

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



King Abdul Aziz Al Saud
Founder of the Kingdom of Saudi Arabia



King Abdullah Bin Abdul Aziz Al Saud
Custodian of the Two Holy Mosques



Prince Sultan Bin Abdul Aziz Al Saud
The Crown Prince, Deputy Premier
Minister of Defence and Aviation and Inspector General



Prince Naif Bin Abdul Aziz Al Saud,
The Second Deputy Premier and Minister of Interior

Contents

1- Chairman's Statement

2- CEO's Statement

3- Board of Directors' Report on the Performance

and activities during the fiscal year 2008

a- STC Board of Directors (BOD)

b- STC Financial Performance

c- FORWARD; the Strategy of Customer Centricity

- Fulfill Personal Communication Potential
- Offer Wholesale Services
- Re-invent Home Communication
- Win Enterprise Customers
- Achieve External Growth
- Re-align for Customer Excellence
- Derive Operational Efficiencies

d. Social Responsibility

e. Outstanding Achievements

f. Boards of Directors Recommendations and Dividends Distribution

4- Financial Statements



A moment of hope



**followed
by accomplishments**

STC Mission

As leaders in a world of constant change, we strive to exceed our customers expectations so that, together, we reach new horizons

STC Values

Honesty | Commitment | Cooperation | Respect | Initiative | loyalty

1- STC Chairman's Statement



Dear respected stakeholders
May Allah's Peace and Blessings be upon you

On behalf of the BOD members, it is with pleasure that I present to you the STC annual report for the fiscal year 2008. STC maintained its excellence and lead among telecommunication companies in the local market, as demonstrated by the company achievements and the outstanding financial results achieved by the end of 2008, which, in turn, had a positive impact on stakeholders' dues. Operating revenues reached SR 47,469 million by the end of the year, compared to SR 34,458 million last year, marking a 38% rise. Also, income from operating revenues totaled SR 13,903 million, versus SR 12,618 million last year, i.e. 10% higher. Earnings per share amounted to SR 5.52. Figures show that among the strategic achievements of the company; namely achieving 10% of the operating income from foreign investments by the end of 2010, were already achieved by 2008, i.e. two years before the set deadline. That can be attributed to STC acquiring 35% of Oger Telecom.

Despite the fierce competition, and the key challenges imposed by the market, STC managed to maintain its lead in the domestic market, in addition to its wide-scale global presence, thanks to its extensive geographic coverage, which encompassed nine densely-populated countries with good economic growth rates, by 2008. As such, STC's size of clients climbed to more than 24 million clients locally and more than 93 million abroad.

STC has correspondingly succeeded in meeting the growing needs of its diverse clientele through offering new and creative services that match the accelerating developments of the telecom sector, especially those pertaining to the broadband personal and residential services, expanding integrated services, and paying attention to digital content. Working to the latter end, a digital content company was established through a strategic partnership with a number of specialized companies. To crown its effort, STC launched its new identity, which is aligned to the major changes in the local and global environment.

STC was keen on benefiting from the growing telecom-related potential in the business sector. It hence launched a number of initiatives in the fields of education, industrial and economic cities. STC also activated a new customer-centered operational model in order to enable customers to obtain optimum services.

Notwithstanding the necessity of a constant and effective presence, being a prerequisite for competition, STC pursued its efforts to reduce operating expenses in a manner that does not compromise the quality of the services offered. Operational efficiency was also enhanced through introducing the notion of shared services, shifting to the NGN next generation networks, as well as striving to achieve economies of scale, that are projected to continue and have a positive impact through achieving optimum value for stakeholders and maximizing their dues from STC home or foreign investments.

STC also reaffirmed commitment to its social role in effectuating sustainable development in the KSA, through its incessant support of many national events, conferences and seminars, and through implementing Al-Wafaa Program for health and education. In conclusion, on behalf of the BOD, I wish to express gratitude to all STC employees and all government agencies in KSA for their continued support. I am also grateful to BOD members whose term comes to a conclusion during 2009, and to you, kind stakeholders, for your confidence.

May Allah's Peace and Blessings be upon you.
H.E. Dr. Muhammad Bin Sulaiman Al-Jasser
Chairman – STC

2- STC President's Statement



Esteemed stakeholders,
May Allah's Peace and Blessings be upon you

STC has continued to achieve a marked increase in business and financial results despite the repercussions of the global financial crisis currently sweeping across the world and overshadowing many sectors. Added to that are the sharp competition, the Saudi telecom market opening its doors, and the start of the third cell phone license in 2008. In 2008, operating income witnessed a 38% increase, compared to the same time last year, thanks to STC's positive growth across its various services and the resounding success of its promotions, which generated boosted revenues throughout the domestic market. The number of mobile phone customers also rose by 10%. Broadband services, on the other hand, saw a 67% growth rate. STC, further, managed to secure high revenues through foreign investments launched over the past two years.

In the third quarter, STC launched its new identity, which mirrors its global expansion, in an endeavor to unite the visual identity of all its affiliates across the world. As such, STC identity would reach clients wherever they may be, bringing them the values of transparency, simplicity, development and creativity.

We, STC staff, take even greater pride in the company's robust financial standing, and its high cash flow, which positively reflected on the stakeholders' dues that rose by 5% by the end of 2008, unaffected by the generous dividends received by stakeholders over the year.

Eager to offer superior services at affordable prices, STC is constantly keen on restructuring its prices and aligning its strategy to the growth and development in services and to its clientele's aspirations.

Spurred by a genuine interest in human resources and the in-house work environment, STC offered many programs aimed at bettering employees' performance and developing the work environment. STC has also enforced a new organizational structure that hinges on national resources, backed by international experts from around the world, with a view to implementing the client-centered "FORWARD" strategy.

Pursuant to its national role played in serving Muslim pilgrims every year, STC had astounding successes during the 1429 AH pilgrimage. STC managed to capably serve more than 3 million pilgrims by doubling the capacity of mobile networks in the regions of the Holy Mosques, and routes leading thereto.

In an endeavor to partake in serving community, STC was pleased to contribute in a number of national events, sponsoring several seminars and festivals in KSA, supporting diverse activities across the Kingdom, in addition to delivering the health and education Al-Wafaa program.

We also take greater pride in STC's high ranking among world telecom companies. STC managed to win a number of awards, such as "The Best Telecommunications Company Award for the Saudi Business Sector for the year 2008," the "Transparency Award for Saudi Stock Companies for the year 2008," "the 'Leadership' award for Social Responsibility, and "King Abdul Aziz Quality Award for the year 2008." It was thus only natural for STC to win the "Best Wholesale Carrier Award for the year 2008" in the Middle East Region.

In conclusion, I praise Allah, exalted be He, and express my sincere indebtedness to our wise leaders, on top of whom is the Custodian of the Two Holy Mosques, and his Crown Prince for their invaluable support to STC. I am also grateful to the esteemed chairman and BOD members for their continued assistance. I also wish to thank our dear clients for their inestimable confidence and support, to our kind stakeholders and all STC staff for their well-appreciated efforts that were central in maintaining STC success.

May Allah's Peace and Blessings be upon you.
Eng. Saud Bin Majed Al Daweesh
President – STC

Members of the Board



From right to left:

Mr. Abdulaziz bin Habdan Alhabdan
Mr. Mohammed bin Saad Alshihri
Eng. Mohammed bin Umran Alumran
Dr. Muhammad bin Sulaiman Al-Jasser
Mr. Mansour bin Mahmoud Abdulghafar

Mr. Abdulrahman bin Abdulaziz Mazi
Mr. Mohammad bin Abdullah Alkharashi
Mr. Mansour bin Salih Almeeman
Mr. Khalid bin Abdulrahman Alrajhi

Our Leaders



From right to left:

- | | |
|---|--|
| 1- Saud bin Majed Al-Daweesh | President of Saudi Telecom |
| 2- Omar bin Mohammed Al-Turkey | Vice President of Shared Services |
| 3- Ziad bin Thamer Al-Otaibi | Vice President of Network |
| 4- Saad bin Thafir Al-Qahtani | Vice President of Home |
| 5- Saad bin Ahmed Dimyati | Vice President of Wholesale |
| 6- Ibrahim bin Saleh Al-Thubai'y | Vice President of Information Technology |
| 7- Amine bin Fahad Al-Shady | Vice President of Finance |
| 8- Salah bin Mohammed Al-Zamil | Vice President of Human Resources |
| 9- Hamood bin Mohammed Al-Qaseer | Vice President of Regularity Affairs |
| 10- Jamil bin Abdullah Al-Mulhim | Vice President of Personal |
| 11- Sameer bin As'ad Matbooli | Vice President of Enterprise |
| 12- Khalid bin Abdulrahman Al-Jasir | Vice President of Corporate Strategy |

Facts and Figures

More than 93 million clients around the world

The carrier with the biggest revenue in the Middle East
(over SR 47 billion)

Mobile roaming service with more than 428 carriers in 164 countries

Operating in 9 countries around the world

Owns and operates the biggest infrastructure for land, marine and
satellite networks in the Middle East

Facts and Figures

Best Wholesaler in the Middle East

The biggest brand name
in the Middle East and Africa

The first Saudi service company to win King Abdul Aziz Quality Award

The «Leadership» award for Social Responsibility
in the Middle East in 2008

The first telecom company in the region to obtain Standard & Poor's
Ratings «A+» long-term and «A1» from Moody's

3- BOD Report on the Company

performance and activities throughout the fiscal year 2008:

Dear Saudi Telecom stakeholders
May Allah's Peace and Blessings be upon you
The BOD is happy to present to the respected stakeholders the brief annual report on the Company performance and activities for the fiscal year 2008, which reflects sustained progress in Company performance across its various areas of activity. The role played by STC is visible in developing the Saudi telecommunications sector, in a manner that serves the Saudi society and efficiently contributes in boosting the national economy, resulting in rewarding dividends for stakeholders.
Below is a brief rundown of the Company management, as well as financial and technical performance and activities throughout 2008.

A- The Board of Directors (BOD):

• Structure of the BOD and categories of members:

Article 17 of the STC 'Articles of Association', defines the number of BOD members as nine, in accordance with section (a) of the Article 12 of the guiding Corporate Governance Regulations issued by CMA via decree number 1-212-2006, dated 21/10/1427 AH, corresponding to 12/11/06, pertaining to the number of members. Additionally, the two positions of STC Chairman and STC Executive President shall be independent, as stipulated by the said regulations. The following table lists names of BOD members, their categories and membership in the BOD's of Saudi joint stock companies.

Names of BOD members, their categories and membership in other Saudi joint stock companies

Number	Name	Membership in other board of directors	Membership categorization
1	H.E. Dr. Muhammad Bin Suliman Al-Jasser Chairman and head of the Executive Committee	<ul style="list-style-type: none">The Arab Investments Company (Chairman)	Non-executive Non-independent
2	H.E. Mohammed Bin Abdullah Al-Kharashi Vice Chairman, head of the Compensations Committee and Executive Committee Member	<ul style="list-style-type: none">Saudi Industrial Investment Group (SIIG)TawuniyaHH Saudi Research and MarketingSaudi Arabian Mining Company (Maaden)	Non-executive Independent
3	H.E. Mansour Bin Mahmoud AbdulGhaffar (Head of the Audit Committee) Passed away on 19/10/1429 AH (corresponding to 19/10/2008 AD).	<ul style="list-style-type: none">Saudi Cable CompanyAlujain Corporation	Non-executive Non-independent
4	H.E. Mansour Bin Saleh Al-Meman Executive Committee Member and Member of the Compensations Committee	<ul style="list-style-type: none">Southern Province Cement Co.Saudi Arabian Mining Company (Maaden)	Non-executive Non-independent
5	H.E. Mohammed Bin Saad Al-Shehri Executive Committee Member	--	Non-executive Non-independent
6	H.E. Abdulaziz Bin Habdan Al-Habdan Member of the Compensations Committee	<ul style="list-style-type: none">Banque Saudi Fransi	Non-executive Independent
7	H.E. Mohammed Bin Omran Al-Omran Executive Committee Member		Non-executive Independent
8	H.E. Abdulrahman Bin Abdulaziz Mazi Member of the Compensations Committee	<ul style="list-style-type: none">Technical Investments Co. (BOD member and managing director)	Non-executive Independent
9	H.E. Khalid Bin Abdulrahman Al-Rajhi Member of the Audit Committee	<ul style="list-style-type: none">Saudi Cement CompanyAl Bilad BankWalaa Insurance	Non-executive Independent

• BOD Committees:

BOD committees for the current round (the third) were devised as follows:

- The Executive Committee:

The Executive Committee is made up of five members:

- 1- H.E. Dr. Muhammad Bin Suliman Al-Jasser (head)
- 2- H.E. Mohammed Bin Abdullah Al-Kharashi
- 3- H.E. Mansour Bin Saleh Al-Meman
- 4- H.E. Mohammed Bin Saad Al-Shehri
- 5- H.E. Mohammed Bin Omran Al-Omran

The Executive committee is charged with reviewing strategies, as well as domestic and global activities of the Company in basic and non-basic areas of work, and granting them approval as per the authorities vested in them by the BOD. The committee held five meetings throughout 2008.

- The Compensations Committee:

The Compensations Committee is made up of four members:

- 1- H.E. Mohammed Bin Abdullah Al-Kharashi (head)
- 2- H.E. Mansour Bin Saleh Al-Meman
- 3- H.E. Abdulrahman Bin Abdulaziz Mazi
- 4- H.E. Abdulaziz Bin Habdan Al-Habdan

The Committee is charged with laying down, approving and endorsing an operation mechanism, structuring salaries in accordance with market criteria and ensuring fair implementation thereof in a manner that motivates management and employees to do their jobs. The Committee held seven meetings throughout 2008.

- The Audit Committee:

The Audit Committee is made up of four members:

- 1- H.E. Mansour Bin Mahmoud AbdulGhaffar (head) (May Allah rest his soul in peace)
- 2- H.E. Khalid Bin Abdulrahman Al-Rajhi
- 3- H.E Abdulziz Bin Ibrahim Al Omor
- 4- H.E. Dr. Ahmad Bin Abdullah Al-Mughames

On Sunday 191429/10/ AH, corresponding to 192008/10/AD, Mr. Mansour Bin Mahmoud AbdulGhaffar, head of the Audit Committee, passed away. Consequently, Mr. Khalid Bin Abdulrahman Al-Rajhi was elected as new head of the Committee. As per Corporate Governance Regulations, all Audit Committee members are non-executive. The Committee is charged with reviewing STC financial and administrative policies and procedures, and compiling financial reports and their outcome. The Committee also reviews the reports and observations of the Internal Audit periodically and regularly in a manner that ensures the efficiency of supervision and risk management in STC. The Committee held seven meetings throughout 2008

• **Members participation in BOD and Committees meetings:**

The following table shows the number of BOD as well as subcommittees meetings in the third round, and members attendance throughout 2008:

Members attendance of meetings of the BOD and subcommittees for the year 2008

No. of meetings Name	BOD (10)	Executive Committee (5)	Compensations Committee (7)	Audit Committee (7)
H.E. Dr. Mohammed Bin Suliman Al-Jaser	9	5		
H.E. Mohammed Bin Abdullah Al-Kharashi	10	5	7	
H.E. Mansour Bin Saleh Al-Meman	9	5	6	
H.E. Mohammed Bin Saad Al-Shehri	10	5		
H.E. Mansour Bin Mahmoud AbdulGhaffar (May Allah rest his soul in peace)	4			5
H.E. Abdulaziz Bin Habdán Al-Habdan	10		7	
H.E. Mohammed Bin Omran Al-Omran	10	5		
H.E. Abdulrahman Bin Abdulaziz Mazi	9		7	
H.E. Khalid Bin Abdulrahman Al-Rajhi	10			7

Some members were unable to attend some of the BOD and Committees meetings on account of their being outside KSA, or because of death as in the case of the late Mansour Bin Mahmoud AbdulGhaffar (May Allah rest his soul in peace).

• **BOD Members ownership in subsidiary companies:**

BOD member H.E. Abdulrahman Bin Abdulaziz Mazi owns 10.83% of the Technical Investments Co., the 2nd founding member of Saudi Tejari with 40%, and 80% of the National Information Systems Co., the 3rd founding member of Saudi Tejari with 10%. It is noteworthy that the decision to incorporate STC as a founding member in Tejari was taken before H.E. Abdulrahman Mazi joined STC BOD in the current round.

• **BOD members interests:**

Apart from the above, STC has not entered into any businesses or contracts involving substantial interests to BOD members, the CEO, financial manager or any person related to them.

• **Corporate governance:**

STC endorsed Corporate Governance Regulations in Thul Hijja, 1426 AH, corresponding to February, 2005. The Regulations are made up of 31 principles covering the entirety of corporate governance statute articles, issued by the Capital Market Authority (CMA) in 2006, as well as some of the best international practices in governance, in conformity with the statutes and rules issued by relevant bodies in KSA. STC has also approved a written Disclosure Policy, determining what should be disclosed, when, how and by whom. The policy was published on the STC website. As such, STC has complied with the guiding Corporate Governance Regulations, as issued by CMA by decree 12006-212-, dated 211427/10/ AH, corresponding to 122006/11/, in terms of the number of committees, their make-up, members independence, as well as several other articles of the statute. The following table details how far STC conforms to Saudi Executive Rules of Corporate Governance issued by CMA:

No	Article number in Corporate Governance Regulations	Compliances	Partial compliances	Non compliances	Details
1	Third: Stakeholders equities	•			
2	Fourth: Facilitating stakeholders exercising their rights and access to information	•			
3	Fifth: Stakeholders' rights relating to the General Assembly	•			
4	Sixth: Voting rights		•		Has been implemented except the article of cumulative voting, as it is still under study.
5	Seventh: Stakeholders equities in assets' profits		•		Generally defined in the Articles of Association, and a detailed policy is currently being formulated for dividends distribution.
6	Eighth: Disclosure-related policies and procedures	•			
7	Ninth: Disclosure in the BOD	•			
8	Tenth: BOD main functions		•		Full compliance has been achieved except: No clear and specific membership policies, criteria, and procedures have been laid down and put into effect after being passed by the General Assembly. STC, at present, relies on instructions and regulations issued by the Ministry of Commerce and relevant bodies.
9	Eleventh: BOD responsibilities	•			Complied with except: Nominations and Compensations Committee, as the Compensations Committee shoulders many of the tasks of the Nominations and Compensations Committee
10	Twelfth: BOD structure	•			
11	Thirteenth: BOD Committees and their independence		•		The Compensations Committee is currently shouldering a large part of the Nominations and Compensations Committee functions
12	Fourteenth: The Audit Committee	•			
13	Fifteenth: Nominations and Compensations Committee		•		
14	Sixteenth: BOD meetings and agenda	•			
15	Seventeenth: BOD members remunerations and compensations	•			
16	Eighteenth: Conflict of interest in the BOD	•			

• **The Internal Supervision:**

The BOD hereby acknowledges that balance sheets have been compiled correctly, and so the BOD has no doubts regarding the ability of STC to continue its activities. The BOD attests that the internal supervision on the financial statements relies on proper bases and operates adequately and efficiently.

The Audit Committee, stemming from the BOD, oversees the internal audit of the Company, which regularly checks the adequacy and efficiency of the internal supervision system. This is part of the Company's target, namely to attain a reasonable degree of persuasion concerning the soundness and efficiency of the internal supervision system in the Company.

• **The Internal Audit:**

The Internal Audit is an objective and independent checking and advisory action that aims at adding value and improving the Company operation. An internal audit assists an organization in achieving its objectives through providing a regular input on the process of assessing and improving the efficiency of risk management, supervision as well as operation, subject to the Internal Audit of the company. The Internal Audit has carried out several regular and special audits, which resulted in reducing income loss, minimizing cost, in addition to taking part in reviewing preliminary and final financial statements and coordinating the work of external audit bodies.

• **Potential Risk:**

No economic sector is free from potential risk. Undoubtedly, some risks may be involved in STC operation in accordance with developments in the Saudi telecom sector which is witnessing rapid changes. Major risks lie in opening new Telecom markets, the advent of new competitors, fiercer competition, resulting in higher clients' expectations and demands, and the need to offer distinguished, varied, quality services, and finally the fast-paced technological progress, which now stands as a major challenge to many companies, compelling them to adopt new high-cost technologies that may involve substantial risks. The Company has undoubtedly taken all that into consideration, when laying out its FORWARD strategy for the coming years, in a manner that maintains its leading status in the market.

B- STC Financial Performance:

STC achieved tangible growth in the size of its operations and consolidated financial results, as operating revenues amounted to SR 47,469 million by the end of the fiscal year 2008, compared to SR 34,458 million by the end of last year, with an increase rate of 38%, compared to the same period last year. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) were SR 21,741 million, versus SR 16,905 million, i.e. 29% higher than last year. Operating income rose to SR 13,903 million, compared to SR 12,618 million, marking a 10% rise than last year. Operating expenses rose by 54% compared to the same period last year, climbing from SR 21,840 million last year to SR 33,566 million in 2008. Operating expenses constitute 71% of the operating income in 2008, compared to 63% in 2007. Net income amounted to SR 11,038 million, versus 12,022 million, i.e. 8% lower than last year. Basic earnings per share during this period reached SR 5.52 compared to SR 6.01 for the same period last year.

Owing to all the above, the Company has a solid financial position as well as high cash flows and profit, which positively reflected on stakeholders' equities that rose by the end of 2008 by 5%.

Assets, liabilities and result of operations of the Company across the previous years (in SR thousands):

Description	2004	2005	2006	2007	2008
	(unconsolidated)	(unconsolidated)	(unconsolidated)	(Consolidated)	(Consolidated)
Income statement (in thousands):					
Operating revenues	30,498,663	32,539,943	32,393,571	34,457,807	47,469,368
Operating expenses*	(20,018,937)	(19,177,890)	(19,745,426)	(21,839,906)	(33,566,428)
Operating income	10,479,726	13,362,053	12,648,145	12,617,901	13,902,940
Other income and expenses, net	(912,642)	(622,943)	493,333	(171,688)	(1,860,586)
Zakat, taxes and minority interests	(252,756)	(292,249)	(342,576)	(424,480)	(1,004,508)
Net income	9,314,328	12,446,861	12,798,902	12,021,733	11,037,846
Balance sheet (in thousands):					
Current assets	10,296,468	11,950,144	13,362,282	13,977,435	18,946,396
Current liabilities	8,559,241	9,454,731	9,523,463	17,219,660	22,898,835
Working capital	1,737,227	2,495,413	3,838,819	(3,242,225)	(3,952,439)
Other long-term assets	1,039,717	1,507,392	1,899,342	6,608,940	4,739,086
Fixed and intangible assets	30,781,642	31,286,340	30,860,149	48,224,871	76,076,653
Total assets	42,117,827	44,743,876	46,121,773	68,811,246	99,762,135
Current liabilities	8,559,241	9,454,731	9,523,463	17,219,660	22,898,835
Long-term loans	-	-	-	13,019,303	28,081,220
Other liabilities	2,650,010	2,433,708	2,443,971	2,680,401	6,220,203
Total liabilities	11,209,251	11,888,439	11,967,434	32,919,364	57,200,258
Paid-up capital	15,000,000	15,000,000	20,000,000	20,000,000	20,000,000
reserves, retained earnings and minority interests	15,908,576	17,855,437	14,154,339	15,891,882	22,561,877
Equity	30,908,576	32,855,437	34,154,339	35,891,882	42,561,877
Total liabilities and equity	42,117,827	44,743,876	46,121,773	68,811,246	99,762,135

*Including administrative and marketing expenses

• **Group's Borrowings (in SR thousands):**

They are composed of:

In SR thousands	2008 (Consolidated)	2007 (Consolidated)
Current portion	3.904.714	560,448
Non Current portion	28.081.220	13,019,303
	31.985.934	13,579,751

• **Oger Telecom Ltd:**

As of December 31, 2008, the Group's share in the investees' borrowings and bank facilities amounted to SR 9,095 million.

• **Binariang:**

As of December 31, 2008, the Group's share was SR 5,317 million in the Sukuk, and SR 2,355 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. Maturity is 60 months, the amounts utilized of the facilities as of December 31, 2008 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, 2008 amounted to SR 9,500 million.

During the fourth quarter 2008, the Company started repayment of due installments of the financing facilities. Amounts settled as of December 31, 2008 amounted to SR 281 million.

A List of regularity payments due, along with a brief description and reasons:

Items	2008	2007	Description	Reason
Zakat	372,893	383,361	What is paid in accordance with Zakat rules and principles, and the instructions of the Department of Zakat and Income Taxes in the Kingdom	A regular requirement
Social insurance	261,204	261,452	What is paid in accordance with the rules and principles of the General Organization for Social Insurance in the Kingdom.	A regular requirement
Government charges	4,886,502	4,761,939	Government charges represent the expenses incurred in return for offering commercial services, issuing license and the frequency spectrum.	A regular requirement
Total payment to governmental bodies	5,520,599	5,406,752		

* Figures above represent the regular amounts to be paid by the Company to the government of KSA (domestic payments)

• **The Company dividend distribution policy:**

Dividend distribution depends on the Company's profits, its cash flow as well as future investments prospects of main and new investments, taking into consideration the necessity of maintaining a solid financial position to counter any change in the general conditions or any significant change in the telecom sector. The Company has always paid high dividends compared to net profits achieved and the net cash flow.

Despite expectations to pay annual dividends, there are no guarantees to continue to do so, nor guarantees as to the amount to be paid in any given year. Additionally, dividend distribution policy may be subject to change from time to time. Cash dividends shall be paid in Saudi Riyals.

• **Contribution in the National Income:**

The Company's contribution in the National income since 2000 and until the end of 2008 more than amounts to SR 82 million, in the form of fees paid to the government as well as annual profits.

• **Subsidiaries:**

• **Tejari Saudi Arabia:**

- STC owns 50% of Tejari Saudi Arabia capital, totaling an amount of SR 28 million.

- Tejari Saudi Arabia, a limited liability company, was established and operates in KSA.

- Tejari Saudi Arabia undertakes the following activities:

1- Establishing and operating platforms and electronic markets to undertake electronic purchases and sales, auctions, as well as all sorts of transactions among institutions and companies in both the public and private sector.

2- Offering solutions, systems, software, applications, telecom networks, databases, website hosting, as well as relevant e-commerce training and consultation.

• **Arabian Internet and Communications Services LLC (Awal Net):**

- STC owns 100% of Arabian Internet and Communications Services LLC, totaling SR 10 million.

- Arabian Internet and Communications Services LLC a limited liability company was established and operates in KSA.

- Arabian Internet and Communications Services LLC undertakes the following activities:

1- Internet service providing.

2- Telecom projects operation.

3- Data transfer and processing

• **VIVA – Kuwaiti Telecom Company - Kuwait:**

STC owns 26% of VIVA – Kuwaiti Telecom Company K.L.L, totaling KD 50 million. VIVA provides mobile telecom services in Kuwait.

• **Content Services Company:**

STC owns 51% of the Content Services Company shares, a total of SR 280 million. The company provides mobile content services.



A flash of optimism

The image features a sunset sky with a gradient of purple, pink, and orange. In the lower right, the silhouettes of a man and a child are visible, looking towards the horizon. A white text box with rounded corners is positioned in the upper left, containing the text "followed by joy".

followed by joy



C- 'FORWARD' – the Strategy of Customer Centricity

In its incessant endeavors to expand its business around the world, while maintaining its lead and competitiveness at home, and holding fast to its share within the KSA, STC defined its strategic priorities for the coming years along seven main axes, collectively known as "FORWARD", an acronym epitomizing a key message and a central strategy for the Company:

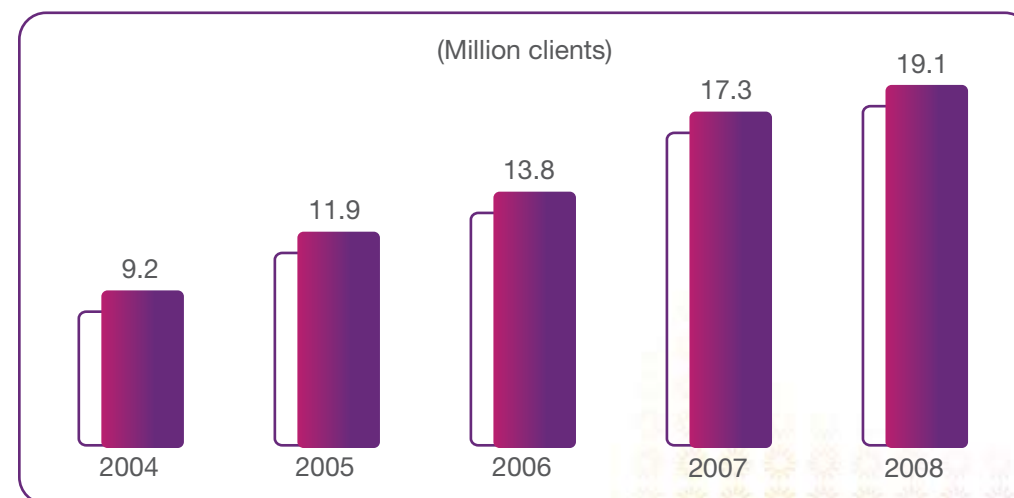
- Fulfill Personal Communication Potential: by broadly deploying 3.5G technology, expanding convergence offerings and providing top-class customer experience
- Offer wholesale services: by pursuing wholesale growth opportunities by expanding reach and broadening service offering in both the national and regional markets
- Re-invent Home Communication: by offering advanced video and information communication services through promptly introducing retail broadband to the residential sector via rapid deployment and multi-play applications
- Win Enterprise Customers: by achieving distinction across the business sector by broadening enterprise customer base through tailoring integrated and managed communication solutions
- Achieve External Growth: by having confidence in achieving external growth through pursuing telecom-related non-organic growth opportunities inside and outside Saudi Arabia
- Re-align for Customer Excellence: through keenness on customer Excellence by building customer-centric operating model with aligned people, processes and systems
- Derive Operational Efficiencies: by optimizing costs and improve efficiency through shared services implementation, and manpower, network and IT optimization

F- Fulfill Personal Communication Potential:

Driven by a sincere desire to meet the growing needs of its clientele while sustaining its lead across the domestic market, STC has exerted strenuous efforts in order to offer the best-in-class, most advanced personal communication services at competitive prices. Consequently, STC has witnessed its clientele grow by 10%, reaching 19.1 million clients, who received more than 42 services and new packages throughout the year, on top of the previous services. Accordingly, 3.5G clients rose by 30%. STC also enhanced its roaming agreements by signing new ones, which included more than 195 roaming services; whether post paid, prepaid, data, 3G, MMS, or video calling. As such, roaming services offered are 987 services in total, with more than 428 operators in 164 countries.

STC launched a number of local and international promotions in its diligent endeavors to provide optimum services at the best prices. STC offered a low and fixed tariff for roaming services in more than 30 countries, with a reduction of 70% in some countries. The first phase of the fixed roaming service STC network, and the unified network for STC subsidiaries, e.g. AXIS in Indonesia, Avea in Turkey, Cell C in South Africa, in addition to Vodafone group of global networks extending from Egypt to Europe through Australia. Based on the principle of Transparency and Disclosure, as soon as a client arrives in a foreign country, s/he receives a message listing the roaming tariffs and the available networks so as to ensure clients receive the best services at the least prices.

over than 19.1 million clients in ALJAWAL



O- Offer Wholesale Services:

Seeking to offer its clients optimum services, while keeping abreast of the latest in the wholesale domain, and in order to benefit from opportunities for expansion in wholesale services across local and foreign markets, the Company worked strenuously to attain a remarkable regional and international ranking. Working to that end, STC has come to possess and operate the biggest land, marine and satellite network and infrastructure. The Company is therefore a pioneer in building its global network, regarded as the most advanced in the region. STC was hence worthy of receiving the Best Wholesaler in the Middle East in 2008 from Telecoms World, on account of having the most sophisticated, fastest-growing network with quality and sustainability across the region. To provide the international infrastructure necessary for the Company services (phone calls, Internet, and data exchange) with the highest degrees of reliability and sustainability, STC entered into strategic partnerships with a number of international operators to establish regional and continental marine cables that are projected to raise the capacity of the global network by more than 400%. Those cables are: “I ME WE” between India and western Europe, “MENA”, “EIG”, and “EASSY”.

A border-crossing terrestrial fiber-optic network was established with neighboring countries through new state-of-the-art links. Existing links were also expanded to cope with the rise in traffic. International MPLS were expanded through upping the number of international circuits by 12%. The Company already possessed four international voice and data MPLS, connected via more than 460 direct paths to international operators. STC relies on its global network to provide diverse and convenient means of connection. STC has also provided Internet services across the KSA, as well as Internet Transit in huge capacities via all maritime cables (SWM3, SWM4, FLAG) across the region.

Thanks to its state-of-the-art network, STC sustained the Mediterranean cables rupture crisis, which disrupted Internet and telephone communications in the region. STC remained unscathed on account of the numerous paths possessed by the Company, which played a central role in overcoming many crises, with hardly any damage suffered by domestic and international clients. STC has numerous backups as well as different paths which enabled STC – in record time – to resume connectivity and redirect jammed traffic through the available capacities and the large backups via eastward cables and satellites, thus continuing to offer services. STC provided some neighboring countries with Backup Link Service during such crises, through the Internet Transit centers in Riyadh and Jeddah, the main Transit hubs in the region. STC is linked with neighboring countries (UAE, Kuwait, Bahrain, Jordan, Qatar, Yemen, Iraq and Oman) via a local fiber optics network with multi capacities and paths.

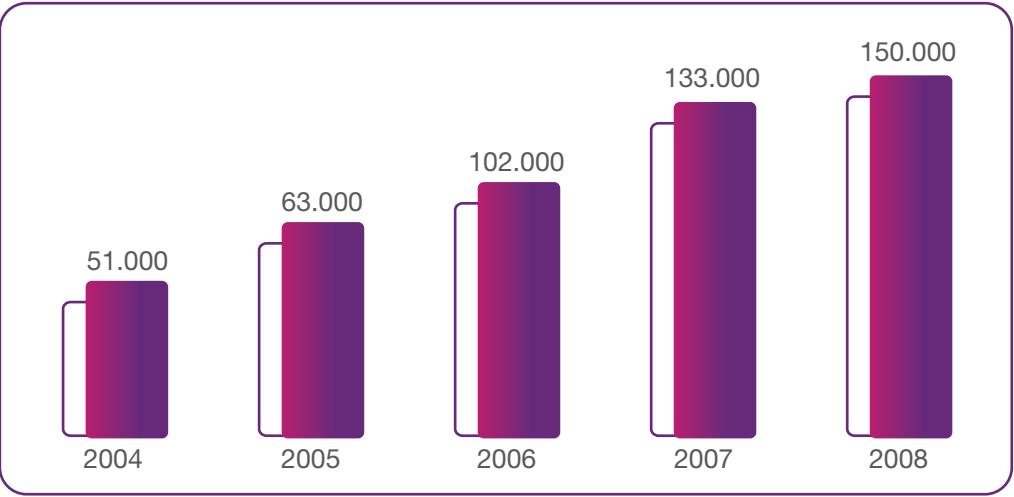
R- Re-invent Home Communication:

The Company has continued to develop its infrastructure using the latest fiber-optics network and advanced MSAN, which can accommodate high-speed Internet and offer integrated Internet solutions, e.g. visual services, IPTV and games, in addition to high-speed browsing. Driven by its pioneering role in broadband services, and the desire to keep abreast of the latest in communications and IT, the Company has launched – for the first time in KSA – Internet speeds reaching 16 to 20 Mbps through Afaq DSL Shamel and Afaq DSL Service, to customers who can technically accommodate such high speeds, in an endeavor to place KSA among the leading countries in the region to launch higher Internet speeds.

Saudi Telecom also launched – for the first time in KSA – the “fiber to the home” (FTTH) service for higher speed Internet reaching 100 Mbps, linking a client’s house to an advanced high-capacity fiber-optic network and providing them with a special modem for the service. That, in turn, translated into a higher number of DSL clients. By the end of 2008, Afaq DSL Service clients reached more than one million clients, thus emphasizing STC’s leading role in broadband services.

More than one million broadband clients

More than 150,000 international circuits
(thousand clients)



More than one million BroadBand clients



Aspiring to provide the most advanced services to the residential sector, STC launched the two highly-popular “Jood” and “Jood Plus” that are unprecedented in the Middle East, whereby Hatif customers can make free local and national phone calls to all parts of the Kingdom. Additionally, “Same3ni” and “Same3ni Tadawul”, the first of their kind in the Middle East, give customers access to many important and useful information through the automated voice response phone or by calling the numbers (1400) and (1402), along with a number of other services, marketing campaigns and promotions.

W- Win Enterprise Customers:

Striving to provide the best services for the business sector through offering solutions that rely on the latest technologies adopted worldwide, 700 new buildings were equipped with optic-fibers (SDH, MSAN, MS-SDH, and Dark Fiber) in 2008. Also, 50 schools were equipped with fiber optics. An integrated information center was established for schools, where intranets were set up. Further, communication infrastructure is being established or modernized in 13 existing industrial cities, as well as 5 new (future) industrial cities, in order to provide all communications services in these cities. Work started in 2008 and is due to be completed in 2009. Seeking to be even more customer-centered and to further meet their needs, a number of other services were provided for the business sector, on top of which are:

- Mobile data service
- Backup Line Service (BLS)
- Virtual Private Network (IP-VPN)
- Managed Router Service (MRS)
- Change Number Notification Service
- International Virtual Network
- Baridi service

Many promos were launched in order to attract more business sector clients. Special offers and discounts were also announced to ensure optimum customer satisfaction.





A surge of ambition..

Saudi Telecom... geographical expansion through investment

followed by success

Turkey

Lebanon

Jordan

Kuwait

Saudi Arabia

India

Malaysia

Indonesia

South Africa

A- Achieve External Growth:

Along the past two years, STC has transcended local borders extending to the outside world, through establishing a network of business and investments in a number of countries, such as Kuwait, India, Indonesia, Malaysia, Turkey, South Africa, Jordan and Lebanon. That, in turn, enabled Saudi Telecom to cater to a bigger number of customers, as the Company strives to expand its foreign investments through studying and assessing a number of up-and-coming investment potential, based on the "Forward" strategy.

Subsequent to the gigantic achievements in 2007, the positive impact of the Company investments (acquiring 25% of Malaysian Maxis which operates in 3 countries; Malaysia, Indonesia and India, obtaining the third license for mobile communications in Kuwait and acquiring 26% of the company capital), Saudi Telecom managed in 2008 to acquire 35% of Oger Telecom which possesses 55% of Türk Telekom, which, in turn, owns 81% of Avea, further Oger Telecom also owns 75% of Cell C, which operates in South Africa, and 95% of Cyberia, an ISP in KSA, Jordan and Lebanon. In addition to the local market, this group of companies serve more than 93 million customers, accounting for a large section of the Company revenues. That means STC managed to achieve one of its most important strategic goals, namely achieving more than 10% of the operating income from foreign investments before 2010. Saudi Telecom hence was able to achieve its target two years before the deadline; as operating income from foreign investments amounted to 22% by the end of 2008.

During 2008, Saudi Telecom established a content providing company, in collaboration with the Saudi Research and Marketing Group (SRMG) and ASTRO All Asia Networks plc., the leading multimedia interactive services in Malaysia, Brunei and India. STC owns 51% of the new company, SRMG owns 20% and ASTRO 29%.

R- Re-align for Customer Excellence:

Saudi Telecom aspired to achieve excellence in customer care, as a strategic option through building a customer-centered model of operation characterized by linking structures, regulations and relevant measures. That model was applied on all levels. To complement that trend, the STC board of directors approved the organizational structure for the group of companies by mid 2008, which is expected to help maximize the benefit of STC and its affiliates joining hands. As such, Saudi Telecom ranks as a leading company in the domain of communication services across the region thanks to the diligent efforts of its dedicated staff, as a fruit of the company's ability to constantly adapt to the market trends and meets its clientele needs within a competitive atmosphere. In 2008, Saudi Telecom launched its new brand, which is aligned to its strategy toward globalism through its thriving foreign investments in a number of countries, in a manner that further helps to focus on customers. As such, STC announced a number of exclusive and distinguished services for the various classes of society. STC has continued to adopt its «Forward» strategy to spearhead the Company toward its objective, ensuring excellence in customer care through applying a number of concepts, the most important of which are: shared services, customers segments, organizational excellence and human capital.

D- Derive Operational Efficiencies:

In order to realize operational efficiency and raise efficiency through applying the concept of shared services (one of the prime components for reducing the cost of services offered to external clients, through enhancing the efficiency of the domestic services provided for all Company sectors), developing the network and information system, upping staff efficiency, the Company continued to develop its infrastructure using the most advanced fiber-optics networks, and MSAN. Saudi Telecom also expanded the broadband network for banking and VIP sectors, the landline network, 3G network, and DSL network. STC also kicked off a project to provide mobile coverage in rural areas through more than 2,200 villages.

Saudi Telecom also implemented programs aimed at enhancing staff efficiency, improve the labor force and enhance the in-house work environment, as it focused on the capacity building of its staff, holding 2,044 training courses where more than 15,000 trainees benefited.

The Company paid special attention to the human resources, formulating a number of programs which aim at improving the labor force and enhancing the in-house work environment, by allowing staff who wish to leave work to quit and receive their pension entitlements. A total of 1,225 employees benefited from that program in 2008. The program is also expected to save about SR 6 billion over a period of ten years since its launch. That, in turn, should positively reflect on the staff performance and productivity. In 2008, STC staff level of productivity rose, compared to relevant levels in the previous year, as follows:

STC employees productivity, on the basis of the total operating lines (landlines + mobile phones + broadband) rose by 15% reaching 1.176 line per employee.

STC employees productivity on the basis of the average income of an employee rose by 10% totaling SR 1.78 million per employee.





A spark
of imagination

A photograph of a small green seedling with several leaves growing out of a deep crack in dry, cracked earth. The ground is a light brown color and shows signs of severe drought. The seedling is positioned in the upper right quadrant of the image. A semi-transparent white rectangular box with rounded corners is overlaid on the left side of the image, containing the text "followed by life".

followed by life



D- Social Responsibility:

Saudi Telecom always aspires to share responsibility with society, being part and parcel of it. Driven by genuine appreciation of the citizens of this nation, STC was keen on sharing with them a number of key national events. STC is proud to have implemented Al-Wafaa program and to have launched several unprecedented initiatives for the welfare of society. As such, STC stands out from national companies, thanks to programs such as Al-Wafaa Health Program, concerned with establishing a number of health centers, and Al-Wafaa Education Program through which STC has undertaken the training and rehabilitation of Saudi youth.

STC positive initiatives are part of a series of humanitarian initiatives aimed at achieving national development, triggered by its steadfast belief in its responsibility towards society. Among the most prominent of these programs are Al-Wafaa Health program, launched by Saudi Telecom to establish and equip a number of health centers across the KSA at a cost of SR 100 million. STC also sponsored a number of conferences, symposiums and festivals in 2008, thus touching the feelings of citizens through active participation in many seminars, forums and events, e.g. Public Relations Forum, the Seventh Human Resources Development Conference, the Math Olympics, as well as other programs such as University Registrant Contest, the Cultural Contest at the Riyadh Air Base, the National Contest for Small Projects (CyTech), the Sports Development Workshop, and the Coordination Workshop for Scholarly Associations Specialized in Sharia Disciplines.

Saudi Telecom did not stop at this point. It also took part in a number of exhibitions and conferences, the most significant of which were: supporting associations of charity all over the KSA, supporting the campaign of vaccinating grade one students in 1429 AH, Eid celebration festivals in 1429 AH, the environment program (Leave No Trace), as well as other social festivals, such as the Jeddah Summer Festival 1429 AH, Unayzah Tourism Festival 1429 AH, the olive festival in Al-Jouf, and the first Municipal Councils Meeting.

STC has devoted considerable attention to education, as it continued to enhance and support educational programs and events such as Al-Wafaa Program for Education, launched to educate and train Saudi citizens of both genders. So far, STC has managed to train more than 1,300 male and female students in all Saudi faculties. Additionally, Saudi Telecom offered generous support for scientific research at Saudi universities.

To emphasize STC's patriotism and further accentuate the principle of solidarity, the Company was pleased to provide individuals with special needs special attention, offering them up to 50% discounts for all services. STC also sponsored a fund raiser campaign to support the Dialysis Care Program for Renal Failure Patients, to the benefit of Fahd bin Salman Charity Association for Renal Failure Patients Care.

In an unprecedented step, STC decided to release clients who passed away from debts arising from services they received earlier.

The efforts exerted for the welfare of our community have indeed served to win Saudi Telecom the "Leadership" award for Social Responsibility in the Middle East, which is an incontestable proof of the success and value of STC efforts in supporting community service programs.

E- Outstanding Achievements:



- Launching the new STC logo

In 2008, Saudi Telecom launched its new logo, which, thanks to the unique design and harmonious colors, is fully aligned with STC's strategy to expand its scope of operation globally, while maintaining its lead within the KSA as well as its share in the local market. That corresponds to STC pioneering ranking in the Saudi telecom sector, as well as the creative services it offers its clientele. According to STC strategy for the coming stage, the new logo aims at emphasizing two principal dimensions; first, the Company's orientation toward globalism thanks to its thriving foreign investments, and second, the customer-centeredness through offering the biggest number of services, creating new and exclusive services, while adopting the highest professional standards. The strategic programs aims at unifying the identity of Saudi Telecom, its affiliates and partners outside the KSA, under a uniform umbrella. STC adopted its new identity within Indonesian AXIS and Kuwaiti VIVA.

- Serving pilgrims

The early arrangements undertaken by STC bore fruit during the 1429 AH pilgrimage. The Company managed to contain all incoming and outgoing phone calls to and from Arafat and the Holy sites, having expanded the capacity of the mobile network by 700% in 2008. During the pilgrimage, STC reported a surge in the use of data across the mobile network, an increase in the exchange of MMS, and a rise in the use of SMS. STC was also a success in connecting millions of phone calls, as the number of local and international calls soared while pilgrims were in Mecca. STC roaming clients during the pilgrimage also rose by 16% compared to the same period last year.



King Abdul Aziz Quality Award for the year 2008

STC won the King Abdul Aziz Quality Award in its 1st round in 1429 AH (2008). As such, STC is the first service company in the KSA to receive such high-ranking honor on merit. STC scored the highest in the nine standards of the award; Leadership, Strategic Planning, Human Resources, Supplier/Partner Management, Processes Management, Customer Focus, Information and Analysis, Impact on Society, and Business Results. The award stands as an indisputable evidence of the Company's distinguished performance and successful realization of its objectives, in terms of delivering optimum services to clients and upgrading employees' levels and ensuring their satisfaction through creating a convenient work atmosphere. The award also highlights the pioneering role played by the Company in the telecom industry in the Middle East.



Digital Excellence Award for the year 2008

Saudi Telecom won the first place in the Digital Excellence Award , organized by the Ministry of Communications & Information Technology for the year 2008 in the e-business and e-commerce sector.



«Leadership» award for Social Responsibility

STC won the «Leadership» award for Social Responsibility in the Middle East, in token of appreciation of its efforts in supporting community service programs, and the ability of the Company to develop a clearly-defined strategy and implement sustainable programs for the benefit of society.



Best Wholesale Carrier Award for the year 2008

Saudi telecom won the Best Wholesale Carrier Award for the year 2008 in the Middle East, thanks to its laudable efforts in serving telecom companies and operators in the KSA and countries in the region. as such, STC managed to outperform many regional and international telecom companies. Standards and criteria applied in assessing candidates are the rate of renovations, creative activities, strategic partnerships with international carriers, adoption of modern technologies, delivery of quality services, a network of paths, in additions to geographic outreach and customer care services.



Transparency Award

BMG Financial Consultations Firm granted the Transparency Award for Saudi Stock Companies for the year 2008 to Saudi Telecom, in appreciation of its incessant efforts as well as transparency with regional and international financial auditors, financial research firms and investors within and outside the Gulf region.



Best Telecommunications Company Award

STC won the Best Telecommunications Company Award for the year 2008, organized by Arabian Business Magazine in the Saudi business sector.



No.1 Position in the Forbes Magazine

Saudi Telecom won the 1st position on the list of Forbes Arabia, as the best performing joint stock company, according to Forbes Arabia rating.

Standard & Poor's Ratings 'A+' and 'A1'



Moody's Investors Service

Despite the wide-ranging repercussions of the global credit crisis, and its impact on the credit capabilities, STC managed to obtain (A+) from world-acclaimed Standard and Poor's for credit rating. STC was also rated as (A1) by Moody's Investors Service. Such highly-valued rating enhances STC's pioneering role in the region, as manifested in its strategic plans, and operation capacity backed by robust cash flows, high revenue, in addition to its solid financial standing and credit indicators so as to meet future financing requests.

F. BOD recommendations and dividends and bonuses distribution:

- **The proposed distribution of dividends in 2008**

The BOD proposed distributing dividends at the end of the fiscal year in 2008 on a basis of SR 3.75 per share.

- **BOD members remuneration**

Bonuses and remunerations paid to members of the BOD for their attendance of Board meetings and its subcommittees - in the year ended in 2008 – totaled SR 3,635,000. The five most senior Board members, including the president and the financial manager, received salaries and bonuses to the amount of SR 7,827,560 during 2008.

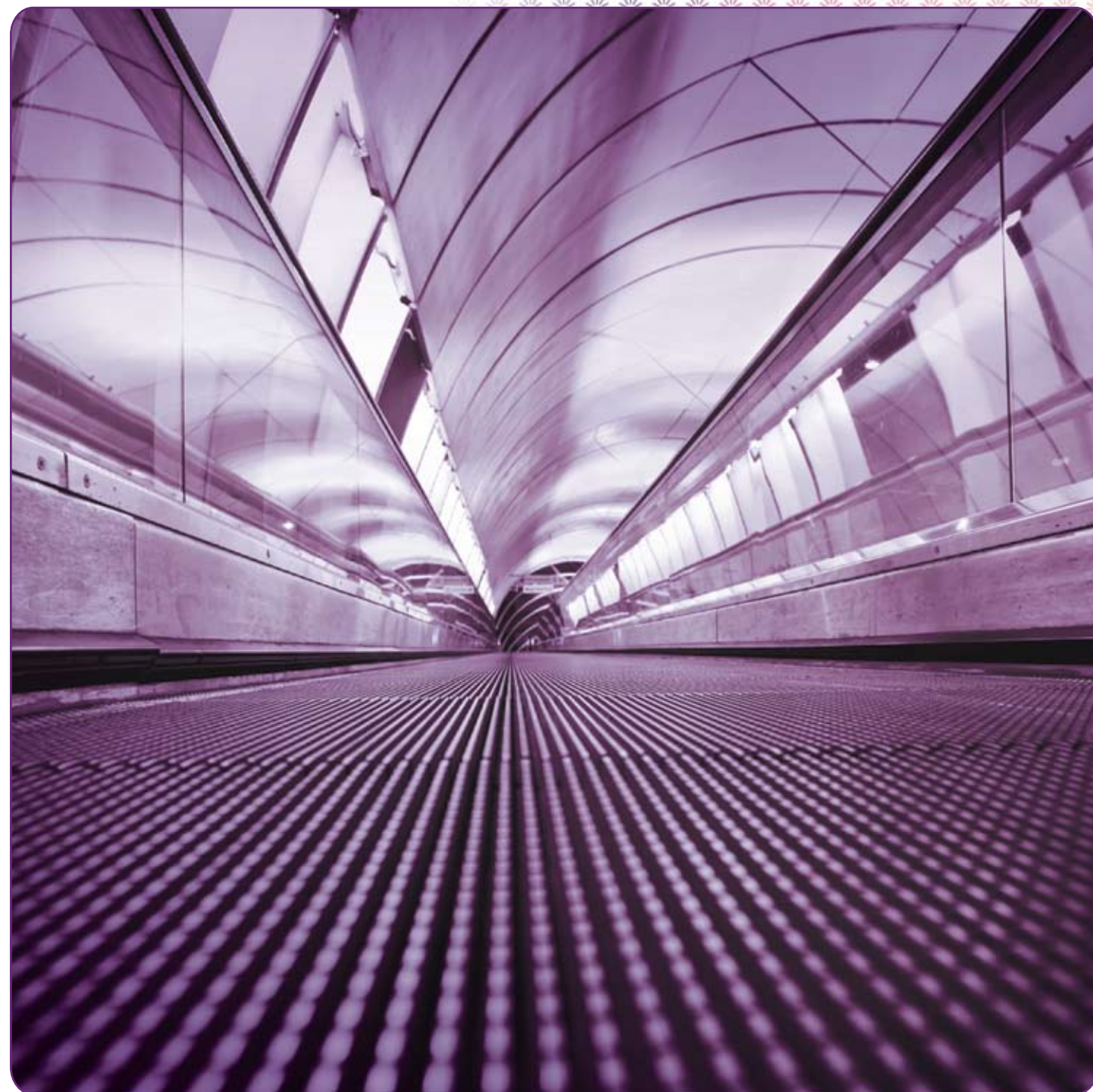
- **Recommendations**

STC BOD recommends to the General Assembly the following:

- 1- Approval of the BOD report for the fiscal year ended in 31/12/2008.
- 2- Approval of the consolidated Financial Statements of the Company and the auditor's report for the fiscal year ended 31/12/2008.
- 3- Approval of the BOD proposal to distribute dividends for the fourth quarter of the fiscal year 2008, on a basis of SR 0.75 per share, in addition to what has been distributed for the first three quarters in 2008, amounting to SR 3.00 per share. Total dividends distributed for the fiscal year 2008 is thus SR 3.75 per share.
- 4- Approval of the selection of the Company auditors from among candidates by the Audit Committee to audit and review the financial statements for the fiscal year in 2009 and the quarterly financial statements and determine their fees.
- 5- Electing a new BOD for the fourth round due to begin on 02/05/1430 AH, corresponding to 28/04/2009 AD.

Conclusion

The company BOD praises Allah for His help, and expresses gratitude to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul Aziz, his Crown Prince and our government, in appreciation of the support, care and encouragement they generously granted STC in its quest to develop performance and improve services. The Board is also grateful to STC customers and stakeholders for their confidence, and to the entire staff of the Company for their dedication and devotion in the performance of their work. The Board affirms the Company's incessant endeavors to develop its business in order to meet customers' needs, realize stakeholders' aspirations, serve social objectives, and underlines the Company's leading position in the telecom sector in the Kingdom.



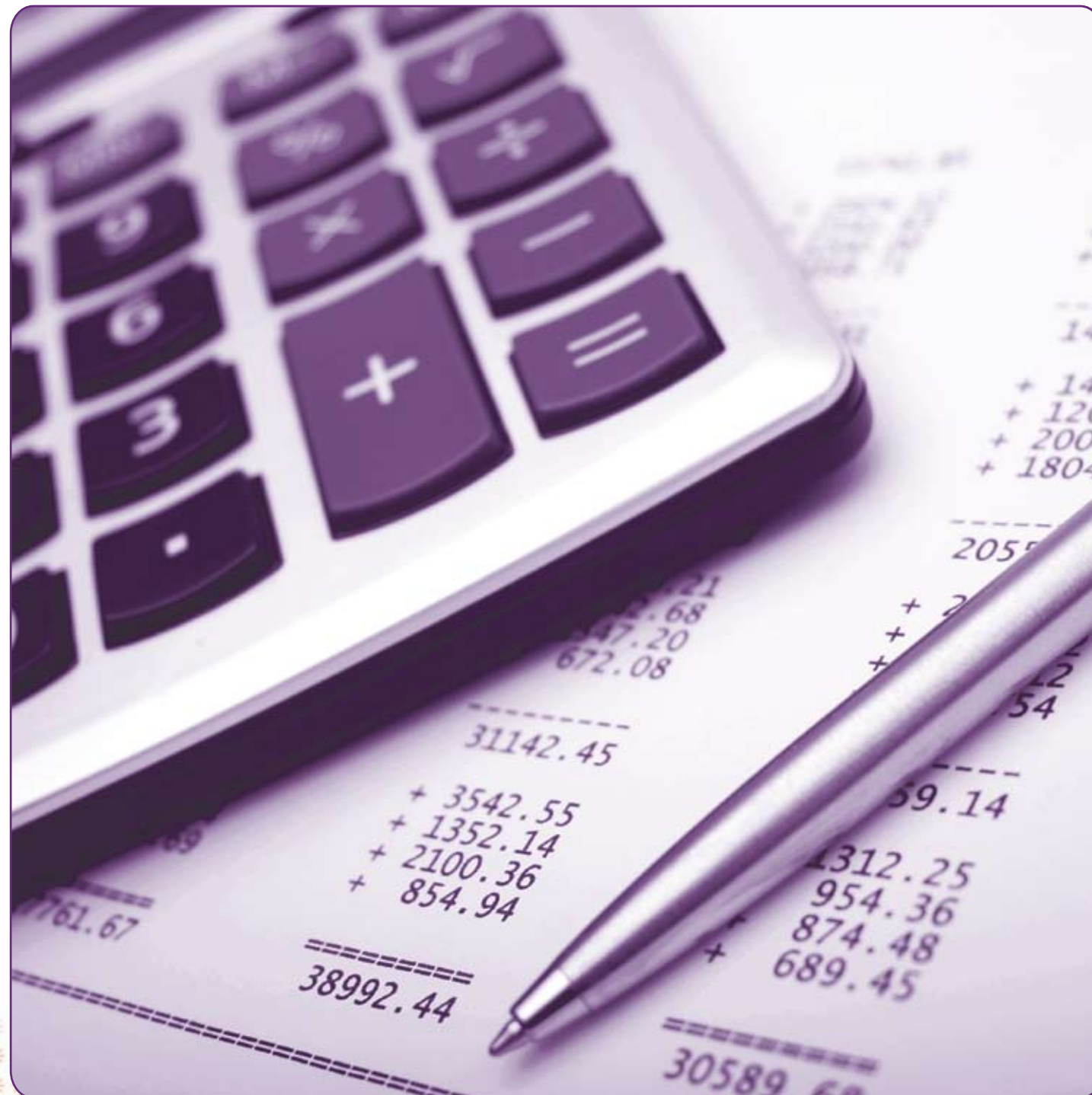


The point
of encounter...

The background of the entire image is a long-exposure photograph of a night sky. It features numerous curved white lines representing star trails, which are most prominent in the upper half of the frame. The lower half of the image shows a dark, silhouetted landscape, including what appears to be a large island or headland in the center-right and smaller hills to the left. Along the horizon, there is a bright, glowing orange and yellow light, likely from a city or a low sun, which creates a strong contrast with the dark sky and land.

**followed by
continuity**

4- Financial Statements



PRICEWATERHOUSECOOPERS

P.O. Box 8282
Riyadh 11482
Saudi Arabia
Tel: 966 (1) 4654240
Fax: 966 (1) 4651663

Dr. M. Al-Amri & Co.
Accountants & Consultants
an independent member of
BDO LLP INTERNATIONAL

P.O. Box 8736
Riyadh 11492
Saudi Arabia
Tel: 966 (1) 4192349
Fax: 966 (1) 4193047

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, 2008 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.

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, 2008 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 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.

PricewaterhouseCoopers Al Juraid

Rashid S. Al Rashoud
(License No. 366)



Dr. Al-Amri & Co.

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



February 18, 2009
23 Safar, 1430H

Consolidated Balance Sheet as of December 31, 2008 (Saudi Riyals in thousands)

	Notes	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	3	8,061,169	7,618,128
Accounts receivable, net	4	8,120,037	4,972,988
Prepayments and A current assets	5	2,765,190	1,386,319
Total current assets		<u>18,946,396</u>	<u>13,977,435</u>
Non-current assets:			
Property, plant and equipment, net	6	44,381,539	34,369,297
Intangible assets, net	7	31,695,114	13,855,574
Equity method and other investments	8	2,451,736	2,404,389
Other non-current assets	9	2,287,350	4,204,551
Total non-current assets		<u>80,815,739</u>	<u>54,833,811</u>
Total assets		<u>99,762,135</u>	<u>68,811,246</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	10	6,648,722	3,082,080
Other payables	11	4,334,601	6,217,303
Accrued expenses	12	5,762,320	5,586,722
Deferred revenues – current		2,248,478	1,773,107
Borrowings - current	13	3,904,714	560,448
Total current liabilities		<u>22,898,835</u>	<u>17,219,660</u>
Non-current liabilities:			
Borrowings	13	28,081,220	13,019,303
Employees' end of service benefits	14	2,738,025	1,932,297
Other payables		3,482,178	748,104
Total non-current liabilities		<u>34,301,423</u>	<u>15,699,704</u>
Total liabilities		<u>57,200,258</u>	<u>32,919,364</u>
Equity			
Shareholders' equity:			
Authorized, issued and outstanding shares	15	20,000,000	20,000,000
Statutory reserve	16	8,233,141	7,020,710
Retained earnings		9,783,301	8,658,704
Financial statements' translation differences		(378,464)	196,839
Total shareholders' equity		<u>37,637,978</u>	<u>35,876,253</u>
Minority interest		4,923,899	15,629
Total Equity		<u>42,561,877</u>	<u>35,891,882</u>
Total liabilities and Equity		<u>99,762,135</u>	<u>68,811,246</u>

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of Income for the Year Ended December 31, 2008
(Saudi Riyals in thousands)

	Notes	2008	2007
Operating Revenues			
	17	<u>47,469,368</u>	<u>34,457,807</u>
Operating Expenses			
Government charges	18	(5,541,955)	(4,825,002)
Access charges		(6,130,577)	(4,426,666)
Employee costs	19	(6,164,272)	(4,274,597)
Depreciation and amortization	6 , 7	(6,407,514)	(4,098,287)
Administrative and marketing expenses	20	(7,194,289)	(2,442,472)
Repairs and maintenance		<u>(2,127,821)</u>	<u>(1,772,882)</u>
Total operating expenses		<u>(33,566,428)</u>	<u>(21,839,906)</u>
Operating Income		<u>13,902,940</u>	<u>12,617,901</u>
Other Income and Expenses			
Cost of early retirement program		(675,000)	(547,580)
Commissions	3, 8	1,501,375	333,145
Other, net	21	<u>(2,686,961)</u>	<u>42,747</u>
Other income and expenses, net		<u>(1,860,586)</u>	<u>(171,688)</u>
Net Income before Minority interest, Zakat and Tax		<u>12,042,354</u>	<u>12,446,213</u>
Provision for Zakat	22	(375,513)	(384,631)
Provision for Tax	23	<u>(456,829)</u>	<u>(42,020)</u>
Net Income before Minority interests		<u>11,210,012</u>	<u>12,019,562</u>
Minority interest		<u>(172,166)</u>	<u>2,171</u>
Net Income		<u>11,037,846</u>	<u>12,021,733</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>6.95</u>	<u>6.31</u>
Basic losses per share on Other Operations (in Saudi Riyals)		<u>(0.93)</u>	<u>(0.09)</u>
Basic earnings per share on Net Income (in Saudi Riyals)		<u>5.52</u>	<u>6.01</u>

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the Year Ended December 31, 2008 (Saudi Riyals in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

	2008	2007
Net income	11,037,846	12,021,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,407,514	4,098,287
Doubtful debts expense	913,992	523,055
Earnings from investments accounted for under the equity method	(45,456)	(30,561)
Losses on sale/disposal of property, plant and equipment	419,551	15,868
Losses on disposal/sale of other investments	-	3,375
Changes in:		
Accounts receivable	(4,061,041)	(1,557,404)
Prepayments and other current assets	(1,378,871)	(470,997)
Other non-current assets	1,928,765	(3,443,132)
Accounts payable	3,566,642	1,122,143
Other payables	1,046,521	4,116,092
Accrued expenses	175,598	1,837,445
Deferred revenues	332,157	192,750
Employees' end of service benefits	805,728	111,895
Net cash provided by operating activities	21,148,946	18,540,549

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	(16,278,076)	(8,334,770)
Short-term investments	-	5,599,000
Intangible assets, net	(19,234,731)	(12,846,116)
Equity method and other investments	(29,839)	(1,371,703)
Dividends received from investments accounted for under the equity method	16,384	17,224
Proceeds from sale of property, plant and equipment	57,839	17,389
Net cash used in investing activities	(35,468,423)	(16,918,976)

CASH FLOWS FROM FINANCING ACTIVITIES

Dividends paid	(8,551,934)	(10,508,146)
Borrowings, net	18,406,182	13,579,751
Minority interest	4,908,270	15,629
Net cash provided by financing activities	14,762,518	3,087,234
NET INCREASE IN CASH AND CASH EQUIVALENTS	443,041	4,708,807
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,618,128	2,909,321
CASH AND CASH EQUIVALENTS AT END OF YEAR	8,061,169	7,618,128
Non-cash item: Financial statements' translation differences	(575,303)	196,839

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2008 (Saudi Riyals in thousands)

	Share Capital	Statutory Reserve	Retained Earnings	Financial Statements' Translation Differences	Minority Interest	Unrealized Loss On Other Investments	Total Equity
Balance at December 31, 2006	20,000,000	5,818,458	8,339,223	-	-	(3,342)	34,154,339
Net income	-	-	12,021,733	-	-	-	12,021,733
Dividends	-	-	(10,500,000)	-	-	-	(10,500,000)
Transfer to statutory reserve	-	1,202,252	(1,202,252)	-	-	-	-
Removal of investment	-	-	-	-	-	3,342	3,342
Financial statements' translation differences	-	-	-	196,839	-	-	196,839
Minority interest	-	-	-	-	15,629	-	15,629
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

The accompanying notes from 1 to 29 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the Year Ended December 31,2008

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:

Company Name	Ownership	Accounting Treatment
Arabian Internet and Communications Services Co. - The Kingdom	100%	Full Consolidation
Tejari Saudi Arabia - The Kingdom	50%	Full Consolidation
Kuwaiti Telecom Company Ltd. - Kuwait	26%	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	47.1%	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 (2G and 3G), 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 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.

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.

Kuwaiti Telecom Company Ltd. – Kuwait

In December 2007, the Company acquired 26% of the KD 50 million share capital of the Kuwaiti 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.

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.

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.

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.

Establishment of a company to provide content services.

During the fourth quarter 2008, the Company signed an agreement to establish a company to provide content services with the Saudi Research and Marketing Group and Astro, the Malaysian group. The Company owns 51% of the share capital of the content company which amounts to SR 280 million.

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, 2008.

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.
- 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.

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

	Years
Buildings	20 – 50
Telecommunications plant and equipment	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.
- 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' 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' 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.

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 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.

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 3.6% (2007: 4.8%). Total commission earned on these deals during the year was SR 126.9 million (2007: SR 194.1 million).

The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 1,368 million (2007: SR 21.8 million).

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

(Thousands of Saudi Riyals)

Short-term Murabaha deals
Short-term deposits
Collection accounts
Disbursement accounts

2008

4,111,139
3,518,169
270,201
161,660
8,061,169

2007

4,533,946
1,794,715
941,042
348,425
7,618,128

4- ACCOUNTS RECEIVABLE, NET

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

(Thousands of Saudi Riyals)

Billed receivables
Unbilled receivables

2008

7,519,484
2,326,781
9,846,265
(1,726,228)
8,120,037

2007

4,255,052
1,455,890
5,710,942
(737,954)
4,972,988

Allowance for doubtful debts

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

(Thousands of Saudi Riyals)

Balance at January 1
Additions (Note 20)

2008

1,717,621
913,992
2,631,613
(905,385)
1,726,228

2007

575,440
523,055
1,098,495
(360,541)
737,954

Bad debts written-off

Balance at December 31

(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 2008 amounted to SR 115 million (2007: SR 106 million), with an annual average of SR 197 million for the nine years preceding 2008.

(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:

(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.

(Thousands of Saudi Riyals)	2008	2007
Accounts receivable, net	<u>2,339,352</u>	<u>1,438,203</u>
Accounts payable, net	<u>3,350,564</u>	<u>2,189,108</u>

5- PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	2008	2007
Inventories	778,199	367,675
Advances to suppliers	450,087	210,795
Frequency evacuation project	292,843	292,118
Prepaid rent	236,816	75,358
Prepaid tax	196,254	102,629
Accrued commissions and receivables	183,778	49,583
Other	<u>627,213</u>	<u>288,161</u>
	<u>2,765,190</u>	<u>1,386,319</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 after signing the final report and handing-over of the project. (Refer to Note 11).

6- PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Land and Buildings	Telecommunications Plant and Equipment	Other Assets	Capital Work In Progress	Total 2008	Total 2007
Gross book value						
At January 1	11,136,081	51,672,520	4,210,231	4,958,055	71,976,887	62,169,724
Additions	53,150	291,936	72,357	5,388,520	5,805,963	5,743,975
Transfers	719,465	5,534,752	114,393	(6,368,610)	-	-
Group's share in total PPE costs of investees	1,611,574	10,147,375	294,983	616,501	12,670,433	4,204,781
Disposals	<u>(78,317)</u>	<u>(1,689,824)</u>	<u>(67,172)</u>	-	<u>(1,835,313)</u>	<u>(143,667)</u>
At December 31	<u>13,441,953</u>	<u>65,956,759</u>	<u>4,624,792</u>	<u>4,594,466</u>	<u>88,617,970</u>	<u>71,974,813</u>
Accumulated depreciation						
At January 1	4,883,244	29,624,315	3,100,031	-	37,607,590	32,041,341
Charge	316,948	3,929,705	172,703	-	4,419,356	3,873,773
Group's share in total accumulated depreciation of investees	224,742	3,242,617	116,631	-	3,583,990	1,800,812
Disposals	<u>(39,770)</u>	<u>(1,274,916)</u>	<u>(59,819)</u>	-	<u>(1,374,505)</u>	<u>(110,410)</u>
At December 31	<u>5,385,164</u>	<u>35,521,721</u>	<u>3,329,546</u>	-	<u>44,236,431</u>	<u>37,605,516</u>
Net book value	<u>8,056,789</u>	<u>30,435,038</u>	<u>1,295,246</u>	<u>4,594,466</u>	<u>44,381,539</u>	<u>34,369,297</u>

- (a) Land and buildings above include land of SR 2,404 million as of December 31, 2008 (December 31, 2007: SR 2,326 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 1,927 million as of December 31, 2008. The transfer of the ownership of the remaining land parcels with a value of SR 342 million is still in progress.

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 did not use the fair values of net assets at the date of acquisition for the calculation of goodwill arising on its acquisition of 35% of Oger Telecom Ltd. Fair values of net assets will be used to determine the goodwill pending relevant valuation reports expected to be finished during the first quarter 2009. The amounts recorded as goodwill might accordingly be reallocated.

Intangible assets consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Licenses	14,473,536	7,595,495
Goodwill arising on the consolidation of financial statements	5,477,165	2,556,201
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	4,147,340	-
Trademarks and customer relations	4,064,683	694,816
Goodwill arising on the acquisition of 25% in Binariang	1,753,114	1,753,114
Goodwill arising on the acquisition of 51% in NTS	856,726	856,726
Other	922,550	399,222
	<u>31,695,114</u>	<u>13,855,574</u>

8- EQUITY METHOD AND OTHER INVESTMENTS

These investments consist of the following:

(Thousands of Saudi Riyals)		Ownership	2008	Ownership	2007
Investments accounted for under the equity method:					
Arab Satellite Communications Organization ("Arabsat")	36.66%	983,007	36.66%	936,489	
Arab Submarine Cables Company Ltd.	47.1%	53,104	45.72%	52,275	
		<u>1,036,111</u>		<u>988,764</u>	
		1,265,625		1,265,625	
Investments in Sukuk					
Other investments:					
Held to maturity:					
Investment in Sabic's Sukuk		150,000		150,000	
Total investments		<u>2,451,736</u>		<u>2,404,389</u>	

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.

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 6.4 million (2007: SR 8.3 million).

9 - OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Employee housing loans	615,491	633,429
Deferred costs	568,461	58,745
Consideration for acquiring 26% of the Kuwaiti Company Ltd.	-	3,421,562
Other	<u>1,103,398</u>	<u>90,815</u>
	<u>2,287,350</u>	<u>4,204,551</u>

The investment in the Kuwaiti Telecom Company was temporarily recorded in 2007 under this category, and is currently classified under "subsidiaries".

10 - ACCOUNTS PAYABLE

Accounts payable consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Outside network operators' settlements (Refer to Note 4-c)	3,249,287	1,178,577
Trade	2,257,873	811,616
Government charges (Refer to Note 4-d)	926,429	1,018,561
Capital expenditures	200,981	63,687
Due to related parties	<u>14,152</u>	<u>9,639</u>
	<u>6,648,722</u>	<u>3,082,080</u>

11- OTHER PAYABLES

Other payables consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Suppliers' retentions	1,164,888	1,184,560
Provision for Zakat and Tax (Refer to Notes 22 & 23)	816,044	323,794
Withholding tax provision	754,934	439,823
Frequency evacuation project (Refer to Note 5)	250,000	250,000
Settlement of seconded employees' entitlements	119,052	282,052
Consideration for acquiring 26% of the Kuwaiti Telecom Company Ltd. – Kuwait	-	3,421,562
Other	<u>1,229,683</u>	<u>315,512</u>
	<u>4,334,601</u>	<u>6,217,303</u>

12- ACCRUED EXPENSES

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)

	2008	2007
Capital expenditures	2,800,160	2,243,440
Trade	1,391,938	1,882,908
Employee accruals	1,046,653	946,729
Other	523,569	513,645
	<u>5,762,320</u>	<u>5,586,722</u>

13- BORROWINGS

They are composed of:

(Thousands of Saudi Riyals)

	2008	2007
Current portion	3,904,714	560,448
Non-current portion	28,081,220	13,019,303
	<u>31,985,934</u>	<u>13,579,751</u>

Oger telecom Ltd.

As of December 31, 2008, the Group's share in the investees' borrowings and bank facilities amounted to SR 9,095 million.

Binariang

As of December 31, 2008, the Group's share was SR 5,317 million in the Sukuk, and SR 2,355 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. Maturity is 60 months, the amounts utilized of the facilities as of December 31, 2008 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, 2008 amounted to SR 9,500 million.

During the fourth quarter 2008, the Company started repayment of due installments of the financing facilities. Amounts settled as of December 31, 2008 amounted to SR 281 million.

14- EMPLOYEES' END OF SERVICE BENEFITS

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

(Thousands of Saudi Riyals)

	2008	2007
Balance at January 1	2,902,503	1,820,402
Charges (Note 19)	423,080	293,619
Settlements	(587,558)	(181,724)
Balance at December 31	<u>2,738,025</u>	<u>1,932,297</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, 2008 and 2007, the Government owned 70% of the Company's shares

16- 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 2008 the Company appropriated an amount of SR 1,212 million (2007: SR 1,202 million). The statutory reserve on December 31, 2008 amounted to SR 8,233 million, which represents 41% of share capital (December 31, 2007: SR 7,021 million, which represents 35% of share capital).

17- OPERATING REVENUES

Operating revenues consist of the following:

(Thousands of Saudi Riyals)

	2008	2007
Usage charges	36,686,535	28,066,325
Subscription fees	9,881,541	5,721,101
Activation fees	454,049	496,991
Other	447,243	173,390
	<u>47,469,368</u>	<u>34,457,807</u>

18- GOVERNMENT CHARGES

The Government charges for the year were follows:

(Thousands of Saudi Riyals)

	2008	2007
Commercial service provisioning	4,654,208	4,272,832
License fees	365,416	307,258
Frequency spectrum	522,331	244,912
	<u>5,541,955</u>	<u>4,825,002</u>

19- EMPLOYEE COSTS

Employee costs consist of the following:

(Thousands of Saudi Riyals)

	2008	2007
Salaries and allowances	3,972,226	2,990,807
Incentives and rewards	634,139	313,315
End of service benefits	423,080	293,619
Social insurance	442,652	261,817
Medical insurance	176,486	180,642
Other	515,689	234,397
	<u>6,164,272</u>	<u>4,274,597</u>

20- ADMINISTRATIVE AND MARKETING EXPENSES

Administrative and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Advertising expenses and sales commissions	1,850,813	565,776
financing commissions	1,432,201	189,047
Doubtful debts expense (Note 4)	913,992	523,055
Rent of equipment, property and motor vehicles	567,269	197,329
Consultancy	367,865	184,464
Utilities	338,704	180,924
Printing of telephone cards and stationery	299,812	176,625
Other	1,423,633	425,252
	<u>7,194,289</u>	<u>2,442,472</u>

The Group's share in the investees' financing commissions for the year 2008 amounted to SR 957 million (2007: SR 108 million).

21- OTHER INCOME AND EXPENSES, NET

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Miscellaneous revenue	621,250	305,531
Losses on foreign currency exchange fluctuations	(2,293,264)	(6,949)
losses on sale/disposal of property, plant and equipment	(419,551)	(15,868)
Miscellaneous expenses	(595,396)	(239,967)
	<u>(2,686,961)</u>	<u>42,747</u>

The main portion of losses on foreign currency exchange fluctuations represents losses resulting from decreases in the exchange rates of the turkish New Lira and the South African Rand against the U.S.Dollar during 2008

22- ZAKAT

(a) Zakat base for the Company

(Thousands of Saudi Riyals)	2008	2007
Share capital – beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings – beginning of the year	8,659,488	8,339,223
Statutory reserve – beginning of the year	7,020,710	5,818,458
Provisions – beginning of the year	3,858,603	2,899,576
Adjusted net income	14,915,716	12,884,007
Total additions	<u>34,454,517</u>	<u>29,941,264</u>

Deductions:

	2008	2007
Net property, plant & equipment, capital work in progress and intangible assets (limited to shareholders' equity before Zakat)	(36,784,489)	(32,659,406)
Dividends paid	(8,551,934)	(10,508,146)
Investments	(20,883,579)	(11,014,207)
Non-current deferred costs	(518,392)	(35,164)
Total deductions	<u>(66,738,394)</u>	<u>(54,216,923)</u>
Zakat base	<u>(12,283,877)</u>	<u>(4,275,659)</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

Operating revenues consist of the following:

(Thousands of Saudi Riyals)	2008	2007
Balance at January 1	323,794	296,799
Charge for the year	375,513	384,631
Amounts paid during the year	(163,420)	(357,636)
Balance at December 31	<u>535,887</u>	<u>323,794</u>

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004-2007 have not yet been finalized. The Company has received a Zakat Certificate valid up to 5/5/1430 H (30/4/2009).

(c) Subsidiaries and joint ventures

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

23- 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.

24- 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 2008 (including Government charges discussed in Note 18 above) amounted to SR 1,059 million and SR 5,337 million, respectively (2007: SR 712 million and SR 5,434 million, respectively).

Amounts receivable from and payable to Government entities at December 31, 2008 totaled SR 181 million and SR 656 million, respectively ((2007: SR 101 million and SR 951 million, respectively).

Investments accounted for under the equity method

During the year, the Company incurred charges of approximately SR 16 million in favour of Arabsat (2007: SR 10 million), while expenses incurred in favour of the Arab Submarine Cables Co. approximated SR 6 million (2007: SR 5 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 8).

25- 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 2,776 million on December 31, 2008.

(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 2008, total rent expense under operating leases amounted to 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.

26- 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.

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.

27 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	32,643,526	9,070,011	5,689,993	65,838	47,469,368
Interconnect revenues	1,384,637	6,991,613	377,003	(8,753,253)	-
Interconnect expenses	(6,079,756)	(1,321,851)	(1,351,611)	8,753,218	-
Net operating revenues	27,948,407	14,739,773	4,715,385	65,803	47,469,368
Depreciation and amortization	(2,850,537)	(3,249,148)	(287,825)	(20,004)	(6,407,514)
Net income	11,346,107	57,791	1,545,489	(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)

The Group did not disclose segmental information for 2007 due to their non-availability.

28- SUBSEQUENT EVENTS

The Board of Directors, in its meeting of 23 Muharram 1430 H (January 20, 2009), proposed interim dividends for the fourth quarter 2008 amounting to SR 1,500 million, at the rate of SR 0.75 per share, resulting in a total dividend for 2008 of SR 3.75 per share. At the international tender that took place on January 22, 2009, the Company won the third mobile license in Bahrain, at a value of BHD 86.7 million, equivalent to SR 863 million, to be paid annually during the next five years.

29- RECLASSIFICATION

Certain comparatives of the year ended December 31, 2007 have been reclassified to conform to the classifications used for the year ended December 31, 2008.

