



**a Saudi Joint Stock Company**

**Consolidated Financial Statements for the  
Year Ended December 31, 2007**

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Index to the Consolidated Financial Statements for the Year Ended December 31, 2007**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) as of December 31, 2007 and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, and the notes which form an integral part of these consolidated financial statements. These consolidated financial statements, which were prepared in accordance with articles of Regulations for Companies and presented to us with all necessary information and explanations which we required, 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 generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about where the consolidated financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the financial estimates made by the management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 29, segmental information was not disclosed in the notes to the consolidated financial statements as required by generally accepted accounting standards in the Kingdom of Saudi Arabia.

In our opinion, except for the matter referred to in the preceding paragraph, the above mentioned consolidated financial statements as a whole:

- Present fairly, in all material respects, the consolidated financial position of the company as of December 31, 2007 and the consolidated results of operations and its consolidated cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to circumstances of the company; and
- Comply with the requirements of Regulations for the Companies and the Company's Articles of Association as they related to the preparation of these consolidated financial statements.

**Al Juraid & Company**  
Member firm of PricewaterhouseCoopers



Rashid S. Al Rashoud  
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February 19, 2008  
12 Safar, 1429H

**Dr. Al Amri & Co.**



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**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Consolidated Balance Sheet as of December 31, 2007**  
**(Saudi Riyals in thousands)**

	<u>Notes</u>	<u>2007</u> <u>(Consolidated)</u>	<u>2006</u> <u>(Not Consolidated)</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	7,618,128	2,909,321
Short-term investments	4	-	5,599,000
Accounts receivable, net	5	4,972,988	3,938,639
Inventories, net	6	367,675	149,700
Prepayments and other current assets	7	<u>1,018,644</u>	<u>765,622</u>
<b>Total current assets</b>		<b><u>13,977,435</u></b>	<b><u>13,362,282</u></b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	8	34,369,297	30,128,383
Intangible assets, net	9	13,855,574	731,766
Investments	10	2,406,625	1,140,159
Other non-current assets	11	<u>4,202,315</u>	<u>759,183</u>
<b>Total non-current assets</b>		<b><u>54,833,811</u></b>	<b><u>32,759,491</u></b>
<b>Total assets</b>		<b><u>68,811,246</u></b>	<b><u>46,121,773</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable	12	3,082,080	1,959,937
Dividends payable	13	56,860	65,006
Other payables	14	6,160,443	2,355,215
Accrued expenses	15	5,586,722	3,749,277
Deferred revenues – current		1,773,107	1,394,028
Borrowings	16	<u>560,448</u>	<u>-</u>
<b>Total current liabilities</b>		<b><u>17,219,660</u></b>	<b><u>9,523,463</u></b>
<b>Non-current liabilities:</b>			
Deferred revenues		437,240	623,569
Borrowings	16	13,019,303	-
Employees' end of service benefits	17	1,932,297	1,820,402
Other payables		<u>310,864</u>	<u>-</u>
<b>Total non-current liabilities</b>		<b><u>15,699,704</u></b>	<b><u>2,443,971</u></b>
<b>Total liabilities</b>		<b><u>32,919,364</u></b>	<b><u>11,967,434</u></b>
<b>Equity</b>			
<b>Shareholders' equity:</b>			
Authorized, issued and outstanding shares	18	20,000,000	20,000,000
Statutory reserve	19	7,020,710	5,818,458
Retained earnings		8,658,704	8,339,223
Financial statements' translation differences		196,839	-
Unrealized loss on other investments	10	<u>-</u>	<u>(3,342)</u>
<b>Total shareholders' equity</b>		<b><u>35,876,253</u></b>	<b><u>34,154,339</u></b>
Minority interests		<u>15,629</u>	<u>-</u>
<b>Total Equity</b>		<b><u>35,891,882</u></b>	<b><u>34,154,339</u></b>
<b>Total liabilities and Equity</b>		<b><u>68,811,246</u></b>	<b><u>46,121,773</u></b>

The accompanying notes from 1 to 31 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, 2007**  
**(Saudi Riyals in thousands)**

	<u>Notes</u>	<u>2007</u> <u>(Consolidated)</u>	<u>2006</u> <u>(Not Consolidated)</u>
<b>Operating Revenues</b>			
Wireless		25,164,725	22,630,797
Wire line		<u>9,293,082</u>	<u>9,762,774</u>
<b>Total operating revenues</b>	20	<u>34,457,807</u>	<u>32,393,571</u>
<b>Operating Expenses</b>			
Government charges	21	(4,825,002)	(4,446,169)
Access charges		(4,426,666)	(3,809,662)
Employee costs	22	(4,274,597)	(4,283,758)
Depreciation and amortization	8 , 9	(4,098,287)	(3,835,792)
Administrative and marketing expenses	23	(2,442,472)	(1,932,412)
Repairs and maintenance		<u>(1,772,882)</u>	<u>(1,437,633)</u>
<b>Total operating expenses</b>		<u>(21,839,906)</u>	<u>(19,745,426)</u>
<b>Operating Income</b>		<u>12,617,901</u>	<u>12,648,145</u>
<b>Other Income and Expenses</b>			
Cost of early retirement program		(547,580)	(500,000)
Commissions	3, 4, 10	333,145	416,613
Earnings from investments accounted for under the equity method	10	30,561	101,631
Other, net	24	<u>12,186</u>	<u>475,089</u>
<b>Other income and expenses, net</b>		<u>(171,688)</u>	<u>493,333</u>
<b>Net Income before Minority interests, Zakat and Tax</b>		12,446,213	13,141,478
Minority interests		<u>2,171</u>	<u>-</u>
<b>Net Income before Zakat and Tax</b>		12,448,384	13,141,478
Provision for Zakat	25	(384,631)	(342,576)
Provision for Tax		<u>(42,020)</u>	<u>-</u>
<b>Net Income</b>		<u><b>12,021,733</b></u>	<u><b>12,798,902</b></u>
<b>Basic earnings per share in Saudi Riyals</b>		<u>6.01</u>	<u>6.40</u>

The accompanying notes from 1 to 31 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, 2007**  
**(Saudi Riyals in thousands)**

	<u>2007</u>	<u>2006</u>
	<u>(Consolidated)</u>	<u>(Not Consolidated)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	12,021,733	12,798,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,098,287	3,835,792
Doubtful debts expense	523,055	435,602
Earnings from investments accounted for under the equity method	(30,561)	(101,631)
Losses (Gains) on sale/ disposal of property, plant and equipment	15,868	(12,600)
Losses on disposal / sale of other investments	3,375	2,450
Provision for capital work in progress	-	(24,057)
Changes in:		
Accounts receivable	(1,557,404)	(750,607)
Inventories	(217,975)	3,588
Prepayments and other current assets	(253,022)	(292,221)
Other non-current assets	(3,443,132)	(243,828)
Accounts payable	1,122,143	(646,038)
Other payables	4,116,092	219,719
Accrued expenses	1,837,445	572,543
Deferred revenues	192,750	(132,848)
Employees' end of service benefits	111,895	207,862
<b>Net cash provided by operating activities</b>	<u>18,540,549</u>	<u>15,872,628</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(8,334,770)	(3,392,713)
Short-term investments	5,599,000	(1,904,000)
Intangible assets	(12,846,116)	-
Investments	(1,371,703)	(164,700)
Dividends received from investments accounted for under the equity method	17,224	18,209
Proceeds from sale of other investments	-	97,550
Proceeds from sale of property, plant and equipment	17,389	19,769
<b>Net cash used in investing activities</b>	<u>(16,918,976)</u>	<u>(5,325,885)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(10,508,146)	(11,642,243)
Borrowings, net	13,579,751	-
Minority interests	15,629	-
<b>Net cash provided by/ (used in) financing activities</b>	<u>3,087,234</u>	<u>(11,642,243)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,708,807	(1,095,500)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>2,909,321</u>	<u>4,004,821</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>7,618,128</b></u>	<u><b>2,909,321</b></u>
<b>Non-cash item:</b> Financial statements' translation differences	<u>196,839</u>	-

The accompanying notes from 1 to 31 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, 2007**  
**(Saudi Riyals in thousands)**

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	<u>Notes</u>	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Financial Statements` Translation Differences</u>	<u>Minority Interests</u>	<u>Unrealized Loss On Other Investments</u>	<u>Total Shareholders` Equity</u>
<b>Balance at December 31, 2005</b>		<b>15,000,000</b>	<b>4,538,568</b>	<b>13,320,211</b>	-	-	<b>(3,342)</b>	<b>32,855,437</b>
Net income		-	-	12,798,902	-	-	-	12,798,902
Dividends	13	-	-	(11,500,000)	-	-	-	(11,500,000)
Transfer to capital	18	5,000,000	-	(5,000,000)	-	-	-	-
Transfer to statutory reserve	19	-	1,279,890	(1,279,890)	-	-	-	-
<b>Balance at December 31, 2006</b>		<b>20,000,000</b>	<b>5,818,458</b>	<b>8,339,223</b>	-	-	<b>(3,342)</b>	<b>34,154,339</b>
Net income		-	-	12,021,733	-	-	-	12,021,733
Dividends	13	-	-	(10,500,000)	-	-	-	(10,500,000)
Transfer to statutory reserve	19	-	1,202,252	(1,202,252)	-	-	-	-
Removal of investment	10	-	-	-	-	-	3,342	3,342
Financial statements` translation differences		-	-	-	196,839	-	-	196,839
Minority interests		-	-	-	-	15,629	-	15,629
<b>Balance at December 31, 2007</b>		<b>20,000,000</b>	<b>7,020,710</b>	<b>8,658,704</b>	<b>196,839</b>	<b>15,629</b>	<b>-</b>	<b>35,891,882</b>

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

# **Saudi Telecom Company**

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

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

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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. (“AwalNet”) – The Kingdom	100%	Full Consolidation
Tejari Saudi Arabia – The Kingdom	50%	Full Consolidation
Binariang GSM SDN BHD (“Binariang”) - Malaysia	25%	Proportionate Consolidation
PT Natrindo Telepon Seluler (“NTS”) - Indonesia	51%	Proportionate Consolidation
Arab Satellite Communications Organization (“Arabsat”) – The Kingdom	36.66%	Equity Method
Arab Submarine Cables Company Ltd. – The Kingdom	45.72%	Equity Method
Third Mobile Communications Company - Kuwait	26%	(to be determined later)

The main activities of the Group comprise the provision of a variety of telecommunications services which include mobile (2G and 3G), fixed local national and international telephone services, telex, telegraph and data services such as data transmission, leased lines, internet services and e-commerce.

#### **Arabian Internet and Communications Services Co. (AwalNet)**

The Arabian Internet and Communications Services Co. (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.

#### **Tejari Saudi Arabia**

Tejari Saudi Arabia (a limited liability company) was formed in November 2006 for the purpose of establishment, operation and management of electronic markets and platforms, and to provide all services related to e-commerce dealings.

#### **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.



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

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

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**PT Natrindo Telepon Seluler “NTS” - Indonesia**

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

**Arabsat**

This organization was established in April 1976 by member states of the Arab League. Arabsat offers a number of services to member states, as well as to all public and private sectors within its coverage area, principally the Middle East.

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

**Arab Submarine Cables Company Ltd.**

Arab Submarine Cables Company Ltd. was established in September 2002 for the purpose of constructing, leasing, managing and operating a submarine cable connecting the Kingdom and the Republic of Sudan for telecommunications between them and any other countries. The operations of the Arab Submarine Cables Company Ltd. started effective June 2003.

**Third Mobile Communications Company - Kuwait.**

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

**2 SIGNIFICANT ACCOUNTING POLICIES**

The accompanying 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 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.

**b) 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”).

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

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

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- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Unbilled revenue is recognized in the period to which it relates.
- Revenue is recognized upon collection when collectability is highly uncertain.
- Wireless revenues are composed mainly of mobile, international and national roaming services, while wireline revenues are composed mainly of fixed lines, international settlements, leased circuits, data and internet services.
- The current accounting treatment of the face value reductions granted to prepaid cards distributors has been reviewed, and has accordingly been treated as discounts resulting in revenue being recorded net instead of gross.

**c) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and all highly liquid investments with maturity of 90 days or less from the acquisition date.

**d) Accounts receivable**

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

**e) 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.

**f) Inventories**

- Inventories, which are principally 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 Company 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 values.

**g) 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.

**Saudi Telecom Company**  
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**Notes to the Consolidated Financial Statements for the Year Ended December 31, 2007**

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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	4 – 25
Other assets	3 – 7

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. Gains and losses resulting from the disposal/ sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-off / sold assets, and the gains or losses are included in the 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 finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value and the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability under the finance lease.

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

**h) Software costs**

- Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criteria, which include 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.
- Internally developed operating systems, software costs are capitalized if they meet the capitalization criteria, which include 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.
- Internally developed application software costs are recognized as 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.
- Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
- Software training and data-conversion costs are expensed as incurred.

**i) Intangible assets**

**Goodwill**

- Goodwill arises on the acquisition of a share 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 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).

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

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**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.

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

The Group reviews periodically non-current assets to determine whether they are impaired, whenever events or changes in circumstances indicate that. When such indications are present the recoverable amount of the asset should be estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit to which the asset relates is to be used instead. The excess of the carrying amount of the asset over its recoverable amount is treated as impairment in its value to be recognized 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) will be reversed and recorded as income in the consolidated statement of income of the period in which such reversal is determined.

**k) Investments**

**Subsidiaries**

Entities controlled by the Company are classified as subsidiaries. Control is defined as the power to use, or direct the use, of another entity'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 consolidated financial statements, the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Company's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.

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

**Investments accounted for under the equity method**

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

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

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

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**Other investments**

- Available for sale marketable securities are carried at fair value, which is based on market value when available. However, if fair value 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.
- Investments held to maturity are recorded at cost and adjusted 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 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.

**l) Zakat**

The Company calculates and reports the zakat provision in its financial statements in accordance with Zakat rules and principles, and the instructions of the Department of Zakat and Income Taxes in the Kingdom. Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

**m) Taxes**

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

**Deferred tax assets**

Deferred tax assets of foreign entities are 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.

**n) 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.

**o) Foreign currency transactions**

**Functional and presentation currency**

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

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**Entities of the Group (translation of financial statements)**

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

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus net income for the year as per the translated income statement less declared dividends translated at the rate prevailing on the date of declaration.
- Income statement items are translated using the weighted average rate for the period. Material gains and losses are translated at the rate prevailing on the date of their occurrence.
- All resulting exchange differences, if material, are recognised as a separate component of shareholders' equity.

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

**p) Contingent liabilities**

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

**q) Government charges**

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

**r) Access charges**

Access charges represent the costs to connect to foreign and domestic carriers' networks related to telecommunications services for the Group. Access charges are recognized in the periods of relevant calls.

**s) Administrative and marketing expenses**

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

**t) Earnings per share**

Earnings per share are calculated by dividing net income for the financial period by the weighted average number of shares outstanding during the period.

**3 CASH AND CASH EQUIVALENTS**

The Company invests 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 these deals during the year was 4.8% (2006: 4.4%). Total commission earned on these deals during the year was SR 194.1 million (2006: SR 154.3 million).

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The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 21.8 million.

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

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Collection accounts	941,042	2,444,490
Short-term Murabaha deals	4,533,946	302,505
Short-term deposits	1,794,715	-
Disbursement accounts	<u>348,425</u>	<u>162,326</u>
	<u>7,618,128</u>	<u>2,909,321</u>

**4 SHORT-TERM INVESTMENTS**

The Company invests a portion of the surplus cash in Murabaha deals with maturity periods of more than 90 days. The average rate of commission on these deals during the year was 5% (2006: 5.3%). Total commission earned on these deals during the year was SR 108.8 million (2006: SR 254.4 million).

**5 ACCOUNTS RECEIVABLE, NET**

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

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Billed receivables	4,255,052	3,143,447
Unbilled receivables	<u>1,455,890</u>	<u>1,370,632</u>
	5,710,942	4,514,079
Allowance for doubtful debts	<u>(737,954)</u>	<u>(575,440)</u>
	<u>4,972,988</u>	<u>3,938,639</u>

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

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Balance at January 1	575,440	543,910
Additions (Note 23)	<u>523,055</u>	<u>435,602</u>
	1,098,495	979,512
Bad debts written-off	<u>(360,541)</u>	<u>(404,072)</u>
Balance at December 31	<u>737,954</u>	<u>575,440</u>

(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 revenues from such customers for the year 2007 amounted to SR 106 million (2006: SR 104 million), with an annual average of SR 207 million for the eight years preceding 2007.

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

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(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Accounts receivable, net	<u>1,438,203</u>	<u>655,044</u>
Accounts payable, net	<u>2,189,108</u>	<u>991,337</u>

(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 as government charges against accumulated receivable balances due from Government for usage of the Company's telecom services.

**6 INVENTORIES, NET**

Movement in inventories during the year was as follows:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Balance at January 1	158,963	163,744
Additions	715,916	465,419
Usage	<u>(492,039)</u>	<u>(470,200)</u>
	382,840	158,963
Inventory allowance	<u>(15,165)</u>	<u>(9,263)</u>
Balance at December 31	<u>367,675</u>	<u>149,700</u>

**7 PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Frequency evacuation project	292,118	272,906
Advances to suppliers	210,795	126,150
Prepaid tax	102,629	-
Prepaid rent	75,358	56,019
Employee housing loans - Current (Note 11)	50,596	51,498
Accrued commissions and receivables	49,583	169,048
Refundable deposits	31,554	-
Other	<u>206,011</u>	<u>90,001</u>
	<u>1,018,644</u>	<u>765,622</u>

The frequency evacuation project, which is agreed upon with official parties, is to evacuate the frequencies used for the benefit of the CITC and to build an alternative network by the Company. The project costs of SR 250 million have been deducted from the balance payable to the Government and reflected under "Other payables", however, the remaining amount will be settled at the end of the project. (Refer to Note 14).



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**8 PROPERTY, PLANT AND EQUIPMENT, NET**

(Thousands of Saudi Riyals)	<u>Land and</u>	<u>Telecommunications</u>	<u>Other</u>	<u>Capital</u>	<u>Total</u>	
	<u>Buildings</u>	<u>Plant and</u>	<u>Assets</u>	<u>Work In</u>	<u>2007</u>	<u>2006</u>
		<u>Equipment</u>		<u>Progress</u>	<u>(Consolidated)</u>	<u>(Not Consolidated)</u>
<b>Gross book value</b>						
At January 1	9,946,241	47,665,874	1,137,853	3,419,756	62,169,724	59,363,727
Additions	3,927	210,337	101,947	5,427,764	5,743,975	3,392,713
Transfers	464,824	3,959,945	11,034	(4,435,803)	-	-
Group's share in total PPE costs of investees	51,848	3,399,580	207,015	546,338	4,204,781	-
Disposals	-	(93,172)	(50,495)	-	(143,667)	(587,860)
At December 31	<u>10,466,840</u>	<u>55,142,564</u>	<u>1,407,354</u>	<u>4,958,055</u>	<u>71,974,813</u>	<u>62,168,580</u>
<b>Accumulated depreciation</b>						
At January 1	4,172,179	27,006,632	862,530	-	32,041,341	28,831,137
Charge	271,771	3,475,761	126,241	-	3,873,773	3,813,808
Group's share in total accumulated depreciation of investees	8,323	1,650,821	141,668	-	1,800,812	-
Provision for capital work in progress	-	-	-	-	-	(389,251)
Disposals	-	(60,117)	(50,293)	-	(110,410)	(215,497)
At December 31	<u>4,452,273</u>	<u>32,073,097</u>	<u>1,080,146</u>	<u>-</u>	<u>37,605,516</u>	<u>32,040,197</u>
<b>Net book value</b>	<u>6,014,567</u>	<u>23,069,467</u>	<u>327,208</u>	<u>4,958,055</u>	<u>34,369,297</u>	<u>30,128,383</u>

(a) Land and buildings above include land of SR 2,326 million as of December 31, 2007 (2006: SR 2,299 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's name amounted to SR 1,813 million as of December 31, 2007. The transfer of the ownership of the remaining land parcels with a value of SR 486 million is still in progress.

**9 INTANGIBLE ASSETS, NET**

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

The Company was not able to use the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 25% of Binariang and 51% of NTS. Likewise, Binariang was not able to use the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 100% of Maxis Group, due to the non-completion of the fair value determination reports before finalization of the consolidated financial statements. Fair values of net assets will be used to determine the goodwill after finishing the relevant study. The amounts recorded as goodwill might accordingly be adjusted.

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Intangible assets consist of the following:

(Thousands of Saudi Riyals)	<u>2007</u> <u>(Consolidated)</u>	<u>2006</u> <u>(Not Consolidated)</u>
Goodwill arising on the consolidation of Binariang	9,965,798	-
Goodwill arising on the acquisition of 25% in Binariang	1,681,189	-
Goodwill arising on the acquisition of 51% in NTS	856,726	-
Licenses	876,229	731,766
Other	<u>475,632</u>	<u>-</u>
	<u>13,855,574</u>	<u>731,766</u>

**10 INVESTMENTS**

Investments consist of the following:

(Thousands of Saudi Riyals)		<u>2007</u> <u>(Consolidated)</u> <u>Ownership</u>		<u>2006</u> <u>(Not Consolidated)</u> <u>Ownership</u>
<b>Investments accounted for under the equity method:</b>				
Arab Satellite Communications Organization ("Arabsat")	36.66%	936,489	36.66%	925,647
Arab Submarine Cables Company Ltd.	45.72%	52,275	44.29%	49,779
Tejari Saudi Arabia		<u>-</u>	50.00%	<u>14,700</u>
		<u>988,764</u>		<u>990,126</u>
<b>Investments in Sukuk</b>		<u>1,265,625</u>		<u>-</u>
<b>Group's share in Other Investments in Binariang</b>		<u>2,236</u>		<u>-</u>
<b>Other investments:</b>				
Held to maturity:				
Investment in Sabic's Sukuk		<u>150,000</u>		<u>150,000</u>
Available for sale – at market value:				
Investment in New ICO		<u>-</u>		<u>33</u>
Total investments		<u>2,406,625</u>		<u>1,140,159</u>

The accounting treatment for the investment in Tejari Saudi Arabia has been changed from the equity method to full consolidation, effective the fourth quarter 2007.

**Investment in Sukuk**

Represents the group's share in the investment in sukuk, which was made by one of the group's entities in December 2007. Maturity is 10 years, and commission margin is equivalent to the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. This financing is a part of related party transactions within the Group.

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**Investment in Sabic's Sukuk**

The Sukuk were acquired from the Saudi Basic Industries Corporation "Sabic" in July 2006 for SR 150 million, with maturity of 5 years up to July 2011, and a commission rate equal to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.40%. Commission earned from these Sukuk during the year amounted to SR 8.3 million (2006: SR 3.7 million).

**Investment in New ICO**

During the first quarter 2007, the Company removed its investment in New ICO, and a loss amounting to SR 3.4 million was incurred.

**11 OTHER NON-CURRENT ASSETS**

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Consideration for acquiring 26% of the Third Mobile Communications Company - Kuwait (Refer to Note 1)	3,421,562	-
Employee housing loans	633,429	703,687
Deferred costs	58,745	55,496
Other	<u>88,579</u>	<u>-</u>
	<b><u>4,202,315</u></b>	<b><u>759,183</u></b>

During 2005, the Company started granting Employee housing loans, bearing no commission, in accordance with the approved policy. These loans are stated at cost as of December 31, 2007.

**12 ACCOUNTS PAYABLE**

Accounts payable consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Government charges (Refer to Note 5-d)	1,018,561	672,852
Outside network operators' settlements (Refer to Note 5-c)	1,178,577	862,191
Trade	811,616	386,811
Capital expenditures	63,687	38,083
Due to related parties	<u>9,639</u>	<u>-</u>
	<b><u>3,082,080</u></b>	<b><u>1,959,937</u></b>

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**13 DIVIDENDS PAYABLE**

Movement in dividends during the year was as follows:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Balance at January 1	65,006	207,249
Dividends declared for the fourth quarter 2006	3,000,000	-
Dividends declared for the first quarter 2007	2,500,000	-
Dividends declared for the second quarter 2007	2,500,000	-
Dividends declared for the third quarter 2007	2,500,000	-
Dividends declared for the fourth quarter 2005	-	3,000,000
Dividends declared for the first quarter 2006	-	2,500,000
Dividends declared for the second quarter 2006	-	3,000,000
Dividends declared for the third quarter 2006	-	3,000,000
	<u>10,565,006</u>	<u>11,707,249</u>
Payments made during the year	<u>(10,508,146)</u>	<u>(11,642,243)</u>
Balance at December 31	<u>56,860</u>	<u>65,006</u>

**14 OTHER PAYABLES**

Other payables consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Consideration for acquiring 26% of the Third Mobile Communications Company - Kuwait	3,421,562	-
Suppliers' retentions	1,184,560	867,279
Withholding tax provision	439,823	260,410
Provision for Zakat (Refer to Note 25)	323,794	296,799
Settlement of seconded employees' entitlements	282,052	282,052
Frequency evacuation project (Refer to Note 7)	250,000	250,000
Other	<u>258,652</u>	<u>398,675</u>
	<u>6,160,443</u>	<u>2,355,215</u>

The value of the investment in the Third Mobile Communications Company in Kuwait was paid in January 2008. (Refer to Note 1).

**15 ACCRUED EXPENSES**

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Capital expenditures	2,243,440	1,583,649
Trade	1,882,908	1,029,007
Employee accruals	946,729	938,950
Land provision	184,075	197,671
Other	<u>329,570</u>	<u>-</u>
	<u>5,586,722</u>	<u>3,749,277</u>

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**16 BORROWINGS**

They are composed of:

(Thousands of Saudi Riyals)	<u>2007</u> (Consolidated)	<u>2006</u> (Not Consolidated)
Current portion	560,448	-
Non-current portion	<u>13,019,303</u>	<u>-</u>
	<u>13,579,751</u>	<u>-</u>

**Binariang**

As of December 31, 2007, the Group's share was SR 5,520 million in the Sukuk, and SR 2,060 million in the bank facilities. The Sukuk were utilized in financing the acquisition of outstanding shares of Maxis, the Malaysian holding group, to raise Binariang's ownership in it to 100%.

**The Company**

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

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

**17 EMPLOYEES' END OF SERVICE BENEFITS**

The movement in employees' end of service benefits during the year was as follows:

(Thousands of Saudi Riyals)	<u>2007</u> (Consolidated)	<u>2006</u> (Not Consolidated)
Balance at January 1	1,820,402	1,612,540
Charges (Note 22)	293,619	325,760
Settlements	<u>(181,724)</u>	<u>(117,898)</u>
Balance at December 31	<u>1,932,297</u>	<u>1,820,402</u>

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.

**18 SHARE CAPITAL**

At December 31, 2007, 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, 2007 and 2006, the Government owned 70% of the Company's shares

The Company's General Assembly, in its extraordinary meeting of 13 Rabi Awal 1427 H (April 11, 2006), approved the increase of the Company's share capital from SR 15,000 million to SR 20,000 million through a stock dividend of one bonus share for each three outstanding shares with a total value of SR 5,000 million through a transfer from the retained earnings. Accordingly, the number of shares was increased to 2,000 million shares.

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**19 STATUTORY RESERVE**

10% of annual 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. During the year 2007 the Company appropriated an amount of SR 1,202 million (2006: SR 1,280 million). The statutory reserve on December 31, 2007 amounted to SR 7,021 million, which represents 35% of share capital (December 31, 2006: SR 5,818 million, which represents 29% of share capital).

**20 OPERATING REVENUES**

Operating revenues consist of the following:

	<u>2007</u>	<u>2006</u>
	<u>(Consolidated)</u>	<u>(Not Consolidated)</u>
Usage charges	28,066,325	26,442,270
Subscription fees	5,721,101	5,150,241
Activation fees	496,991	586,437
Other	173,390	214,623
	<u>34,457,807</u>	<u>32,393,571</u>

**21 GOVERNMENT CHARGES**

The Government charges for the year were follows:

	<u>2007</u>	<u>2006</u>
	<u>(Consolidated)</u>	<u>(Not Consolidated)</u>
Commercial service provisioning	4,272,832	3,993,517
License fees	307,258	284,903
Frequency spectrum	244,912	167,749
	<u>4,825,002</u>	<u>4,446,169</u>

**22 EMPLOYEE COSTS**

Employee costs consist of the following:

	<u>2007</u>	<u>2006</u>
	<u>(Consolidated)</u>	<u>(Not Consolidated)</u>
Salaries and allowances	2,990,807	2,964,289
Incentives and rewards	313,315	397,316
End of service benefits	293,619	325,760
Social insurance	261,817	256,469
Medical insurance	180,642	153,415
Other	234,397	186,509
	<u>4,274,597</u>	<u>4,283,758</u>

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**23 ADMINISTRATIVE AND MARKETING EXPENSES**

Administrative and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Sales commissions and advertising expenses	565,776	411,320
Doubtful debts expense (Note 5)	523,055	435,602
Rent of equipment, property and motor vehicles	197,329	137,890
Murabaha and Sukuk financing commissions	189,047	-
Consultancy	184,464	199,898
Utilities	180,924	151,607
Printing of telephone cards and stationery	176,625	245,637
Other	<u>425,252</u>	<u>350,458</u>
	<u>2,442,472</u>	<u>1,932,412</u>

**24 OTHER INCOME AND EXPENSES, NET**

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	<b><u>2007</u></b> <b><u>(Consolidated)</u></b>	<b><u>2006</u></b> <b><u>(Not Consolidated)</u></b>
Miscellaneous revenue	274,969	551,019
Losses on sale of other investments (Note 10)	(3,375)	(2,450)
(losses) /Gains on sale/disposal of property, plant and equipment	(15,868)	12,600
Miscellaneous expenses	<u>(243,540)</u>	<u>(86,080)</u>
	<u>12,186</u>	<u>475,089</u>

"Miscellaneous expenses" in the year 2007 includes SR 50 million, representing amount expensed during the period out of SR 100 million donated by the Company to the Ministry of Health under "Alwafaa" Health Program (2006: SR 25 million).

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**25 ZAKAT**

**(a) Zakat base for the Company**

(Thousands of Saudi Riyals)

	<u><b>2007</b></u>	<u><b>2006</b></u>
Share capital – beginning of the year	20,000,000	15,000,000
Additions:		
Retained earnings – beginning of the year	8,339,223	13,320,211
Statutory reserve – beginning of the year	5,818,458	4,538,568
Provisions – beginning of the year	2,899,576	3,016,639
Adjusted net income	<u>12,884,007</u>	<u>13,703,066</u>
Total additions	<u>29,941,264</u>	<u>34,578,484</u>
Deductions:		
Net property, plant & equipment, capital work in progress and intangible assets (limited to shareholders' equity before Zakat)	(32,659,406)	(30,860,149)
Dividends paid	(10,508,146)	(11,642,243)
Investments	(11,014,207)	(1,140,159)
Non-current deferred costs	<u>(35,164)</u>	<u>(55,496)</u>
Total deductions	<u>(54,216,923)</u>	<u>(43,698,047)</u>
Zakat base	<u>(4,275,659)</u>	<u>5,880,437</u>

Since the Zakat base is less than the adjusted net income, the Zakat rate of 2.5% is applied to adjusted net income to determine the Zakat charge.

**(b) Zakat provision**

(Thousands of Saudi Riyals)

	<u><b>2007</b></u>	<u><b>2006</b></u>
Balance at January 1	296,799	284,325
Charge for the year	384,631	342,576
Amounts paid during the year	<u>(357,636)</u>	<u>(330,102)</u>
Balance at December 31	<u>323,794</u>	<u>296,799</u>

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

**(c) Joint ventures**

The Group assessed the zakat due from joint ventures as independent entities, and that resulted in no provision for the year.



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**26 RELATED PARTY TRANSACTIONS**

**Government entities**

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

Revenues and expenses related to Government entities in 2007 (including Government charges discussed in Note 21 above) amounted to SR 827 million and SR 4,685 million, respectively (2006: SR 673 million and SR 5,361 million, respectively).

Amounts payable to Government entities at December 31, 2007 totaled SR 792 million (2006: SR 1,255 million). Amounts receivable from Government entities at December 31, 2007 and 2006 are not material due to the settlement referred to in Note (5-d).

**Investments accounted for under the equity method**

During the year, the Company incurred charges of approximately SR 12 million in favour of Arabsat with respect to satellite utilization (2006: SR 14 million), while expenses incurred in favour of the Arab Submarine Cables Co. approximated SR 4 million (2006: SR 6 million).

**Investments in joint ventures**

Transactions with joint ventures from acquisition date until the end of the year were not material, with the exception of the investment in Sukuk amounting to SR 1,265 million (Refer to Note 10).

**27 COMMITMENTS AND CONTINGENCIES**

**Commitments**

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 1,703 million on December 31, 2007.
- (b) Certain land and buildings, for use in the Company's operations, are leased under operating lease commitments expiring at various future dates. During the year 2007, total rent expense under operating leases amounted to SR 177 million.

**Contingencies**

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

**28 FINANCIAL INSTRUMENTS**

**Fair value**

It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Management does not believe that the fair values of the Group 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 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 short-term and long-term bank deposits, but the related commission rate risk is not considered to be significant.

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**Currency risk**

It 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 records its effects in the consolidated financial statements.

**Credit risk**

It is the risk that other parties will fail to discharge their obligations and cause the Group to incur a financial loss. Financial instruments that subject the Group to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Group deposits its cash balances with a number of major high credit-rated financial institutions and has a policy of limiting its balances deposited with each institution. The Group does not believe that there is a significant risk of non-performance by these financial institutions. The Group 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**

It is the risk that the Group 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 Group does not consider itself exposed to significant risks in relation to liquidity.

The Group believes that it is not exposed to any significant risks in relation to the aforementioned.

**29 SEGMENT INFORMATION**

The objective of the Segment Reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information about each of the main operating segments, and hence its non-application does not affect the overall results of the Company's operations.

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

**30 SUBSEQUENT EVENTS**

The Board of Directors, in its meeting of 11 Muharram 1429 H (January 20, 2008), proposed interim dividends for the fourth quarter 2007 amounting to SR 2,500 million, at the rate of SR 1.25 per share, resulting in a total dividend for 2007 of SR 5.00 per share.

On 2 Safar 1429 H (January 9, 2008), the Company signed a final agreement with the controlling shareholder of Oger Telecom Limited ("Oger Telecom"), which operates in Turkey and South Africa, for the purchase of a 35% interest in Oger Telecom for USD 2.56 billion, equivalent to SR 9.6 billion. Legal formalities to conclude the deal are expected to be finished by the end of the first quarter 2008.

**31 RECLASSIFICATION**

Certain comparatives of the year ended December 31, 2006 have been reclassified to conform to the classifications used for the year ended December 31, 2007.

