a Saudi Joint Stock Company

Consolidated Financial Statements for the Year Ended December 31, 2011

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Consolidated Financial Statements for the Year Ended December 31, 2011

Deloitte & Touche
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Accountants & Consultants

AUDITORS' REPORT

To the shareholders
Saudi Telecom Company
(a Saudi joint stock company)
Riyadh, Kingdom of Saudi Arabia

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi joint stock company) (the "Company") as of December 31, 2011, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 37 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
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Rabi Al Awal 28, 1433H
February 20, 2012

Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Balance Sheet as of December 31, 2011
(Saudi Riyals in thousands)

	Notes	2011	2010
ASSETS			
Current assets:			
Cash and cash equivalents	3	**6,588,554**	6,050,677
Short-term investments	4	**2,445,762**	385,142
Accounts receivable, net	5	**8,755,480**	8,707,358
Prepayments and other current assets	6	**4,177,239**	3,561,035
Total current assets		**21,967,035**	18,704,212
Non-current assets:			
Investments in equity and other	7	**2,682,441**	2,540,494
Property, plant and equipment, net	8	**55,085,184**	55,127,443
Intangible assets, net	9	**29,317,791**	31,837,104
Other non-current assets	10	**2,349,329**	2,571,666
Total non-current assets		**89,434,745**	92,076,707
Total assets		**111,401,780**	110,780,919
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	11	**5,190,003**	7,036,414
Other credit balances - current	12	**3,666,828**	3,508,500
Accrued expenses	13	**8,576,456**	6,058,002
Deferred revenues – current portion		**1,857,994**	1,568,491
Murabahas and loans – current portion	14	**5,971,814**	8,446,926
Total current liabilities		**25,263,095**	26,618,333
Non-current liabilities:			
Murabahas and loans – non-current portion	14	**23,959,617**	21,741,130
Provisions for end of service benefits	15	**3,062,097**	2,995,371
Other credit balances - non-current	12	**5,034,653**	5,961,740
Total non-current liabilities		**32,056,367**	30,698,241
Total liabilities		**57,319,462**	57,316,574
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share	16	**20,000,000**	20,000,000
Statutory reserve	17	**10,000,000**	10,000,000
Retained earnings		**19,516,064**	16,287,412
Other reserves	18	**(1,133,336)**	(1,269,415)
Financial statements' translation differences		**(1,474,423)**	(22,071)
Total shareholders' equity		**46,908,305**	44,995,926
Non-controlling interests		**7,174,013**	8,468,419
Total equity		**54,082,318**	53,464,345
Total liabilities and equity		**111,401,780**	110,780,919

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Statement of Income for the Year Ended December 31, 2011
(Saudi Riyals in thousands)

	Notes	2011	2010
Revenue from services	19	**55,662,079**	51,786,828
Cost of services	20	**(24,333,827)**	(21,464,230)
Gross Profit		**31,328,252**	30,322,598
Operating Expenses			
Selling and marketing expenses	21	**(7,424,448)**	(7,083,100)
General and administrative expenses	22	**(3,878,940)**	(3,618,983)
Depreciation and amortization	23	**(8,853,844)**	(8,642,204)
Total Operating Expenses		**(20,157,232)**	(19,344,287)
Operating Income		**11,171,020**	10,978,311
Other Income and Expenses			
Cost of early retirement program		**(413,529)**	(605,559)
Finance costs	24	**(2,237,858)**	(1,780,670)
Commissions and interest		**449,904**	308,727
Other, net	25	**(481,184)**	2,076,253
Other income and expenses, net		**(2,682,667)**	(1,249)
Net Income before Zakat, Tax and Non-controlling interests		**8,488,353**	10,977,062
Provision for Zakat	26	**(118,002)**	(118,208)
Provision for Tax	27	**(478,845)**	(820,171)
Net Income before Non-controlling interests		**7,891,506**	10,038,683
Non-controlling interests		**(162,854)**	(602,361)
Net Income		**7,728,652**	9,436,322
Basic earnings per share on Operating Income (in Saudi Riyals)		**5.59**	5.49
Losses per share on Other Operations (Other income and expenses) (in Saudi Riyals)		**(1.34)**	-
Basic earnings per share on Net Income (in Saudi Riyals)		**3.86**	4.72

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Statement of Cash Flows for the Year Ended December 31, 2011
(Saudi Riyals in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, tax and non-controlling interests	**8,488,353**	10,977,062
Adjustments to reconcile net income before zakat, tax and non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	**8,853,844**	8,642,204
Doubtful debts expense	**1,346,221**	1,586,519
Earnings from investments accounted for under the equity method	**(171,273)**	(82,538)
Commissions and interest	**(449,904)**	(308,727)
Finance costs	**2,237,858**	1,780,670
Losses / (Gains) on foreign currency exchange fluctuations	**1,105,323**	(359,318)
Provision for end of service benefits	**381,676**	401,147
(Gains) on sale/disposal of property, plant and equipment	**(97,968)**	(941,096)
Changes in:		
Accounts receivable	**(1,394,343)**	(1,596,159)
Short-term Investments	**(2,060,620)**	86,444
Prepayments and other current assets	**(623,945)**	(580,716)
Other non-current assets	**222,337**	(138,936)
Accounts payable	**(1,846,411)**	2,035,459
Other credit balances	**(1,096,097)**	(57,543)
Accrued expenses	**2,518,454**	(39,354)
Deferred revenues	**178,406**	237,888
Zakat paid	**(61,754)**	(110,433)
Taxes paid by subsidiaries	**(726,805)**	(97,980)
Provision for end of service benefits paid	**(314,950)**	(249,645)
Net cash provided by operating activities	**16,488,402**	21,184,948
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(7,837,438)**	(11,353,074)
Intangible assets, net	**(1,329,523)**	(3,836,016)
Investments in equity and other	**(29,326)**	(74,970)
Proceeds from commissions and interest	**457,645**	348,680
Proceeds from sale of property, plant and equipment	**474,239**	1,739,965
Net cash used in investing activities	**(8,264,403)**	(13,175,415)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(4,432,134)**	(6,108,787)
Murabahas and loans, net	**(256,625)**	(1,844,154)
Finance costs paid	**(1,702,957)**	(1,386,289)
Non-controlling interests	**(1,294,406)**	(329,704)
Net cash used in financing activities	**(7,686,122)**	(9,668,934)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**537,877**	(1,659,401)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**6,050,677**	7,710,078
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**6,588,554**	6,050,677
Non-cash items		
Financial statements' translation adjustments	**(1,452,352)**	794,194
Other reserves	**136,079**	(1,269,415)

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements

Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Statement of Changes in Equity for the Year Ended December 31, 2011
(Saudi Riyals in thousands)

	Share Capital	Statutory Reserve	Retained Earnings	Other Reserves	Financial Statements` Translation Differences	Non-Controlling Interests	Total Equity
Balance at December 31, 2009	**20,000,000**	**9,298,723**	**13,552,367**	**-**	**(816,265)**	**8,798,123**	**50,832,948**
Net income	-	-	9,436,322	-	-	-	9,436,322
Dividends	-	-	(6,000,000)	-	-	-	(6,000,000)
Transferred to statutory reserve (Refer to Note 17)	-	701,277	(701,277)	-	-	-	-
Other reserves (Refer to Note 18)	-	-	-	(1,269,415)	-		(1,269,415)
Financial statements` translation differences	-	-	-	-	794,194	-	794,194
Non-controlling interests	-	-	-	-	-	(329,704)	(329,704)
Balance at December 31, 2010	**20,000,000**	**10,000,000**	**16,287,412**	**(1,269,415)**	**(22,071)**	**8,468,419**	**53,464,345**
Net income	-	-	7,728,652	-	-	-	7,728,652
Dividends	-	-	(4,500,000)	-	-	-	(4,500,000)
Other reserves (Refer to Note 18)	-	-	-	136,079	-	-	136,079
Financial statements` translation differences	-	-	-	-	(1,452,352)	-	(1,452,352)
Non-controlling interests	-	-	-	-	-	(1,294,406)	(1,294,406)
Balance at December 31, 2011	**20,000,000**	**10,000,000**	**19,516,064**	**(1,133,336)**	**(1,474,423)**	**7,174,013**	**54,082,318**

The accompanying notes from 1 to 37 form an integral part of these 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 Dhul Hijja 24, 1418 H (Corresponding to 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 Dhul Hijja 23, 1418 H (Corresponding to 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 2,1423 H (Corresponding to 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 Muharram 6, 1419 H (Corresponding to May 2, 1998), and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on Rabi Awal 4, 1419 H (Corresponding to 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:

Company's Name	**Ownership**		**Accounting Treatment**
	2011	**2010**	
Arabian Internet and Communications Services Co.Ltd (Awal) - The Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Telecom Commercial Investment Company– The Kingdom of Saudi Arabia	100%	100%	Full Consolidation
STC Bahrain (VIVA) (BSCC) – Bahrain	100%	100%	Full Consolidation
Gulf Digital Media Holding (Intigral) (BSCC) – Bahrain (Refer to Note 34)	71%	51%	Full Consolidation
Sale for Distribution and Communication Co. Ltd (SaleCo.) -The Kingdom of Saudi Arabia (Refer to Note 35)	60%	-	Full Consolidation
Kuwait Telecom Company (VIVA) (KSCC) - Kuwait	26%	26%	Full Consolidation
PT Axis Telecom Indonesia – Indonesia (formerly known as NTS) (Refer to Note 33)	80.10%	51%	Full Consolidation
Oger Telecom Company Ltd. - U.A.E.	35%	35%	Proportionate Consolidation
Binariang GSM Holding - Malaysia	25%	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - The Kingdom of Saudi Arabia	50%	50%	Equity Method
Arab Satellite Communications Organization ("Arabsat") - The Kingdom of Saudi Arabia	36.66%	36.66%	Equity Method
Call Centers Company– The Kingdom of Saudi Arabia	50%	50%	Equity Method

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

Arabian Internet and Communications Services Co. (Awal) – The Kingdom of Saudi Arabia

The Arabian Internet and Communications Services Co. (a limited liability company) was established in April 2002. The company is engaged in providing internet services, operation of communications projects and transmission and processing of information in Saudi market, Saudi Telecom Company owns 100% of its SR 10 million share capital.

Telecom Commercial Investment Company– The Kingdom of Saudi Arabia

Telecom Commercial Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia in January 2004 for the purpose of operation and maintenance of telecommunication networks and business systems, computer networks and Internet networks, maintenance and operation and installation of systems and communications software and information technology which are working in the Saudi market. Saudi Telecom Company owns 100% of its SR 1 million share capital.

STC Bahrain (VIVA) (BSCC) – The Kingdom of Bahrain

STC Bahrain (VIVA) (BSC Closed) was established in the Kingdom of Bahrain in February 2009, and the Saudi Telecom Company owns 100% of its BHD 75 million share capital which is equivalent to SR 750 million at the exchange rate as of that date. This company operates in the field of mobile services, international telecommunications, broad band and other related services in the Bahraini market, and commenced its commercial operations in March 2010.

Gulf Digital Media Holding (Intigral) (BSCC) – The Kingdom of Bahrain

This company was formed in the Kingdom of Bahrain in June 2009. It is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. Saudi Telecom Company owned 51% of its BHD 28 million share capital which is equivalent to approximately SR 280 million. On December 13, 2011,the ownership percentage was increased to 71%.

Sale for Distiribution and Communication Co. Ltd (SaleCo.) – The Kingdom of Saudi Arabia

Sale for Distribution and Communication Company Limited was established in the Kingdom of Saudi Arabia in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all landlines and mobiles telecommunication services and commercial centers' maintenance and operation, which operates in the Saudi market, Saudi Telecom Company owns 60% of its 10 million share capital.

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

In December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 650 million at the exchange rate as of that date.

Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies -Group representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

This company operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operations in December 4, 2008.

PT Axis Telekom Indonesia Company – Indonesia – (formerly known as NTS)

PT Axis Telekom 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 of 2008 in Indonesia market. Saudi Telecom Company acquired 51% of its IDR 3.2 trillion share capital of PT Axis, equivalent to approximately SR 1.3 billion in September 2007. On April 6, 2011, the Company increased its share to 80.10%, and the investment in PT Axis Telekom was re-classed from a joint venture investment to investment in subsidiaries.

Oger Telecom Company Ltd. - U.A.E.

Oger Telecom Ltd. is a Holding company registered in Dubai, the United Arab Emirates, having investments in companies operating primarily in the telecommunications sector in Turkey and South

Africa. The Company acquired 35% of its USD 3.5 billion share capital of Oger Telecom Company, equivalent to approximately SR 13.2 billion in April 2008.

Binariang GSM Holding Group – Malaysia

Binariang is a Malaysian investment holding company registered in Malaysia, and which 100% of Maxis (Malaysia Holding Group), an un-listed group operating in the telecommunications sector in Malaysia. In November 2009, 30% of Maxis' shares were offered for public subscription and the company was subsequently listed on the Malaysian stock market. The percentage ownership of Binariang Holding in Maxis accordingly reduced to 70%.

Binariang Holding has other investments in telecommunications companies which operates in India (Aircel company) and Indonesia (PT Axis Telekom).

In September 2007, Saudi Telecom Company acquired 25% of its MYR 20 billion share capital of Binariang Group, equivalent to approximately SR 22 billion.

The official authorities in India are currently collecting and studying the information raised in the media on Aircel company, one of the Binaring Holding Group's subsidiary, in view of the current facts and available information, management does not expect an impact on the Group's results as of December 31, 2011.

Arab Submarine Cables Company Ltd. – The Kingdom of Saudi Arabia

Arab Submarine Cables Company (a mixed limited liability company) was established in September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom of Saudi Arabia and the Republic of Sudan for the telecommunications between them and any other country. The operations of Arab Submarine Cables Company Ltd. started on June 2003; Saudi Telecom Company owns 50% of its approximate SR 75 million share capital.

Arab Satellite Communications Organization "Arabsat" – The Kingdom

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 in the Middle East.

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

Saudi Telecom Company owns 36.66% of its USD 500 million share capital, equivalent to approximately SR 1,875 million.

Call Centers Company– The Kingdom of Saudi Arabia

Call Centers Company (a mixed limited liability company) was established to provide call centers services and answer directory queries with Aegis Company at the end of December 2010 in the Kingdom of Saudi Arabia, with a capital of SR 4.5 million. Saudi Telecom Company owns approximately 50% of its share capital (225,001 out of 450,000 shares).

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the year ended December 31, 2011.

The significant accounting policies used for the preparation of the 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, 2010.

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

The preparation of the financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia 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 consolidated financial statements and the amounts of revenue and expenses during the reporting period of the consolidated financial statements.

The significant accounting policies are summarized below:

2-1 Period of the consolidated financial statements

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

2-2 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 approved rates.

- 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.

2-3 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and all highly liquid investments with maturity of 90 days or less from the acquisition date (otherwise classified as short term investments).

2-4 Accounts receivable

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

2-5 Offsetting of accounts

The Group has agreements with outside network operators and other parties which include periodical offsetting with those parties whereby receivables from, and payables to, the same outside operator or other parties are subject to offsetting.

2-6 Allowance for doubtful debts

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

2-7 Inventories

Inventories, which principally comprise cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares which cannot be removed from the exchange, are recorded within property, plant and equipment. Inventory items held by contractors responsible for upgrading and expanding the network are recorded within 'capital work-in- progress'.

The Group creates an allowance for obsolete and slow-moving inventories, based on a study of the usage of the major inventory categories. When such an exercise is impractical, the allowance is based on groups or categories of inventory items, taking into consideration the items which may require significant reductions in their value.

2-8 <u>Property, plant and equipment and depreciation</u>

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 was 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 estimated operating useful lives of assets which are as follows:

	Years
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-of / sold assets, and the gains or losses are included in the consolidated statement of income.
7. Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is allocated between the finance charge which is expensed in the current period and the reduction in the liability under the capital lease.
8. Assets leased under capital leases are depreciated over their estimated useful lives.
9. Assets under concession agreements are depreciated over their estimated useful lives or the contract duration whichever is the shorter.

2-9 <u>Software costs</u>

1) Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criteria, which includes productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.
2) Internally developed operating systems software costs are capitalized if they meet the capitalization criteria, which includes the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized

over the estimated period for which the benefits will be received.

3) Internally developed application software costs are recognized as an expense when incurred. Where the costs of operating systems software cannot be identified separately from the associated hardware costs, the operating systems software costs are recorded as part of the hardware.

4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.

5) Software training which is related to computer software and data-conversion costs are expensed as incurred.

2-10 Intangible assets

Goodwill

- Goodwill arises upon the acquisition of stakes in subsidiaries and joint ventures. It represents the excess of the cost of the acquisition over the Group's share in the fair value of the net assets of the subsidiary or the joint venture at the date of purchase. When this difference is negative, again is immediately recognized in the consolidated statement of income in the period in which the acquisition occurred.
- Goodwill is recorded at cost and is 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 on a straight line basis over their useful lives or statutory durations, whichever is shorter.

2-11 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 is estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit to which the asset relates is 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 as a loss in the consolidated 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) is reversed and recorded as income in the consolidated statement of income of the period in which such reversal is determined. Reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

2-12 Consolidation Basis

Subsidiaries

Entities controlled by the Group 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 venturer 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 Group'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.

2-13 <u>Investments</u>

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

Other investments

Available for sale marketable securities that do not lead to control or significant influence are carried at fair value, the fair value of available for sale securities being based on market value when available. However, if fair value of available for sale securities cannot be determined, due to non-availability of an active exchange market or other indexes through which market value can reasonably be determined, cost will be considered as the alternative fair value. Unrealized gains and losses are shown as a separate component within equity in the consolidated balance sheet. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the declines occur.

Gains and losses resulting from sales of available for sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed in the consolidated statement of income.

Investments held to maturity are recorded in adjusted cost for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the decline occurs.

2-14 <u>Zakat</u>

The Group calculates and reports the zakat provision based on the zakat base in its consolidated financial statements in accordance with Zakat rules and principles in the Kingdom of Saudi Arabia. Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved by the Department of Zakat and Income Tax.

2-15 <u>Taxes</u>

Taxes relating to entities invested in outside the Kingdom of Saudi Arabia are calculated in accordance with tax laws applicable in those countries.

Deferred taxes

Deferred tax for 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 have been recognised.

2-16 Provision for 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 of Saudi Arabia and the countries invested in.

2-17 Foreign currency transactions

Functional and presentation currency

Items included in the consolidated 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 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 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.

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 period as per the translated income statement less declared dividends within the period 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 or disposed of, exchange differences that were recorded in shareholders' equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

2-18 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 consolidated financial statements.

2-19 Cost of services

Cost of services represents all costs incurred by the Group on rendering of services which are directly related to revenues generated from the use of the network, and are recognized in the periods of relevant calls, including:-

- Government charges are the costs incurred by the Group for the right to provide the telecommunications services in the Kingdom and the investees countries, including the use of the frequency spectrum.
- Access charges represent the costs to connect to foreign and domestic carriers' networks related to telecommunications services for the Group's clients.

2-20 Selling and marketing expenses

Selling and marketing expenses represent all costs incurred by the Group, which are directly related to the marketing, distribution and sale of services. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-21 General and administrative expenses

General and administrative expenses represent all the operating expenses incurred by the Group that cannot be directly linked to the costs of services or selling and marketing expenses. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-22 Earnings per share

Earnings per share are calculated by dividing operating income and other operations (other income and expenses) before eliminating non-controlling interests, and net income for the financial period, by the weighted average number of shares outstanding during the period.

2-23 Financial derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward contracts and interest rate for currency swaps. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship.

The Group designates certain derivatives as either hedges of the fair value of recognized assets and liabilities or an unrecognized commitment except for foreign currency risk (fair value of the hedge), hedges of variability in cash flows that are either attributable to a particular risk associated with a designated asset or liability or the foreign currency risk in an unrecognized firm commitment (cash flow hedge).

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated statement of income, together with any changes in the fair value of the hedged assets or liabilities. In the case of cash flow hedges, the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income.

Hedge accounting is discontinued when the Group either revokes the hedge relationship, the hedging instrument is sold, terminated, or exercised, or it no longer meets the requirements of hedge accounting, any gain/loss accumulated at the time remains in shareholders` equity and is recognized in the consolidated statement of income when the forecast transaction is no longer expected to occur.

2-24 Related parties

During the ordinary course of business, the Group deals with related parties, all transactions of relative importance with related parties are disclosed regardless of the presence or absence of balances for these transactions by the end of the financial period. Transactions of the same nature are grouped into a single disclosure, with the exception of separate disclosures for transactions, which are necessary to understand the impact of the related party transactions on the financial data of the Group.

3 CASH AND CASH EQUIVALENTS

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on them during the year 2011 was 0.63% (2010: 0.53%). Total commission earned on them during the year 2011 was SR 18 million (2010: SR 7.3 million).

The Group's share in commissions earned by subsidiaries and joint ventures on deposits was SR 19 million (2010: SR 242 million).

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

(Thousands of Saudi Riyals)	**2011**	**2010**
Collection accounts	**568,081**	230,137
Short-term Murabaha	**2,235,109**	990,040
Short-term deposits	**2,919,212**	4,064,358
Disbursement accounts	**866,152**	766,142
	6,588,554	6,050,677

4 SHORT-TERM INVESTMENTS

The Company invests a part of surplus cash in Murabaha accounts with maturity periods of 91 days or more with several local banks. The average rate of commission on them during the year 2011 was 1.21% (2010: 0.93%). Total commission earned on them during the year 2011 was SR 3 million (2010: SR 2 million).

The Group's share in commissions earned by subsidiaries and joint ventures on deposits amounted to SR 137 million (2010: SR 67 million).

5 ACCOUNTS RECEIVABLE, NET

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

(Thousands of Saudi Riyals)	**2011**	**2010**
Billed receivables	**9,150,985**	9,360,558
Unbilled receivables	**1,290,477**	1,291,600
	10,441,462	10,652,158
Allowance for doubtful debts	**(1,685,982)**	(1,944,800)
	8,755,480	8,707,358

Movement in the allowance for doubtful debts during the year was as follows:

(Thousands of Saudi Riyals)	**2011**	**2010**
Balance at January 1	**1,944,800**	2,189,747
Additions (Refer to note 21)	**1,346,221**	1,586,519
	3,291,021	3,776,266
Bad debts written-off	**(1,605,039)**	(1,831,466)
Balance at December 31	**1,685,982**	1,944,800

(b) Since inception, the Company recognizes revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected billed revenues from such customers for the year 2011 amounted to SR 89 million (2010: SR 111 million), with an annual average of SR 184 million for the twelve years preceding 2011.

(c) The Group has agreements with local and outside network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31, 2011 and 2010 the net amounts included in accounts receivable and accounts payable were as follows:

(Thousands of Saudi Riyals)	2011	2010
Accounts receivable, net	**2,250,659**	1,383,985
Accounts payable, net	**1,923,551**	1,473,240

(d) In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), the Company settles the amounts due to the Government of the Kingdom of Saudi Arabia as government charges against accumulated receivable balances due from various governmental parties for usage of the Company's telecom services by these parties.(Refer to Note 28).

6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	2011	2010
Inventories	**831,560**	759,573
Advances to suppliers	**342,062**	328,632
Prepaid rent	**412,110**	653,408
Prepaid tax	**418,408**	214,099
Accrued commissions and receivables	**337,662**	319,266
Deferred expenses	**457,901**	374,939
Non – trade receivables	**284,044**	13,928
Employees housing loans - current portion	**109,171**	37,944
Others	**984,321**	859,246
	4,177,239	3,561,035

"Others" comprises different items, the main ones being prepaid insurance and refundable deposits.

7 INVESTMENTS IN EQUITY AND OTHER

These investments consist of the following:

(Thousands of Saudi Riyals)	2011 Ownership		2010 Ownership	
Investments accounted for under the equity method:				
Arab Satellite Communications Organization ("Arabsat") – The Kingdom of Saudi Arabia	**36.66%**	**1,304,831**	36.66%	1,204,803
Arab Submarine Cables Company Ltd. – The Kingdom of Saudi Arabia	**50%**	**50,416**	50%	52,207
Call Centers Company– The Kingdom of Saudi Arabia	**50%**	**960**	50%	2,250
		1,356,207		1,259,260
Investment in Sukuk and other		**1,326,234**		1,281,234
Total investments in equity and other		**2,682,441**		2,540,494

Investments in Sukuk and other

Sukuk represents the Group's share in sukuk investments, which was undertaken by one of the Group's entities in December 2007. Maturing in 10 years and amounting to SR 1,266 million, the commission margin rate is equal to Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. This financing is a part of related party transactions within the Group. (Refer to Note 28).

Other investments include the Company`s investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets. The Company invested an initial amount of USD 50 million of which it only paid USD 12.5 million. The Group will be the only investor in this fund at the initial stage.

8 PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Land and Buildings	Telecommunications Network and Equipment	Other Assets	Capital Work In Progress	Total 2011	Total 2010
Gross book value						
Balance at January 1	**14,309,658**	**85,914,897**	**7,151,769**	**4,571,299**	**111,947,623**	101,763,891
Additions	**607**	**29,894**	**10,534**	**5,728,572**	**5,769,607**	5,375,520
Transfers	**405,675**	**3,955,389**	**244,391**	**(4,605,455)**	**-**	-
Group's share in total PPE costs of investees	**(113,841)**	**1,887,349**	**(895,450)**	**156,850**	**1,034,908**	5,690,092
Disposals	**(6,035)**	**(2,130,355)**	**(56,181)**	**-**	**(2,192,571)**	(881,880)
Balance at December 31	**14,596,064**	**89,657,174**	**6,455,063**	**5,851,266**	**116,559,567**	111,947,623
Accumulated depreciation						
Balance at January 1	**(6,305,147)**	**(46,280,740)**	**(4,234,293)**	**-**	**(56,820,180)**	(49,027,018)
Depreciation	**(505,665)**	**(6,549,347)**	**(502,336)**	**-**	**(7,557,348)**	(7,421,506)
Group's share in movement of accumulated depreciation of investees	**94,974**	**721,579**	**270,292**	**-**	**1,086,845**	(454,667)
Disposals	**2,692**	**1,766,428**	**47,180**	**-**	**1,816,300**	83,011
Balance at December 31	**(6,713,146)**	**(50,342,080)**	**(4,419,157)**	**-**	**(61,474,383)**	(56,820,180)
Net book value	**7,882,918**	**39,315,094**	**2,035,906**	**5,851,266**	**55,085,184**	55,127,443

(a) Land and buildings above include land of SR 2,288 million as of December 31, 2011 (December 31, 2010: SR 2,238 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,928 million as of December 31, 2011. The transfer of the ownership of the remaining land parcels with a value of SR 213 million is still in progress.

(c) Property, plant and equipment includes fixed assets subject to concession agreements belonging to one of the investees. The Group's share in concession agreements amounted to SR 2,206 million. The ownership of these assets will construe at the end of the agreements to the government.

(d) The Group's share in movement of PP E cost and the movement of accumulated depreciation of some investees appears in contrast to its nature as a result of changes in foreign exchange rates used to translate the financial statements of some investee companies.

9 INTANGIBLE ASSETS, NET

Intangible assets include the goodwill arising on the acquisition of the Company's shares in Binariang Holding Group, PT Axis Telecom and Oger Telecom Ltd, in addition to the company's share in the goodwill recorded in the financial statements of Binariang Holding and Oger Telecom Co. Ltd.

Intangible assets, net consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Licenses	**15,288,793**	15,641,615
Goodwill arising on the consolidation of financial statements	**4,892,743**	5,610,971
Trade marks and contractual relations	**2,946,114**	3,812,645
Spectrum usage rights	**2,260,264**	2,482,891
Goodwill arising on the acquisition of 25% in Binariang Holding Group	**1,753,114**	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Co. Ltd.	**826,396**	826,396
Goodwill arising on the acquisition of 80.10% in PT Axis Telecom	**405,208**	713,191
Others	**945,159**	996,281
	29,317,791	31,837,104

10 OTHER NON-CURRENT ASSETS

Other non-current assets consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Employee housing loans	**885,939**	849,344
Deferred taxes	**568,106**	584,746
Deferred costs	**224,163**	283,245
Investment properties	**277,882**	363,746
Others	**393,239**	490,585
	2,349,329	2,571,666

"Other" comprises different items, the main ones being advanced commissions and fees.

11 ACCOUNTS PAYABLE

Accounts payable consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Outside network settlements	**1,987,742**	1,584,991
Trade payables	**2,227,472**	3,600,925
Government charges	**340,243**	836,865
Capital expenditures	**634,546**	1,013,633
	5,190,003	7,036,414

12 OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Provision for Zakat and Tax (Refer to Notes 26 & 27)	**1,150,634**	1,164,976
Suppliers' retentions	**377,526**	393,274
Withholding tax provisions	**557,819**	548,201
Customers' refundable deposits	**144,373**	101,121
Settlement of seconded employees' entitlements	**134,748**	-
Contracts under construction payable	**181,060**	-
Sport clubs sponsoring	**172,500**	151,875
Others	**948,168**	1,149,053
	3,666,828	3,508,500

"Others" comprises different items, the main ones being social insurance and non-trade payables.

Other credit balances - non-current consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Deferred tax	**1,280,284**	1,655,625
Deferred revenues-non current portion	**832,233**	943,330
Financial derivative	**905,152**	645,509
Trade-non current	**773,149**	617,678
Obligations under finance leases	**236,459**	347,141
Commitments under put option	**387,900**	446,465
Others	**619,476**	1,305,992
	5,034,653	5,961,740

"Others" comprises different items, the main ones being long term payments, deposits and guarantees received in advance from customers.

13 ACCRUED EXPENSES

Accrued expenses consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Capital expenditures	**3,352,799**	2,292,853
Trade	**3,776,469**	2,342,431
Employee accruals	**704,079**	701,045
Others	**743,109**	721,673
	8,576,456	6,058,002

14 MURABAHAS AND LOANS

Murabahas and loans consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Current portion	**5,971,814**	8,446,926
Non-current portion	**23,959,617**	21,741,130
	29,931,431	30,188,056

Oger Telecom Co. Ltd. - U.A.E.

As of December 31, 2011, the Group's share in Oger Telecom Co. Ltd. loans and bank facilities amounted to SR 9,670 million.

Binariang GSM Holding Group – Malaysia

As of December 31, 2011, the Group's share was SR 2,910 million in the Sukuk, and SR 5,360 million in the bank facilities and finance lease contracts. The Sukuk was utilized in financing the acquisition of Maxis, the Malaysian holding group. Binariang subsequently sold 30% of these shares to the public and listed Maxis on the Malaysian stock market.

PT Axis Telekom Indonesia – Indonesia - formerly known as NTS

As of December 31, 2011, the Group's share in loans and bank facilities granted to PT Axis Telekom Indonesia amounted to SR 1,340 million.

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

As of December 31, 2011, the Group's share in the loans and bank facilities granted to Kuwait Telecom Company (VIVA) amounted to SR 337 million.

STC Bahrain (VIVA) (BSCC) – The Kingdom of Bahrain

As of December 31, 2011, the Group's share in the loans and bank facilities granted to STC Bahrain (VIVA) amounted to SR 555 million.

Saudi Telecom Company-The Kingdom of Saudi Arabia

During the third quarter of 2007, the Company obtained financing facilities in the form of Murabaha from several local banks. Maturity is 60 months and the amounts utilized of the facilities as of December 31, 2011 amounted to SR 6,000 million.

During the fourth quarter of 2007, financing facilities were obtained in the form of Murabaha deals from a branch of a local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. Maturity is 120 months, and the amounts utilized of the facilities as of December 31, 2011 amounted to SR 1,688 million.

In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks. Maturity is 120 months and the amounts utilized of the facilities as of December 31, 2011 amounted to SR 9,500 million.

During the third quarter of 2010, the Company obtained financing facilities in the form of Murabaha deals from several local banks. Maturity is 120 months and the amounts not utilized as of December 31, 2011. amounted to SR 1,000 million

During the third quarter of 2010, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 120 months and the amounts not utilized as of December 31, 2011 amounted to SR 2,250 million.

During the fourth quarter of 2008, the Company started repayment of the due installments of the loans . Amounts settled as of December 31, 2011 amounted to SR 7,429 million, of which SR 2,555 million were settled during the year ended December 31, 2011.

15 PROVISIONS FOR END OF SERVICE BENEFITS

The movements in the provisions for end of service benefits during the year were as follows:

(Thousands of Saudi Riyals)	2011	2010
Balance at January 1	**2,995,371**	2,843,869
Charges during the year	**381,676**	401,147
Settlements during the year	**(314,950)**	(249,645)
Balance at December 31	**3,062,097**	2,995,371

The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the balance sheet date, using the employees' latest salaries and allowances and years of service. The Group's companies use benefits programs which comply with the laws applicable in their countries.

16 SHARE CAPITAL

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As of December 31, 2011 and 2010, the Government owned 70% of the Company's shares.

17 STATUTORY RESERVE

As per the Company's Articles of Association, 10% of net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders . Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on Rabi II 23,1432 H corresponding to March 28, 2011 it was approved to stop the transfer when it reached the formal limit.

18 OTHER RESERVES

Other reserves consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Hedging reserves (Refer to Note 31)	**559,288**	760,803
Step acquisition reserve	**546,081**	461,079
Other reserves	**27,967**	47,533
	1,133,336	1,269,415

19 REVENUE FROM SERVICES

Revenue from services consists of the following:

(Thousands of Saudi Riyals)	2011	2010
Usage charges	**37,794,779**	34,773,232
Subscription fees	**15,070,526**	15,008,968
Activation fees	**469,320**	337,223
Others	**2,327,454**	1,667,405
	55,662,079	51,786,828

20 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)

	2011	2010
Access charges	**9,345,651**	8,059,503
Government charges (*)	**6,270,576**	5,723,173
Repairs and maintenance	**2,451,908**	2,350,700
Employee costs	**2,868,803**	2,922,611
Others	**3,396,889**	2,408,243
	24,333,827	21,464,230

"Others" comprises different items, the main ones being rent of equipment, property and vehicles, utility expenses, printing of telephone cards and stationery and consultancy fees.

(*)The details of government charges are as follows:

(Thousands of Saudi Riyals)

	2011	2010
Commercial service provisioning fees	**5,138,310**	4,734,944
License fees	**438,927**	383,092
Frequency spectrum usage fees	**693,339**	605,137
	6,270,576	5,723,173

(Thousands of Saudi Riyals)

	2011	2010
The Company	**4,507,566**	4,423,728
Other Group companies	**1,763,010**	1,299,445
	6,270,576	5,723,173

21 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consists of the following:

(Thousands of Saudi Riyals)

	2011	2010
Advertising and publicity	**2,704,920**	2,360,389
Employee costs	**1,984,966**	1,909,389
Doubtful debts expense	**1,346,221**	1,586,519
Printing of telephone cards and stationery	**227,856**	413,295
Repairs and maintenance	**186,613**	123,768
Others	**973,872**	689,740
	7,424,448	7,083,100

"Others" comprises different items, the main ones being rent of equipment, property and vehicles, telecom, postage, courier, security, safety expenses and consultancy fees.

22 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consists of the following:

(Thousands of Saudi Riyals)

	2011	**2010**
Employee costs	**1,829,526**	1,692,439
Repairs and maintenance	**365,747**	367,581
Rent of equipment, property and vehicles	**245,069**	264,003
Consultancy, legal and professional fees	**332,859**	361,300
Utilities expenses	**183,352**	167,683
Others	**922,387**	765,977
	3,878,940	3,618,983

"Others" comprises different items, the main ones being insurance premiums, stationery, freight, handling, postage and courier expenses.

23 DEPRECIATION AND AMORTIZATION

(Thousands of Saudi Riyals)

	2011	**2010**
Depreciation	**7,557,348**	7,421,506
Amortization	**1,296,496**	1,220,698
	8,853,844	8,642,204

24 FINANCE COSTS

Finance cost composed of:

(Thousands of Saudi Riyals)	**2011**	**2010**
The Company	**89,199**	118,719
Other Group companies	**2,148,659**	1,661,951
	2,237,858	1,780,670

25 OTHER INCOME AND EXPENSES , NET

Other income and expenses, net consist of the following:

(Thousands of Saudi Riyals)

	2011	**2010**
Miscellaneous revenue	**1,564,790**	1,398,666
(Losses) / Gains on foreign currency exchange fluctuations	**(1,105,323)**	359,318
Gains on sale/disposal of property, plant and equipment	**97,968**	941,096
Miscellaneous expenses	**(1,038,619)**	(622,827)
	(481,184)	2,076,253

The increase in losses from foreign currency exchange fluctuations during 2011 is attributed to the losses recorded by Oger Telecom Company Ltd as a result of Turkish Lira and South African Rand exchange rates fluctuations against the US Dollar. Miscellaneous revenue includes realized gains amounting to SR 554 million which includes SR 286 million resulting from the restructuring of PT Axis Telekom company (refer to Note 33) and SR 268 million resulting from acquiring a stake in Sale for Distribution and Communication Co. Ltd. (refer to Note 35).

Miscellaneous revenues for the year 2010 includes an amount of SR 728 million which represents a gain from the sale of fixed assets (towers) in one of Binariang`s subsidiaries.

Miscellaneous expenses included during 2011 an amount of SR 375 million as a reward for two-months' salaries to the Company`s employees and an amount of SR 135 million as a settlement of seconded employees' entitlements.

26 ZAKAT

(a) Zakat base for the Company

(Thousands of Saudi Riyals)	2011	2010
Share capital – beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings, Statutory reserve and Provisions – beginning of the year	28,445,347	25,617,777
Borrowings and payables	10,317,495	12,874,014
Adjusted net income	13,115,886	11,163,172
Deductions:		
Net property and investments	(62,772,412)	(59,067,022)
Dividends paid	(4,500,000)	(6,000,000)
Non-current deferred expenses	(149,355)	(284,566)

The Zakat provision is calculated as 2.5% of the Zakat base. The Company during the year amended its Zakat provision calculation on the basis of the Zakat base instead of Zakat base or adjusted net income for the purposes of Zakat, whichever is higher, and management believes that the Company would not entail any additional Zakat obligations that may arise as a result of the adoption of the policy set out above.

(b) Zakat provision

(Thousands of Saudi Riyals)	2011	2010
Balance at January 1	**793,115**	785,340
Charge for the year	**118,002**	118,208
Amounts paid during the year	**(61,754)**	(110,433)
Balance at December 31	**849,363**	793,115

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004 up to 2009 have not yet been finalized pending decisions on the Company's objections to certain items. The Zakat declaration for the year 2010 has been submitted, but the final zakat assessment on it has not been issued yet. The Company has received a zakat certificate with validity up to 9/6/1433H (30/4/2012).

(c) Subsidiaries

Effective from the year 2009, the application of Ministerial Decree No.1005 dated 28/4/1428 H mandating the submission of one zakat declaration for the Company and its directly or indirectly fully-owned subsidiaries, whether within or outside the Kingdom has been applied.

27 TAX PROVISION

The amount shown in the consolidated statement of income represents the Group's share of taxes chargeable on subsidiaries and joint ventures in accordance with tax laws applicable in their countries. The balance of the provision on December 31, 2011 amounted to SR 274 million (December 31, 2010: SR 372 million).

28 RELATED PARTY TRANSACTIONS

Government entities in the Kingdom of Saudi Arabia

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

Revenues and expenses related to Government entities in 2011 (including Government charges disclosed in Note 19 above) amounted to SR 2,011 million and SR 4,632 million, respectively (2010: SR 1,459 million and SR 5,009 million, respectively).

Amounts receivable from and payable to Government entities at December 31, 2011 totaled SR 200 million and SR 80 million, respectively (2010: SR 327 million and SR 332 million, respectively).

Investments accounted for under the equity method, in subsidiaries and joint ventures

Transactions with investments accounted for under the equity method, in subsidiaries and joint ventures during the year were not material, with the exception of the investment in Sukuk amounting to SR 1,266 million (Refer to Note 7).

29 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 3,723 million as of December 31, 2011 (December 31, 2010: SR 3,498 million).

(b) Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. For the year ended December 31, 2011, total rent expense under operating leases amounted to SR 1,055 million (year ended December 31,2010: SR 633 million).

Contingencies

The Group, in the normal course of its business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact either on the Company's financial position or on the results of its operations as reflected in these financial statements.

30 FINANCIAL INSTRUMENTS

Fair value

This is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31 December 2011 and 2010 and which are as follows:

- Cash & cash equivalents, accounts receivables, payables and other debit and credit balances fair values are considered approximate to their recorded amounts, due to their short term nature.
- Fair values of shares in active markets rely on fair market values.
- Fair value of government bonds and loans rely on discounted cash flows.

Management does not believe that the fair values of the Group`s financial assets and liabilities differ materially from their carrying values.

Commission rate risk

This comprises various risks related to the effect of changes in commission rates in the market on the Group's financial position and cash flows. The Group manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the Company's commission income through holding balances in Murabaha and short-term and long-term deposits, but the related commission rate risk is not considered to be significant.

Currency risk
This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and believes the Company is not significantly exposed to currency risk because the official currency of the Company is the Saudi Riyal, the base currency dealing by the Company and its price is currently fixed with a minor margin against the U.S. dollar

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

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

31 FINANCIAL DERIVATIVES

The Group entered into interest rate swap agreements to hedge its interest rate risk expected from future cash outflows in relation to the floating element of its debt. The principal amount and fair value of the effective impact of these hedges as of December 31, 2011 was SR 10,938 million and SR 559 million respectively (2010: The principal amount and fair value of the effective impact of these hedges as of December 31, 2010 was SR 7,387 million and SR 761 million respectively). The fair value of the effective impact of these hedges is included in other reserves in the consolidated balance sheet.

32 SEGMENT INFORMATION

According to the main activities of the Group
The Group has identified its main operating segments by the type of service provided by the Group. Transactions between operating segments occur in accordance with the normal trade provisions and terms. There are no other substantial revenues or expenses between segments.
The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, prepaid cards, international roaming and messages.
- Landline, for which the main services are: fixed line, card telephones, interconnect and international calls.
- DATA, for which the main services are: leased data transmission circuits, DSL and internet.
- Un-allocated, containing items which could not be linked with the main operating segments of the Group.

The following table shows the information according to the group's main activities for the year ended December 31, 2011:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated	TOTAL
Revenue from services	37,909,106	8,309,321	9,387,522	56,130	55,662,079
Interconnect revenues	3,075,765	8,143,313	1,283,803	(64,620)	12,438,261
Interconnect expenses	(6,100,587)	(2,654,089)	(3,617,913)	(65,672)	(12,438,261)
Net revenue from services	34,884,284	13,798,545	7,053,412	(74,162)	55,662,079
Depreciation and amortization	4,361,547	3,650,397	643,936	197,964	8,853,844
Net income	7,619,985	(1,006,339)	1,428,666	(313,660)	7,728,652
Total assets	41,476,734	35,537,866	8,180,993	26,206,187	111,401,780
Total liabilities	20,673,847	12,717,194	2,083,268	21,845,153	57,319,462

The information according to the Group`s activities for the year ended December 31, 2010 was as follows:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated	TOTAL
Revenue from services	34,159,740	10,156,021	7,140,899	330,168	51,786,828
Interconnect revenues	2,351,035	6,739,956	872,454	-	9,963,445
Interconnect expenses	(4,966,449)	(2,838,177)	(2,158,819)	-	(9,963,445)
Net revenue from services	31,544,326	14,057,800	5,854,534	330,168	51,786,828
Depreciation and amortization	4,069,819	3,788,973	578,099	205,313	8,642,204
Net income	8,018,217	665,967	807,923	(55,785)	9,436,322
Total assets	39,252,639	37,845,999	6,796,644	26,885,637	110,780,919
Total liabilities	17,069,967	12,779,192	2,205,760	25,261,655	57,316,574

- According to Group operations

The Group has divided its main operations into domestic and international operations

The following table shows the information according to Group operations for the year ended December 31:

2011

	Domestic Operations	International Operations					
	KSA	**STC-Bahrain**	**GDMH**	**VIVA-Kuwait**	**PT Axis**	**OTL**	**Binariang**
Operating revenues	**37,479,106**	**782,941**	**476,296**	**1,267,245**	**567,241**	**11,152,699**	**3,936,551**
Total assets (*)	**78,668,577**	**1,938,990**	**504,195**	**1,698,915**	**3,636,811**	**21,351,945**	**19,957,631**

(*)The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (16,355,284) thousand.

2010

	Domestic Operations	International Operations					
	KSA	**STC-Bahrain**	**GDMH**	**VIVA-Kuwait**	**PT Axis**	**OTL**	**Binariang**
Operating revenues	35,251,854	372,111	220,180	805,791	172,432	11,137,790	3,826,670
Total assets (*)	72,356,210	1,541,447	366,698	1,339,026	2,224,925	24,949,134	22,310,152

(*) The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (14,306,673) thousand.

33 INCREASE OF THE GROUP`S SHARE IN PT AXIS TELEKOM INDONESIA - (formerly known as NTS

On April 6, 2011, the Group acquired an additional 29.10% in PT Axis Telekom Indonesia, known by the Axis brand name, that was based on the restructuring agreement of PT Axis Telekom Indonesia signed on March 9, 2011 between the Company and Maxis Communications Berhad (MCB), one of the wholly owned subsidiaries of Binariang Group. The agreement was approved by the appropriate regulatory authorities in Indonesia and the conditions necessary for the completion of the agreement were fulfilled on April 6, 2011. This resulted in the following:

- MCB provided a loan amounting to USD 69 million, equivalent to approximately SR 259 million to PT Axis.
- MCB waivered its rights to receive loans due from PT Axis amounting to USD 412 million, equivalent to approximately SR 1,545 million.
- MCB sold 1,864,489,495 shares in PT Axis to the Saudi Telecom Company, thus increasing the Saudi Telecom Company’s direct stake in PT Axis from 51% to 80.1% and reducing MCB`s stake in PT Axis from 44% to 14.9%, with the survival of the local partner’s share of 5%.
- Saudi Telecom Company is committed to provide another loan amounting to USD 371 million, equivalent to SR 1,391 million to be paid according to PT Axis operational needs and without finance cost. Saudi Telecom Group paid USD 241 million, equivalent to SR 904 million of this loan to PT Axis during the year ended December 31, 2011.
- Saudi Telecom Company is committed to provide a letter of support in order to obtain the necessary bank financing for PT Axis according to the approved finance plan for the next five years.

The net realized gains at Group level as a result of the restructuring of PT Axis amounted to SR 286 million at the rate prevailing on that date. The fair values of net assets on April 6, 2011 were used for the calculation of goodwill arising on the Company's acquisition of an additional 29.10% of PT Axis Telekom Indonesia. Subsequently, fair values of net assets used to determine the goodwill were revised based on the purchase price allocation exercise and completed in the fourth quarter of 2011. As a result, the amounts recorded as goodwill were accordingly reallocated as follows (goodwill SR 405 million, licenses SR 229 million and trademarks and contractual relations SR 27 million).

The Group was treating its investment in PT Axis (the joint venture) according to the proportionate consolidation method. As a result of the restructuring of PT Axis which resulted in an increase in the ownership share of Saudi Telecom Company to 80.10% instead of 51%, starting from the second quarter, 2011, the Group started treating its investment in PT Axis (a subsidiary) according to the full consolidation method.

34 INCREASE IN THE GROUP`S SHARE IN GULF DIGITAL MEDIA HOLDING COMPANY

On Muharram 18, 1433 (corresponding to December 13, 2011),the Group acquired an additional 20% in Gulf Digital Media Holding, a Bahraini Holding company, also known by (Intigral) brand name, for SR 90 million, increasing the Group`s controlling share to 71%.

35 PURCHASE OF STAKE IN SALE FOR DISTRIBUTION AND COMMUNICATION CO. LTD.

On Safar 2, 1433 (corresponding to December 26, 2011), the Group acquired a controlling interest of 60% in Sale for Distribution and Communication Co. Ltd. for SR 208 million. As a result of such acquisition, the Group realized a gain of SR 268 million . The Group treated its investment in Sale for Distribution and Communication Co.Ltd. (subsidiary) according to the full consolidation method.

36 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Wednesday Safar 24, 1433 H (corresponding to January 18, 2012), proposed interim dividends for the fourth quarter 2011 amounting to SR 1,000 million, at the rate of SR 0.50 per share, resulting in a total dividend for 2011 of SR 2.00 per share (2010: SR 3.00 per share).

The Board also approved in its meeting held on Monday, Rabi Awal 28, 1433 AH (corresponding to February 20, 2012) the consolidated financial statements for 2011.

37 RECLASSIFICATION

Certain comparatives of the year ended December 31, 2010 have been reclassified to conform to the classifications used for the year ended December 31, 2011.