u>(386,212)</u>	<u>(50,631)</u>	<u>(742,292)</u>	<u>(69,124)</u>

**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 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 COMMITMENTS AND CONTINGENCIES**

**Commitments**

- 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 2,349 million on September 30, 2008 (September 30, 2007: SR 1,607 million).
- Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the Third quarter 2008, total rent expense under operating leases amounted to SR 143 million (Third quarter 2007: SR 30 million).

**Saudi Telecom Company**  
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**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month  
Periods Ended September 30, 2008 (Unaudited)**

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**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 interim consolidated financial statements.

**9 SUBSEQUENT EVENTS**

The Board of Directors, in its meeting of 25 Shawal 1429 H (October 25, 2008), approved interim dividends for the third quarter 2008 amounting to SR 2,000 million, at the rate of SR 1.00 per share.

**10 RECLASSIFICATION**

Certain comparatives of the period ended September 30, 2007 have been reclassified to conform to the classifications used for the period ended September 30, 2008.