



a Saudi Joint Stock Company

**Consolidated Financial Statements for the
Year Ended December 31, 2009**

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Consolidated Financial Statements for the Year Ended December 31, 2009

	<u>Page</u>
Independent Auditors' Report	2
Consolidated Balance Sheet	3
Consolidated Statement of Income	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Changes in Equity	6
Notes to the Consolidated Financial Statements	7 - 24

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) ("the Company") as of December 31, 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity 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 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 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.

In our opinion, the above mentioned consolidated financial statements as a whole:

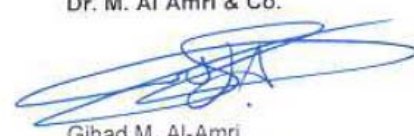
- Present fairly, in all material respects, the consolidated financial position of the company as of December 31, 2009 and the result of its operations and its consolidated cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the company; and
- Comply with the requirements of Regulations for the Companies and the Company's Articles of Association as related to the preparation of these consolidated financial statements.

PricewaterhouseCoopers Al Juraid


Rashid S. Al-Rashoud
(License Number 366)



Dr. M. Al Amri & Co.


Gihad M. Al-Amri
(License Number 362)



February 21, 2010
Rabi'ul 07, 1431

Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Balance Sheet as of December 31, 2009
(Saudi Riyals in thousands)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	3	7,710,078	8,061,169
Accounts receivable, net	4	11,461,225	8,120,037
Prepayments and other current assets	5	3,491,858	2,765,190
Total current assets		<u>22,663,161</u>	<u>18,946,396</u>
Non-current assets:			
Property, plant and equipment, net	6	52,736,873	44,381,539
Intangible assets, net	7	29,221,786	31,695,114
Equity method and other investments	8	2,532,926	2,451,736
Other non-current assets	9	2,432,730	2,287,350
Total non-current assets		<u>86,924,315</u>	<u>80,815,739</u>
Total assets		<u>109,587,476</u>	<u>99,762,135</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable	10	7,656,719	6,648,722
Other payables	11	4,818,569	4,334,601
Accrued expenses	12	6,205,099	5,762,320
Deferred revenues		2,081,262	2,248,478
Borrowings – current portion	13	8,579,020	3,904,714
Total current liabilities		<u>29,340,669</u>	<u>22,898,835</u>
Non-current liabilities:			
Borrowings – non-current portion	13	22,711,062	28,081,220
Employees' end of service benefits	14	2,843,869	2,738,025
Other payables		3,858,928	3,482,178
Total non-current liabilities		<u>29,413,859</u>	<u>34,301,423</u>
Total liabilities		<u>58,754,528</u>	<u>57,200,258</u>
Equity			
Shareholders' equity:			
Authorized, issued and outstanding shares	15	20,000,000	20,000,000
Statutory reserve	16	9,298,723	8,233,141
Retained earnings		13,552,367	9,783,301
Financial statements' translation differences		(816,265)	(378,464)
Total shareholders' equity		42,034,825	37,637,978
Minority interest		8,798,123	4,923,899
Total Equity		<u>50,832,948</u>	<u>42,561,877</u>
Total liabilities and equity		<u>109,587,476</u>	<u>99,762,135</u>

The accompanying notes from 1 to 30 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, 2009
(Saudi Riyals in thousands)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Operating Revenues	17	<u>50,780,087</u>	<u>47,469,368</u>
Operating Expenses			
Government charges	18	(5,664,399)	(5,541,955)
Access charges		(7,494,284)	(6,130,577)
Employee costs	19	(6,771,597)	(6,164,272)
Depreciation and amortization	6 , 7	(7,798,739)	(6,407,514)
Administrative and marketing expenses	20	(7,614,336)	(5,762,088)
Repairs and maintenance		<u>(2,623,145)</u>	<u>(2,127,821)</u>
Total operating expenses		<u>(37,966,500)</u>	<u>(32,134,227)</u>
Operating Income		<u>12,813,587</u>	<u>15,335,141</u>
Other Income and Expenses			
Cost of early retirement program		(810,914)	(675,000)
Finance cost	21	(1,385,300)	(1,432,201)
Commissions on Murabaha and deposits	3 , 8	361,957	623,608
Other, net	22	<u>1,151,038</u>	<u>(1,809,194)</u>
Other income and expenses, net		<u>(683,219)</u>	<u>(3,292,787)</u>
Net Income before Minority interest, Zakat and Tax		12,130,368	12,042,354
Provision for Zakat	23	(334,513)	(375,513)
Provision for Tax	24	<u>(642,042)</u>	<u>(456,829)</u>
Net Income before Minority interest		11,153,813	11,210,012
Minority interest		<u>(290,457)</u>	<u>(172,166)</u>
Net Income		<u>10,863,356</u>	<u>11,037,846</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>6.41</u>	<u>7.67</u>
Basic losses per share on Other Operations (in Saudi Riyals)		<u>(0.34)</u>	<u>(1.65)</u>
Basic earnings per share on Net Income (in Saudi Riyals)		<u>5.43</u>	<u>5.52</u>

The accompanying notes from 1 to 30 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, 2009
(Saudi Riyals in thousands)

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	10,863,356	11,037,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,798,739	6,407,514
Doubtful debts expense	1,507,983	913,992
Earnings from investments accounted for under the equity method	(79,609)	(45,456)
Losses on sale/disposal of property, plant and equipment	112,818	419,551
Gains on sale of investments	(682,339)	-
Changes in:		
Accounts receivable	(4,849,171)	(4,061,041)
Prepayments and other current assets	(726,668)	(1,378,871)
Other non-current assets	(145,380)	1,928,765
Accounts payable	1,007,997	3,566,642
Other payables	766,648	1,046,521
Accrued expenses	442,779	175,598
Deferred revenues	(167,216)	332,157
Employees' end of service benefits	<u>105,844</u>	<u>805,728</u>
Net cash flows from operating activities	<u>15,955,781</u>	<u>21,148,946</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(15,636,871)	(16,278,076)
Intangible assets, net	1,781,658	(19,234,731)
Equity method and other investments	-	(29,839)
Dividends received from investments accounted for under the equity method	23,288	16,384
Proceeds from sale of property, plant and equipment	<u>289,550</u>	<u>57,839</u>
Net cash used in investing activities	<u>(13,542,375)</u>	<u>(35,468,423)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(5,942,869)	(8,551,934)
Borrowings, net	(695,852)	18,406,182
Minority interest	<u>3,874,224</u>	<u>4,908,270</u>
Net cash (used in) / provided by financing activities	<u>(2,764,497)</u>	<u>14,762,518</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(351,091)	443,041
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,061,169</u>	<u>7,618,128</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>7,710,078</u>	<u>8,061,169</u>
Non-cash item: Financial statements' translation differences	<u>(437,801)</u>	<u>(575,303)</u>

The accompanying notes from 1 to 30 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, 2009
(Saudi Riyals in thousands)

	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Financial Statements` Translation Differences</u>	<u>Minority Interest</u>	<u>Total Equity</u>
Balance at December 31, 2007	20,000,000	7,020,710	8,658,704	196,839	15,629	35,891,882
Net income	-	-	11,037,846	-	-	11,037,846
Dividends	-	-	(8,500,000)	-	-	(8,500,000)
Transfer to statutory reserve	-	1,212,431	(1,212,431)	-	-	-
Financial statements` translation differences	-	-	-	(575,303)	-	(575,303)
Minority interest	-	-	-	-	4,908,270	4,908,270
Other	-	-	(200,818)	-	-	(200,818)
Balance at December 31, 2008	20,000,000	8,233,141	9,783,301	(378,464)	4,923,899	42,561,877
Net income	-	-	10,863,356	-	-	10,863,356
Dividends	-	-	(6,036,939)	-	-	(6,036,939)
Transfer to statutory reserve	-	1,065,582	(1,065,582)	-	-	-
Financial statements` translation differences	-	-	-	(437,801)	-	(437,801)
Minority interest	-	-	-	-	3,874,224	3,874,224
Other	-	-	8,231	-	-	8,231
Balance at December 31, 2009	20,000,000	9,298,723	13,552,367	(816,265)	8,798,123	50,832,948

The accompanying notes from 1 to 30 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, 2009

1 GENERAL

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

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

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

<u>Company Name</u>	<u>Ownership</u>	<u>Accounting Treatment</u>
Arabian Internet and Communications Services Co. - The Kingdom	100%	Full Consolidation
STC Bahrain (BSCC) – Bahrain	100%	Full Consolidation
Gulf Digital Media Holding (BSCC) – Bahrain (Investco)	51%	Full Consolidation
Tejari Saudi Arabia - The Kingdom	50%	Has been excluded
Kuwait Telecom Company Ltd. - Kuwait	26%	Full Consolidation
PT Natrindo Telepon Seluler ("NTS") - Indonesia	51%	Proportionate Consolidation
Oger Telecom Ltd. - U.A.E.	35%	Proportionate Consolidation
Binariang GSM SDN BHD ("Binariang") - Malaysia	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - The Kingdom	48.6%	Equity Method
Arab Satellite Communications Organization ("Arabsat") - The Kingdom	36.66%	Equity Method

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

Arabian Internet and Communications Services Co. (AwalNet) – The Kingdom

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.

STC Bahrain (BSCC) – Bahrain

STC Bahrain (BSC Closed) was established in the Kingdom of Bahrain in February 2009, and the Company owns 100% of its BHD 75 million share capital. This company operates in the field of mobile services, international telecommunications and other related services. Commercial operations have not commenced yet.

Gulf Digital Media Holding (BSCC) – Bahrain

This company was formed in June 2009. It is a holding company which owns stakes in companies operating in the field of content services and digital media. The Company owns 51% of its share capital.

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

Tejari Saudi Arabia – The Kingdom

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.

The Company has decided to liquidate Tejari Saudi Arabia, and has accordingly excluded the cost of the investment amounting to SR 14 million as of December 31, 2009. (Refer to Note 22).

Kuwait Telecom Company Ltd. – Kuwait

In December 2007, the Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company. This company operates in the field of mobile services, and has commenced commercial operations on December 4, 2008.

PT Natrindo Telepon Seluler “NTS” - Indonesia

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

Oger Telecom Ltd. - U.A.E.

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

During 2009, Oger Telecom Ltd. changed the functional currency of one of its subsidiary companies in Turkey to the US Dollar, due to changes in events and circumstances following the acquisition by STC Group of 35% of its share capital, with prospective application in accordance with the accounting standards.

Binariang GSM SDN BHD “Binariang” – Malaysia

Binariang is a Malaysian investment holding company that had owned 100% of Maxis, the then un-listed Malaysian holding 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 in the Malaysian stock market. The percentage ownership of Binariang in Maxis has accordingly reduced to 70%. The public offering has resulted in gains for Binariang, and the Company's share in such gains is shown in Note (22).

Binariang has other investments in telecommunications companies in both of India and Indonesia, holding 74% of Aircel - India and 44% of NTS - Indonesia. The Company acquired 25% of Binariang in September 2007.

Arab Submarine Cables Company Ltd. – The Kingdom

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.

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 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
(a Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

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, 2009.

Intra-Group balances and transactions and any unrealized gains arising from intra-group transactions, if material, 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").

- 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.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

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.
3. Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.
4. Property, plant and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful lives:

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

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. Gains and losses resulting from the disposal/ sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-off / sold assets, and the gains or losses are included in the 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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

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

i) Intangible assets

Goodwill

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

Spectrum rights and Second/Third Generation licenses

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

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. Reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

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.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

o) Foreign currency transactions and translation of financial statements

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.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

t) Earnings per share

Earnings per share are calculated by dividing operating income and other operations before eliminating minority interest, and net income for the financial period, by the weighted average number of shares outstanding during the period.

3 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 0.96% (2008: 3.6%). Total commission earned on these deals during the year was SR 35.5 million (2008: SR 126.9 million).

The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 324.1 million (2008: SR 490.3 million).

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

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Collection accounts	3,922,421	270,201
Short-term Murabaha deals	1,614,182	4,111,139
Short-term deposits	1,612,473	3,518,169
Disbursement accounts	<u>561,002</u>	<u>161,660</u>
	<u>7,710,078</u>	<u>8,061,169</u>

4 ACCOUNTS RECEIVABLE, NET

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

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Billed receivables	11,227,515	7,519,484
Unbilled receivables	<u>2,423,457</u>	<u>2,326,781</u>
	13,650,972	9,846,265
Allowance for doubtful debts	<u>(2,189,747)</u>	<u>(1,726,228)</u>
	<u>11,461,225</u>	<u>8,120,037</u>

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

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Balance at January 1	1,726,228	1,717,621
Additions (Note 20)	<u>1,507,983</u>	<u>913,992</u>
	3,234,211	2,631,613
Bad debts written-off	<u>(1,044,464)</u>	<u>(905,385)</u>
Balance at December 31	<u>2,189,747</u>	<u>1,726,228</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 2009 amounted to SR 101 million (2008: SR 115 million), with an annual average of SR 189 million for the ten years preceding 2009.

(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:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Accounts receivable, net	<u>4,184,337</u>	<u>2,339,352</u>
Accounts payable, net	<u>4,722,120</u>	<u>3,350,564</u>

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

- (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.

5 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Inventories	710,276	778,199
Advances to suppliers	624,860	450,087
Prepaid rent	387,666	236,816
Prepaid tax	334,200	196,254
Short-term investments	298,698	-
Frequency evacuation project	292,843	292,843
Accrued commissions and receivables	152,333	183,778
Other	<u>690,982</u>	<u>627,213</u>
	<u>3,491,858</u>	<u>2,765,190</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. In 2005, the project costs of SR 250 million were deducted from the balance payable to the Government and reflected under "Other payables". The signing of the final report and the project handing-over has been finalized, and the closure of project accounts is expected during the first quarter of 2010. (Refer to Note 11).

"Other" comprises different items, the main ones being: Deferred expenses, prepaid insurance and refundable deposits.

6 PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	<u>Land and Buildings</u>	<u>Telecommunications Plant and Equipment</u>	<u>Other Assets</u>	<u>Capital Work In Progress</u>	<u>Total</u> <u>2009</u>	<u>2008</u>
Gross book value						
At January 1	13,441,953	65,956,759	4,624,792	4,594,466	88,617,970	71,976,887
Additions	16,492	171,625	94,750	5,699,889	5,982,756	5,805,963
Transfers	513,712	5,720,204	208,951	(6,442,867)	-	-
Group's share in total PPE costs of investees	98,697	6,217,773	1,431,077	(44,978)	7,702,569	12,670,433
Disposals	<u>(174,507)</u>	<u>(289,899)</u>	<u>(74,998)</u>	<u>-</u>	<u>(539,404)</u>	<u>(1,835,313)</u>
At December 31	<u>13,896,347</u>	<u>77,776,462</u>	<u>6,284,572</u>	<u>3,806,510</u>	<u>101,763,891</u>	<u>88,617,970</u>
Accumulated depreciation						
At January 1	5,385,164	35,521,721	3,329,546	-	44,236,431	37,607,590
Charge	480,144	6,028,818	370,207	-	6,879,169	5,825,427
Group's share in remaining movement of accumulated depreciation of investees	(9,932)	(1,854,448)	151,042	-	(1,713,338)	2,177,919
Disposals	<u>(42,416)</u>	<u>(261,972)</u>	<u>(70,856)</u>	<u>-</u>	<u>(375,244)</u>	<u>(1,374,505)</u>
At December 31	<u>5,812,960</u>	<u>39,434,119</u>	<u>3,779,939</u>	<u>-</u>	<u>49,027,018</u>	<u>44,236,431</u>
Net book value	<u>8,083,387</u>	<u>38,342,343</u>	<u>2,504,633</u>	<u>3,806,510</u>	<u>52,736,873</u>	<u>44,381,539</u>

These statements were originally prepared in Arabic and the Arabic version should prevail.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

- (a) Land and buildings above include land of SR 2,260 million as of December 31, 2009 (December 31, 2008: SR 2,404 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 1,896 million as of December 31, 2009. The transfer of the ownership of the remaining land parcels with a value of SR 241 million is still in progress.
- (c) Movements in cost and accumulated depreciation of investees include the results of the fair value study of the investment in Ojer Telecom Ltd, which was concluded in the first quarter 2009.

7 INTANGIBLE ASSETS, NET

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

The Company has used the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 35% of Oger Telecom Ltd. based on valuation reports determining that value, which were finalized by the end of the first quarter 2009. The amounts recorded as goodwill were accordingly reallocated.

Intangible assets consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Licenses	15,313,139	14,473,536
Goodwill arising on the consolidation of financial statements	5,137,389	5,477,165
Trade marks and customer relations	4,319,416	4,064,683
Goodwill arising on the acquisition of 25% in Binariang	1,753,114	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	826,396	4,147,340
Goodwill arising on the acquisition of 51% in NTS	713,191	856,726
Others	<u>1,159,141</u>	<u>922,550</u>
	<u>29,221,786</u>	<u>31,695,114</u>

Amortization of intangible assets was as follows:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
	<u>919,570</u>	<u>582,087</u>

8 EQUITY METHOD AND OTHER INVESTMENTS

These investments consist of the following:

(Thousands of Saudi Riyals)		<u>2009</u>		<u>2008</u>
		<u>Ownership</u>		<u>Ownership</u>
Investments accounted for under the equity method:				
Arab Satellite Communications				
Organization ("Arabsat")	36.66%	1,088,478	36.66%	983,007
Arab Submarine Cables Company Ltd.	48.6%	<u>53,597</u>	47.1%	<u>53,104</u>
		<u>1,142,075</u>		<u>1,036,111</u>
Investments in Sukuk		<u>1,240,851</u>		<u>1,265,625</u>

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

Other investments:

Held to maturity:

Investment in Sabic's Sukuk	<u>150,000</u>	<u>150,000</u>
Total investments	<u>2,532,926</u>	<u>2,451,736</u>

Investments 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.

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 2.4 million (2008: SR 6.4 million).

9 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Employee housing loans	717,751	615,491
Deferred taxes	543,651	27,197
Deferred costs	453,234	568,461
Investment property	398,476	427,196
Other	<u>319,618</u>	<u>649,005</u>
	<u>2,432,730</u>	<u>2,287,350</u>

"Other" comprises different items, the main ones being: Advanced commissions and fees, and amounts due from related parties.

10 ACCOUNTS PAYABLE

Accounts payable consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Outside network operators' settlements (Refer to Note 4-c)	3,882,180	3,249,287
Trade	2,653,173	2,257,873
Government charges (Refer to Note 4-d)	684,878	926,429
Capital expenditures	409,609	200,981
Due to related parties	<u>26,879</u>	<u>14,152</u>
	<u>7,656,719</u>	<u>6,648,722</u>

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

11 OTHER PAYABLES

Other payables consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Provision for Zakat and Tax (Refer to Notes 23 & 24)	1,089,616	816,044
Suppliers' retentions	996,099	1,164,888
Withholding tax provision	931,455	754,934
Customers' refundable deposits and other provisions	639,088	635,955
Frequency evacuation project (Refer to Note 5)	250,000	250,000
Settlement of seconded employees' entitlements	119,052	119,052
Other	<u>793,259</u>	<u>593,728</u>
	<u>4,818,569</u>	<u>4,334,601</u>

"Other" comprises different items, the main ones being: Social insurance, sports clubs sponsoring and non-trade payables.

12 ACCRUED EXPENSES

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Capital expenditures	2,511,149	2,800,160
Trade	2,130,186	1,391,938
Employee accruals	1,103,033	1,046,653
Other	<u>460,731</u>	<u>523,569</u>
	<u>6,205,099</u>	<u>5,762,320</u>

13 BORROWINGS

They are composed of:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Current portion	8,579,020	3,904,714
Non-current portion	<u>22,711,062</u>	<u>28,081,220</u>
	<u>31,290,082</u>	<u>31,985,934</u>

Oger Telecom Ltd.

As of December 31, 2009, the Group's share in the investees' borrowings and bank facilities amounted to SR 8,851 million.

Binariang

As of December 31, 2009, the Group's share was SR 3,473 million in the Sukuk, and SR 5,321 million in the bank facilities. The Sukuk were utilized in financing the acquisition of outstanding shares of Maxis, the Malaysian holding group.

NTS

As of December 31, 2009, the Group's share in the Murabaha financing facilities was SR 464 million .

The Company

During the third quarter 2007, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 60 months, the amounts utilized of the facilities as of December 31, 2009 amounted to SR 6,000 million.

In April 2008, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 120 months, the amounts utilized of the facilities as of December 31, 2009 amounted to SR 9,500 million.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

During the fourth quarter 2008, the Company started repayment of due installments of the financing facilities. Amounts settled as of December 31, 2009 amounted to SR 2,319 million, of which SR 2,037 million were settled during the year ended December 31, 2009.

14 EMPLOYEES' END OF SERVICE BENEFITS

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

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Balance at January 1	2,738,025	2,902,503
Charges (Note 19)	424,267	423,080
Settlements	<u>(318,423)</u>	<u>(587,558)</u>
Balance at December 31	<u>2,843,869</u>	<u>2,738,025</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.

15 SHARE CAPITAL

At December 31, 2008, 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, 2009 and 2008, the Government owned 70% of the Company's shares

16 STATUTORY RESERVE

As per the Company's Articles of Association, 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 2009 the Company appropriated an amount of SR 1,066 million (2008: SR 1,212 million). The statutory reserve on December 31, 2009 amounted to SR 9,299 million, which represents 46.5% of share capital (December 31, 2008: SR 8,233 million, which represents 41.2% of share capital).

17 OPERATING REVENUES

Operating revenues consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Usage charges	36,359,130	36,686,535
Subscription fees	12,482,543	9,881,541
Activation fees	422,954	454,049
Other	<u>1,515,460</u>	<u>447,243</u>
	<u>50,780,087</u>	<u>47,469,368</u>

18 GOVERNMENT CHARGES

The Government charges for the year were follows:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Commercial service provisioning	4,744,136	4,654,208
License fees	372,021	365,416
Frequency spectrum	<u>548,242</u>	<u>522,331</u>
	<u>5,664,399</u>	<u>5,541,955</u>

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

19 EMPLOYEE COSTS

Employee costs consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Salaries and allowances	4,436,365	3,972,226
Incentives and rewards	716,106	634,139
Social insurance	510,377	442,652
End of service benefits	424,267	423,080
Medical insurance	172,043	176,486
Other	<u>512,439</u>	<u>515,689</u>
	<u>6,771,597</u>	<u>6,164,272</u>

20 ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Advertising expenses and sales commissions	2,267,336	1,850,813
Doubtful debts expense (Note 4)	1,507,983	913,992
Rent of equipment, property and motor vehicles	709,499	567,269
Utilities	507,688	338,704
Consultancy	417,150	367,865
Sales promotion and incentives	367,573	232,685
Printing of telephone cards and stationery	327,013	299,812
Other	<u>1,510,094</u>	<u>1,190,948</u>
	<u>7,614,336</u>	<u>5,762,088</u>

“Other” comprises different items, the main ones being: Postage and courier, security and safety expenses, and collection commissions.

21 FINANCE COST

Composed of:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
The Company	221,863	474,705
Other Group’s companies	<u>1,163,437</u>	<u>957,496</u>
	<u>1,385,300</u>	<u>1,432,201</u>

22 OTHER INCOME AND EXPENSES, NET

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Miscellaneous revenue	1,464,907	621,250
Gains / (Losses) on foreign currency exchange fluctuations	642,153	(1,415,497)
Losses on sale/disposal of property, plant and equipment	(112,818)	(419,551)
Miscellaneous expenses	<u>(843,204)</u>	<u>(595,396)</u>
	<u>1,151,038</u>	<u>(1,809,194)</u>

Miscellaneous revenue includes the Group’s share in the gains of selling 30% of Maxis amounting to about SR 687 million. The net sale proceeds of about SR 12,375 million will be invested in the subsidiary companies of Binariang. The losses of excluding the investment in Tejari Saudi Arabia of about SR 4 million are included in miscellaneous expenses.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

23 ZAKAT

(a) Zakat base for the Company

(Thousands of Saudi Riyals)	<u>2009</u>	<u>2008</u>
Share capital – beginning of the year	<u>20,000,000</u>	<u>20,000,000</u>
Additions:		
Retained earnings – beginning of the year	11,071,370	8,659,488
Statutory reserve – beginning of the year	8,233,141	7,020,710
Provisions – beginning of the year	4,479,769	3,858,603
Adjusted net income	<u>13,274,741</u>	<u>14,915,716</u>
Total additions	<u>37,059,021</u>	<u>34,454,517</u>
Deductions:		
Net property, plant & equipment, capital work in progress and intangible assets (limited to shareholders' equity before Zakat)	(37,545,655)	(36,784,489)
Dividends paid	(5,942,869)	(8,551,934)
Investments	(21,868,171)	(20,883,579)
Non-current deferred costs	<u>(410,177)</u>	<u>(518,392)</u>
Total deductions	<u>(65,766,872)</u>	<u>(66,738,394)</u>
Zakat base	<u>(8,707,851)</u>	<u>(12,283,877)</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>2009</u>	<u>2008</u>
Balance at January 1	535,887	323,794
Charge for the year	334,513	375,513
Amounts paid during the year	<u>(88,695)</u>	<u>(163,420)</u>
Balance at December 31	<u>781,705</u>	<u>535,887</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 pending decisions on the Company's objections to certain items, totaling about SR 138.4 million. Zakat declarations for 2007 and 2008 have been submitted, but final zakat assessments on them have not been issued yet. The Company has received a zakat certificate with validity up to 16/5/1431H (30/4/2010).

(c) Subsidiaries and joint ventures

Effective this year will commence the application of the 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.

24 TAX PROVISION

The amount shown in the income statement 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, 2009 amounted to SR 307.9 million (December 31, 2008: SR 280.1 million).

Saudi Telecom Company
(a Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

25 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 2009 (including Government charges discussed in Note 18 above) amounted to SR 1,239 million and SR 5,027 million, respectively (2008: SR 1,059 million and SR 5,337 million, respectively).

Amounts receivable from and payable to Government entities at December 31, 2009 totaled SR 260 million and SR 488 million, respectively (2008: SR 181 million and SR 656 million, respectively).

Investments accounted for under the equity method

During the year, the Company incurred charges of approximately SR 13 million in favour of Arabsat (2008: SR 16 million), while expenses incurred in favour of the Arab Submarine Cables Co. approximated SR 6 million (2008: SR 6 million).

Investments in joint ventures

Transactions with joint ventures during the year were not material, with the exception of the investment in Sukuk amounting to SR 1,705 million (Refer to Note 8 & 13).

26 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 3,347 million on December 31, 2009.
- (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 2009, total rent expense under operating leases amounted to SR 598 million (2008: SR 473 million).

Contingencies

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

27 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.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

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.

28 SEGMENT INFORMATION

The Group has identified its operating segments by the type of service.

The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, third generation services, prepaid cards, international roaming and messages.
- PSTN, 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 segmental information for the year:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated	TOTAL
Operating revenues	34,088,015	9,286,127	7,247,552	158,393	50,780,087
Interconnect revenues	1,954,109	6,436,629	595,874	-	8,986,612
Interconnect expenses	<u>(5,989,930)</u>	<u>(1,600,558)</u>	<u>(1,396,124)</u>	-	<u>(8,986,612)</u>
Net operating revenues	<u>30,052,194</u>	<u>14,122,198</u>	<u>6,447,302</u>	<u>158,393</u>	<u>50,780,087</u>
Depreciation and amortization	3,459,603	3,712,344	486,468	140,324	7,798,739
Net income	9,129,198	(471,988)	1,882,198	323,948	10,863,356
Total assets	42,992,628	38,393,497	5,781,234	22,420,117	109,587,476
Total liabilities	20,955,081	15,895,708	1,245,200	20,658,539	58,754,528

The segmental information for the year ended December 31, 2008 was as follows:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated	TOTAL
Operating revenues	32,643,526	9,070,011	5,689,993	65,838	47,469,368
Interconnect revenues	1,414,253	7,340,015	371,567	-	9,125,835
Interconnect expenses	<u>(5,925,078)</u>	<u>(1,350,639)</u>	<u>(1,850,118)</u>	-	<u>(9,125,835)</u>
Net operating revenues	<u>28,132,701</u>	<u>15,059,387</u>	<u>4,211,442</u>	<u>65,838</u>	<u>47,469,368</u>

These statements were originally prepared in Arabic and the Arabic version should prevail.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2009

Depreciation and amortization	2,850,537	3,249,148	287,825	20,004	6,407,514
Net income	11,530,436	377,405	1,041,546	(1,911,541)	11,037,846
Total assets	37,750,591	36,856,022	3,815,708	21,339,814	99,762,135
Total liabilities	19,769,837	13,741,086	1,018,688	22,670,647	57,200,258

For comparative purposes, 2008 interconnection revenues and expenses have been re-calculated to conform with the methodology used for preparing 2009 segmental information.

29 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Tuesday 4 Safar 1431 H (January 19, 2010), proposed interim dividends for the fourth quarter 2009 amounting to SR 1,500 million, at the rate of SR 0.75 per share, resulting in a total dividend for 2009 of SR 3.00 per share (2008: SR 3.75 per share).

30 RECLASSIFICATION

Certain comparatives of the year ended December 31, 2008 have been reclassified to conform to the classifications used for the year ended December 31, 2009.