



a Saudi Joint Stock Company

**Interim Consolidated Financial Statements for the
Third Quarter 2010**

**Interim Consolidated Financial Statements for the
Three and Nine-Month Periods Ended September 30, 2010
(Unaudited)**

Saudi Telecom Company
(a Saudi Joint Stock Company)
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Periods Ended September 30, 2010(Unaudited)

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INDEPENDENT AUDITORS' LIMITED REVIEW REPORT

To the shareholders
Saudi Telecom Company
(a Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) as of September 30, 2010 and the related interim consolidated statements of income for the three-month and nine-month periods ended September 30, 2010 and cash flows for the nine-month period then ended and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared and presented to us with all the information and explanations which we requested.

We conducted our limited review in accordance with the interim financial statements review standard issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. Such limited review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standard, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review Result

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards.

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Bakr Abulkhair & Co.



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Dhual-Qa'dah 11, 1431
October 19, 2010

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of September 30, 2010 (Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		6,335,180	5,859,528
Accounts receivable, net		10,397,256	9,317,072
Prepayments and other current assets		<u>3,689,079</u>	<u>3,272,104</u>
Total current assets		<u>20,421,515</u>	<u>18,448,704</u>
Non-current assets:			
Investments in equity and other		2,482,372	2,533,631
Property, plant and equipment, net		54,142,229	52,020,553
Intangible assets, net	3	32,083,742	29,630,656
Other non-current assets		<u>2,372,345</u>	<u>2,128,539</u>
Total non-current assets		<u>91,080,688</u>	<u>86,313,379</u>
Total assets		<u>111,502,203</u>	<u>104,762,083</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable		7,143,264	4,914,302
Other credit balances		4,232,532	4,773,319
Accrued expenses		6,149,719	6,212,439
Deferred revenues – current portion		2,081,532	1,976,738
Borrowings – current portion	4	<u>8,663,867</u>	<u>8,341,210</u>
Total current liabilities		<u>28,270,914</u>	<u>26,218,008</u>
Non-current liabilities:			
Borrowings– non-current portion	4	21,960,236	24,203,700
End of service benefits		3,108,953	2,881,183
Other non-current liabilities		<u>4,778,069</u>	<u>3,818,452</u>
Total non-current liabilities		<u>29,847,258</u>	<u>30,903,335</u>
Total liabilities		<u>58,118,172</u>	<u>57,121,343</u>
Equity:			
Shareholders' equity			
Authorized, issued and outstanding shares:			
2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		10,000,000	9,042,610
Retained earnings		15,352,460	12,356,611
Other reserves	12	(694,819)	-
Financial statements' translation differences		<u>21,084</u>	<u>(772,952)</u>
Total Shareholders' equity		44,678,725	40,626,269
Non-controlling interest		<u>8,705,306</u>	<u>7,014,471</u>
Total equity		<u>53,384,031</u>	<u>47,640,740</u>
Total liabilities and equity		<u>111,502,203</u>	<u>104,762,083</u>

The accompanying notes from 1 to 14 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Income for the Three and Nine-Month Periods Ended
September 30, 2010 (Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
		<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenue from services		13,232,391	12,934,244	38,343,259	37,751,148
Cost of services	5	<u>(5,347,573)</u>	<u>(5,179,437)</u>	<u>(15,963,690)</u>	<u>(14,360,765)</u>
Gross Profit		<u>7,884,818</u>	<u>7,754,807</u>	<u>22,379,569</u>	<u>23,390,383</u>
Operating Expenses					
Selling and marketing expenses	6	(1,696,574)	(1,943,038)	(5,350,176)	(5,045,378)
General and administrative expenses	7	(770,990)	(719,659)	(2,648,391)	(2,506,132)
Depreciation and amortization	8	<u>(2,162,389)</u>	<u>(1,980,469)</u>	<u>(6,428,022)</u>	<u>(5,662,337)</u>
Total Operating Expenses		<u>(4,629,953)</u>	<u>(4,643,166)</u>	<u>(14,426,589)</u>	<u>(13,213,847)</u>
Operating Income		<u>3,254,865</u>	<u>3,111,641</u>	<u>7,952,980</u>	<u>10,176,536</u>
Other Income and Expenses					
Cost of early retirement program		(311,549)	(214,356)	(313,889)	(807,876)
Finance cost		(730,785)	(342,497)	(1,496,097)	(1,033,153)
Commissions and interest		187,602	55,482	305,184	240,295
Other, net	9	<u>1,340,438</u>	<u>77,638</u>	<u>1,878,557</u>	<u>237,342</u>
Other income and expenses, net		<u>485,706</u>	<u>(423,733)</u>	<u>373,755</u>	<u>(1,363,392)</u>
Net Income before Zakat, Tax and Non-controlling interest		3,740,571	2,687,908	8,326,735	8,813,144
Provision for Zakat		(22,033)	(88,673)	(86,742)	(265,302)
Provision for Tax		<u>(193,859)</u>	<u>(174,393)</u>	<u>(606,648)</u>	<u>(448,982)</u>
Net Income before Non-controlling interest		3,524,679	2,424,842	7,633,345	8,098,860
Non-controlling interest		<u>(207,880)</u>	<u>(22,227)</u>	<u>(482,530)</u>	<u>(218,279)</u>
Net Income		<u>3,316,799</u>	<u>2,402,615</u>	<u>7,150,815</u>	<u>7,880,581</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>1.63</u>	<u>1.56</u>	<u>3.98</u>	<u>5.09</u>
Basic Gain / (Loss) per share on Other Operations (in Saudi Riyals)		<u>0.24</u>	<u>(0.21)</u>	<u>0.19</u>	<u>(0.68)</u>
Basic earnings per share on Net Income (in Saudi Riyals)		<u>1.66</u>	<u>1.20</u>	<u>3.58</u>	<u>3.94</u>

The accompanying notes from 1 to 14 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Nine-Month Period Ended
September 30, 2010 (Unaudited)
(Saudi Riyals in thousands)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	7,150,815	7,880,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,428,022	5,662,337
Doubtful debts expense	1,216,132	1,159,627
Earnings from investments accounted for under the equity method	(57,407)	(63,536)
(Gains) / Losses on sale/disposal of property, plant and equipment	(905,142)	129,499
Changes in:		
Accounts receivable	(2,915,670)	(3,675,952)
Prepayments and other current assets	(197,221)	(506,914)
Other non-current assets	60,385	158,811
Accounts payable	2,142,308	(450,933)
Other credit balances	484,821	767,748
Accrued expenses	52,363	485,922
Deferred revenues	(61,461)	(271,740)
End of service benefits	<u>265,084</u>	<u>143,158</u>
Net cash provided by operating activities	<u>13,663,029</u>	<u>11,418,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,735,661)	(12,964,041)
Intangible assets, net	(3,509,092)	942,836
Investments in equity and other	(107,961)	-
Dividends received from investments accounted for under the equity method	-	23,288
Proceeds from sale of property, plant and equipment	<u>1,664,114</u>	<u>220,876</u>
Net cash used in investing activities	<u>(9,688,600)</u>	<u>(11,777,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,590,532)	(4,492,756)
Borrowings, net	(665,978)	558,976
Non-controlling interest	<u>(92,817)</u>	<u>2,090,572</u>
Net cash used in financing activities	<u>(5,349,327)</u>	<u>(1,843,208)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,374,898)	(2,201,641)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>7,710,078</u>	<u>8,061,169</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>6,335,180</u>	<u>5,859,528</u>
Non-cash item:		
Financial statements' translation differences	<u>837,349</u>	<u>(394,488)</u>

The accompanying notes from 1 to 14 form an integral part of these interim consolidated financial statements.

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

Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2010 (Unaudited)

1 GENERAL

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom. The financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended September 30, 2010.

The significant accounting policies used for the preparation of the interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2009.

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

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The preparation of the financial statements in conformity with accounting standards generally accepted in the Kingdom requires the use of accounting estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenue and expenses during the financial period.

The significant accounting policies are summarized below:

a) Period of the financial statements

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

The interim consolidated financial statements are prepared on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period.

b) Interim results

The results of operations for the interim period may not represent a proper indication of the annual results of operations.

c) Revenue recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying rates approved by the Communications and Information Technology Commission ("CITC").

- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Unbilled revenue is recognized in the period to which it relates.
- Revenue is recognized upon collection when collectability is highly uncertain.

d) Cash and cash equivalents

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

e) Accounts receivable

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

f) Property, plant and equipment and depreciation

1. Prior to May 2, 1998, the Telecom Division did not maintain sufficiently detailed historical information to record property, plant and equipment based on historical cost. Consequently all property, plant and equipment transferred by the Telecom Division on May 2, 1998 has been recorded based on a valuation performed by the Company with the assistance of independent international and local valuation experts. The principal bases used for valuation are as follows:

- Land	Appraised value
- Buildings, plant and equipment	Depreciated replacement cost

2. Other than what is mentioned in (1) above, property, plant and equipment acquired by the Group are recorded at historical cost.

Saudi Telecom Company
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Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2010 (Unaudited)

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

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

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

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

g) Intangible assets

Goodwill

- Goodwill arises on the acquisition of stakes in subsidiaries and joint ventures. It represents the excess of the cost of the acquisition over the Group' share in the fair value of the net assets of the subsidiary or the joint venture at the date of acquisition.
- 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.

h) Impairment of non-current assets

The Group reviews periodically non-current assets to determine whether there are indications that they may be impaired. When such indications are present the recoverable amount of the asset should be estimated. If the recoverable amount of the asset cannot be determined individually, then the cash generating unit to which the asset relates is to be used instead. The excess of the carrying amount of the asset over its recoverable amount is treated as impairment in its value to be recognized in the interim statement of income of the period in which it occurs. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount (except for goodwill) will be reversed and recorded as income in the interim 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.

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Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2010 (Unaudited)

i) Investments

Subsidiaries

Entities controlled by the Company are classified as subsidiaries. Control is defined as the power to use, or direct the use, of another entity's assets in order to gain economic benefits. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date control commences until the date it ceases.

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control. That is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of all the parties sharing control.

Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities.

In the interim consolidated financial statements the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Company's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.

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

Investments accounted for under the equity method (Associates)

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

The Company accounts for investments in entities in which it has a significant influence under the equity method. Under the equity method, the Company records the investment on acquisition at cost, which is adjusted subsequently by the Company's share in the net income (loss) of the investee, the investee's distributed dividends and any changes in the investee's equity, to reflect the Company's share in the investee's net assets. These investments are reflected in the interim consolidated balance sheet as non-current assets, and the Company's share in the net income (loss) of the investee is presented in the interim consolidated statement of income.

j) Zakat

The Company calculates and reports the zakat provision based on Shareholders' equity in its interim consolidated financial statements in accordance with Zakat rules and principles in the Kingdom. Adjustments arising from final zakat assessments are recorded in the period in which such assessments are approved.

k) Taxes

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

Deferred tax assets

Deferred tax assets of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences of the foreign entities can be

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utilized. This involves judgement regarding the future financial performance of the particular entity in which the deferred tax asset has been recognised.

l) End of service benefits

The provision for employees' end of service benefits represents amounts due and payable to the employees upon the termination of their contracts, in accordance with the terms and conditions of the laws applicable in the Kingdom and the countries invested in.

m) Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the interim consolidated balance sheet date.

Gains and losses arising on the settlement of foreign currency transactions, and unrealized gains and losses resulting from the translation to Saudi Riyals of foreign currency denominated monetary balances are recorded in the interim consolidated statement of income.

Entities of the Group (translation of financial statements)

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

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

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

n) Contingent liabilities

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

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o) Cost of services

Represents all costs incurred by the Group on rendering of services, which are directly related to revenues generated from the use of the network, including government charges and access charges.

p) Selling and marketing expenses

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

q) General and administrative expenses

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

r) Earnings per share

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

s) Financial derivatives

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

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

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

Hedge accounting is discontinued when the Group is either revokes the hedge relationship, hedging instrument is sold, or terminated, or exercised or it no longer meet the requirements of hedge accounting. Any gain/loss accumulated in the equity at the time will remains in equity and is recognized when forecast transaction is ultimately recognized in consolidated statement of income. When forecasted transaction is no longer expected to occur, the gain or loss will be recognized immediately in consolidated statement of income.

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3 INTANGIBLE ASSETS, NET

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

The companies invested in, which resulted in intangible assets, are:

Binariang GSM SDN BHD "Binariang" – Malaysia

Binariang is a Malaysian investment holding company that had owned 100% of Maxis, the then un-listed Malaysian holding group operating in the telecommunications sector in Malaysia. In November 2009, 30% of Maxis' shares were offered for public subscription and the company was subsequently listed in the Malaysian stock market. The percentage ownership of Binariang in Maxis has accordingly reduced to 70%.

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

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 of quarter 2008. The Company acquired 51% of NTS in September 2007.

Oger Telecom Ltd. - U.A.E.

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

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

Kuwait Telecom Company Ltd. – Kuwait

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

STC Bahrain (BSC Closed) – Bahrain

STC Bahrain (BSC Closed) was established in the Kingdom of Bahrain in February 2009, and the Company owns 100% of its BHD 75 million share capital. This company operates in the field of mobile services, international telecommunications and other related services, and has commenced commercial operations in March 2010

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Intangible assets consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Licenses	15,781,654	15,190,333
Goodwill arising on the consolidation of financial statements	5,667,184	5,766,695
Trade marks and customer relations	4,024,116	4,366,438
Goodwill arising on the acquisition of 25% in Binariang	1,753,115	1,753,115
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	826,395	826,395
Goodwill arising on the acquisition of 51% in NTS	713,191	713,191
Other	<u>3,318,087</u>	<u>1,014,489</u>
	<u>32,083,742</u>	<u>29,630,656</u>

4 BORROWINGS

They are composed of:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Short-term	8,663,867	8,341,210
Long-term	<u>21,960,236</u>	<u>24,203,700</u>
	<u>30,624,103</u>	<u>32,544,910</u>

As of September 30, 2010, the Group's share in the investees' borrowings amounted to SR 19,359 million.

5 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Access charges	2,137,264	2,089,916	6,224,095	5,320,660
Government charges (*)	1,473,646	1,423,644	4,256,650	4,226,945
Repairs and maintenance	453,552	393,986	1,614,625	1,206,265
Employee costs	657,762	716,050	2,218,750	2,324,416
Other	<u>625,349</u>	<u>555,841</u>	<u>1,649,570</u>	<u>1,282,479</u>
	<u>5,347,573</u>	<u>5,179,437</u>	<u>15,963,690</u>	<u>14,360,765</u>

"Other" comprises different items, the main ones being: rent of equipment, property and vehicles, utility expenses and consultancy fees.

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

(Thousands of Saudi Riyals)	<u>Three Months ended</u> <u>September 30,</u>		<u>Nine Months ended</u> <u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
The Company	1,113,403	1,161,622	3,330,218	3,526,623
Other Group's companies	<u>360,243</u>	<u>262,022</u>	<u>926,432</u>	<u>700,322</u>
	<u>1,473,646</u>	<u>1,423,644</u>	<u>4,256,650</u>	<u>4,226,945</u>

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6 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Advertising and publicity	511,383	629,869	1,791,919	1,781,829
Employee costs	443,701	442,905	1,449,414	1,400,121
Doubtful debts expense	431,488	664,170	1,216,132	1,165,796
Printing of telephone cards and stationery	99,816	31,064	270,771	197,088
Repairs and maintenance	37,767	29,286	95,117	86,183
Other	<u>172,419</u>	<u>145,744</u>	<u>526,823</u>	<u>414,361</u>
	<u>1,696,574</u>	<u>1,943,038</u>	<u>5,350,176</u>	<u>5,045,378</u>

“Other” comprises different items, the main ones being: rent of equipment, property and vehicles, and telecom, postage, courier, security and safety expenses.

7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Employee costs	324,568	359,896	1,290,652	1,307,891
Repairs and maintenance	79,378	123,659	287,183	316,222
Rent of equipment, property and vehicles	47,637	43,117	168,506	133,808
Consultancy & legal and professional fees	60,012	91,559	226,920	197,359
Utilities	36,221	42,350	124,397	127,378
Other	<u>223,174</u>	<u>59,078</u>	<u>550,733</u>	<u>423,474</u>
	<u>770,990</u>	<u>719,659</u>	<u>2,648,391</u>	<u>2,506,132</u>

“Other” comprises different items, the main ones being: insurance premiums, stationery, freight, handling, postage and courier expenses.

8 DEPRECIATION AND AMORTIZATION

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Depreciation	1,889,544	1,772,661	5,638,356	5,090,918
Amortization	<u>272,845</u>	<u>207,808</u>	<u>789,666</u>	<u>571,419</u>
	<u>2,162,389</u>	<u>1,980,469</u>	<u>6,428,022</u>	<u>5,662,337</u>

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9 OTHER INCOME AND EXPENSES, NET

Other income and expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Miscellaneous revenue	1,094,616	185,935	1,971,825	507,504
Gain on foreign currency exchange fluctuations	254,220	216,272	352,721	548,116
Miscellaneous expenses	<u>(8,398)</u>	<u>(324,569)</u>	<u>(445,989)</u>	<u>(818,278)</u>
	<u>1,340,438</u>	<u>77,638</u>	<u>1,878,557</u>	<u>237,342</u>

Miscellaneous revenue includes the amount of SR 728 million which represents gains from the sale of fixed assets (towers) to one of Binariang Holding Group's subsidiaries.

10 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 4,178 million on September 30, 2010 (September 30, 2009: SR 3,819 million).
- (b) Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the Third quarter and the Nine-month periods ended September 30, 2010, total rent expense under operating leases amounted to SR 112 million and SR 336 million, respectively (Third quarter and the Nine-month periods ended September 30, 2009: SR 141 million and SR 395 million, respectively).

Contingencies

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

11 SEGMENT INFORMATION

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

The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, 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.

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The following table shows the segmental information for the period:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated</u>	<u>TOTAL</u>
Revenue from services	25,343,896	7,514,137	5,243,483	241,743	38,343,259
Interconnect revenues	1,741,224	4,776,856	644,153	-	7,162,233
Interconnect expenses	<u>(4,374,137)</u>	<u>(1,416,920)</u>	<u>(1,371,176)</u>	-	<u>(7,162,233)</u>
Net revenue from services	<u>22,710,983</u>	<u>10,874,073</u>	<u>4,516,460</u>	<u>241,743</u>	<u>38,343,259</u>
Depreciation and amortization	3,016,689	2,845,442	425,317	140,574	6,428,022
Net income	5,389,530	926,795	875,703	(41,213)	7,150,815
Total assets	40,135,695	38,760,794	6,879,752	25,725,962	111,502,203
Total liabilities	16,937,748	13,944,912	1,343,066	25,892,446	58,118,172

The segmental information for the period ended September 30, 2009 was as follows:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated</u>	<u>TOTAL</u>
Revenue from services	25,045,955	7,258,486	5,343,593	103,114	37,751,148
Interconnect revenues	1,301,126	4,403,294	393,653	-	6,098,073
Interconnect expenses	<u>(4,063,182)</u>	<u>(1,094,303)</u>	<u>(940,588)</u>	-	<u>(6,098,073)</u>
Net revenue from services	<u>22,283,899</u>	<u>10,567,477</u>	<u>4,796,658</u>	<u>103,114</u>	<u>37,751,148</u>
Depreciation and amortization	2,540,852	2,771,122	327,253	23,110	5,662,337
Net income	8,632,785	(757,169)	1,503,028	(1,498,063)	7,880,581
Total assets	37,703,608	38,613,807	6,018,647	22,426,021	104,762,083
Total liabilities	20,427,737	14,400,436	1,509,055	20,784,115	57,121,343

12 FINANCIAL DERIVATIVES

The Group entered into interest rate swaps agreements to control its exposure to interest rate risk of expected future cash outflows in relation to its floating rate debt. The notional principal amount and fair value of these hedges as of September 30, 2010 is SR 7,157 million and SR 695 million respectively.

The impact of these financial derivatives has been recorded in the interim consolidated financial statements of September 30, 2010, with no comparative effect. Where the Company is currently coordinating with the investees to complete the required data, this reserve is the cumulative effect since inception of these contracts.

13 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Tuesday 11 Dhual- Qa'dah 1431 H (October 19, 2010), approved interim dividends for the third quarter 2010 amounting to SR 1,500 million, at the rate of SR 0.75 per share.

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**14 PRESENTATION IN THE INTERIM CONSOLIDATED STATEMENT OF INCOME AND
COMPARATIVES**

The Group has reclassified operating expenses to present cost of services, selling and marketing expenses, and general and administrative expenses independently. Accordingly, certain comparatives for the three and nine –month periods ended September 30, 2009 have been reclassified to conform to the classifications used for the three and nine –month periods ended September 30, 2010. Were also certain comparatives have been reclassified to conform to the classifications used for the current period presentation.