



**a Saudi Joint Stock Company**

**Consolidated Financial Statements for the  
Year Ended December 31, 2010**

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
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AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi joint stock company) (the "Company") as of December 31, 2010, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 33 which form an integral part of these consolidated financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

**Deloitte & Touche**  
**Bakr Abulkhair & Co.**



Bakr A. Abulkhair  
License No. 101



**Dr. M. Al-Amri & Co.**



Gihad Al-Amri  
License No. 362

Rabi Al Awal 18, 1432H  
February 21, 2011



**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Consolidated Balance Sheet as of December 31, 2010**  
**(Saudi Riyals in thousands)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	3	6,050,677	7,710,078
Accounts receivable, net	4	8,707,358	8,697,718
Prepayments and other current assets	5	<u>3,946,177</u>	<u>3,491,858</u>
<b>Total current assets</b>		<u>18,704,212</u>	<u>19,899,654</u>
<b>Non-current assets:</b>			
Investments in equity and other	6	2,540,494	2,532,926
Property, plant and equipment, net	7	55,127,443	52,736,873
Intangible assets, net	8	31,837,104	29,221,786
Other non-current assets	9	<u>2,571,666</u>	<u>2,432,730</u>
<b>Total non-current assets</b>		<u>92,076,707</u>	<u>86,924,315</u>
<b>Total assets</b>		<b><u>110,780,919</u></b>	<b><u>106,823,969</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable	10	7,036,414	5,000,955
Other credit balances - current	11	3,508,500	4,818,569
Accrued expenses	12	6,058,002	6,097,356
Deferred revenues – current portion		1,568,491	2,081,262
Borrowings – current portion	13	<u>8,446,926</u>	<u>8,579,020</u>
<b>Total current liabilities</b>		<u>26,618,333</u>	<u>26,577,162</u>
<b>Non-current liabilities:</b>			
Borrowings– non-current portion	13	21,741,130	22,711,062
Provisions for end of service benefits	14	2,995,371	2,843,869
Other credit balances- non-current	11	<u>5,961,740</u>	<u>3,858,928</u>
<b>Total non-current liabilities</b>		<u>30,698,241</u>	<u>29,413,859</u>
<b>Total liabilities</b>		<u>57,316,574</u>	<u>55,991,021</u>
<b>Equity</b>			
<b>Shareholders' equity:</b>			
Authorized, issued and outstanding shares:			
2,000,000,000 shares, par value SR 10 per share	15	20,000,000	20,000,000
Statutory reserve	16	10,000,000	9,298,723
Retained earnings		16,287,412	13,552,367
Other reserves	17	(1,269,415)	-
Financial statements' translation differences		<u>(22,071)</u>	<u>(816,265)</u>
<b>Total shareholders' equity</b>		44,995,926	42,034,825
Non-controlling interests		<u>8,468,419</u>	<u>8,798,123</u>
<b>Total Equity</b>		<u>53,464,345</u>	<u>50,832,948</u>
<b>Total liabilities and equity</b>		<b><u>110,780,919</u></b>	<b><u>106,823,969</u></b>

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Consolidated Statement of Income for the Year Ended December 31, 2010**  
**(Saudi Riyals in thousands)**

	<u>Note</u>	<u>2010</u>	<u>2009</u>
Revenue from services	18	51,786,828	50,780,087
Cost of services	19	<u>(21,464,230)</u>	<u>(19,779,392)</u>
<b>Gross Profit</b>		<u>30,322,598</u>	<u>31,000,695</u>
<b>Operating Expenses</b>			
Selling and marketing expenses	20	(7,083,100)	(6,866,339)
General and administrative expenses	21	(3,618,983)	(3,522,030)
Depreciation and amortization	22	<u>(8,642,204)</u>	<u>(7,798,739)</u>
<b>Total Operating Expenses</b>		<u>(19,344,287)</u>	<u>(18,187,108)</u>
<b>Operating Income</b>		<u>10,978,311</u>	<u>12,813,587</u>
<b>Other Income and Expenses</b>			
Cost of early retirement program		(605,559)	(810,914)
Finance cost	23	(1,780,670)	(1,385,300)
Commissions and interest		308,727	361,957
Other, net	24	<u>2,076,253</u>	<u>1,151,038</u>
<b>Other income and expenses, net</b>		<u>(1,249)</u>	<u>(683,219)</u>
<b>Net Income before Zakat, Tax and Non-controlling interests</b>		10,977,062	12,130,368
Provision for Zakat	25	(118,208)	(334,513)
Provision for Tax	26	<u>(820,171)</u>	<u>(642,042)</u>
<b>Net Income before Non-controlling interests</b>		10,038,683	11,153,813
Share of non-controlling interests		<u>(602,361)</u>	<u>(290,457)</u>
<b>Net Income</b>		<u><b>9,436,322</b></u>	<u><b>10,863,356</b></u>
<b>Basic earnings per share on Operating Income (in Saudi Riyals)</b>		<u><b>5.49</b></u>	<u><b>6.41</b></u>
<b>Loss per share on Other Operations (Other income and expenses) (in Saudi Riyals)</b>		<u><b>(0.00)</b></u>	<u><b>(0.34)</b></u>
<b>Basic earnings per share on Net Income (in Saudi Riyals)</b>		<u><b>4.72</b></u>	<u><b>5.43</b></u>

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Consolidated Statement of Cash Flows for the Year Ended December 31, 2010**  
**(Saudi Riyals in thousands)**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	9,436,322	10,863,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,642,204	7,798,739
Doubtful debts expense	1,586,519	1,507,983
Earnings from investments accounted for under the equity method	(82,538)	(79,609)
(Gains) / Losses on sale/disposal of property, plant and equipment	(941,096)	112,818
(Gains) from sale of investments	-	(682,339)
Changes in:		
Accounts receivable	(1,596,159)	(3,404,954)
Prepayments and other current assets	(454,319)	(726,668)
Other non-current assets	(138,936)	(145,380)
Accounts payable	2,035,459	(364,279)
Other credit balances	982,902	802,451
Accrued expenses	(39,354)	335,035
Deferred revenues	(594,143)	(167,216)
End of service benefits	<u>151,502</u>	<u>105,844</u>
<b>Net cash provided by operating activities</b>	<u>18,988,363</u>	<u>15,955,781</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(10,001,417)	(15,636,871)
Intangible assets, net	(4,028,697)	1,781,658
Investments in equity and other	(74,970)	-
Dividends received from investments accounted for under the equity method	-	23,288
Proceeds from sale of property, plant and equipment	<u>1,739,965</u>	<u>289,550</u>
<b>Net cash used in investing activities</b>	<u>(12,365,119)</u>	<u>(13,542,375)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(6,108,787)	(5,942,869)
Borrowings, net	(1,844,154)	(695,852)
Non-controlling interest	<u>(329,704)</u>	<u>3,874,224</u>
<b>Net cash used in financing activities</b>	<u>(8,282,645)</u>	<u>(2,764,497)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,659,401)	(351,091)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>7,710,078</u>	<u>8,061,169</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><b>6,050,677</b></u>	<u><b>7,710,078</b></u>
<b>Non-cash item:</b>		
Financial statements' translation differences	794,194	(437,801)
Other reserves – Notes (17)	(1,269,415)	-

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Consolidated Statement of Changes in Equity for the Year Ended December 31, 2010**  
**(Saudi Riyals in thousands)**

	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Other Reserves</u>	<u>Financial Statements` Translation Differences</u>	<u>Minority Interest</u>	<u>Total Equity</u>
<b>Balance at December 31, 2008</b>	<b>20,000,000</b>	<b>8,233,141</b>	<b>9,783,301</b>		<b>(378,464)</b>	<b>4,923,899</b>	<b>42,561,877</b>
Net income	-	-	10,863,356	-	-	-	10,863,356
Dividends	-	-	(6,036,939)	-	-	-	(6,036,939)
Transferred to statutory reserve (Refer to Note 16)	-	1,065,582	(1,065,582)	-	-	-	-
Financial statements` translation differences	-	-	-	-	(437,801)	-	(437,801)
Non-controlling interests	-	-	-	-	-	3,874,224	3,874,224
Other	-	-	8,231	-	-	-	8,231
<b>Balance at December 31, 2009</b>	<b>20,000,000</b>	<b>9,298,723</b>	<b>13,552,367</b>		<b>(816,265)</b>	<b>8,798,123</b>	<b>50,832,948</b>
Net income	-	-	9,436,322	-	-	-	9,436,322
Dividends	-	-	(6,000,000)	-	-	-	(6,000,000)
Transferred to statutory reserve (Refer to Note 16)	-	701,277	(701,277)	-	-	-	-
Other reserves (Refer to Note 17)	-	-	-	(1,269,415)	-	-	(1,269,415)
Financial statements` translation differences	-	-	-	-	794,194	-	794,194
Non-controlling interests	-	-	-	-	-	(329,704)	(329,704)
<b>Balance at December 31, 2010</b>	<b>20,000,000</b>	<b>10,000,000</b>	<b>16,287,412</b>	<b>(1,269,415)</b>	<b>(22,071)</b>	<b>8,468,419</b>	<b>53,464,345</b>

The accompanying notes from 1 to 33 form an integral part of these consolidated financial statements.

# Saudi Telecom Company

## (a Saudi Joint Stock Company)

### Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010

#### 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>
	<u>2010</u>	<u>2009</u>	
Arabian Internet and Communications Services Co.Ltd (Awalnet) - The Kingdom	100%	100%	Full Consolidation
Telecom Investment Company Ltd – The Kingdom	100%	100%	Full Consolidation
STC Bahrain (VIVA) ( BSCC) – Bahrain	100%	100%	Full Consolidation
Gulf Digital Media Holding (BSCC) – Bahrain	51%	51%	Full Consolidation
Kuwait Telecom Company (VIVA) ( KSCC) - Kuwait	26%	26%	Full Consolidation
Tejari Saudi Arabia - The Kingdom	-	50%	Has been excluded
PT Natrindo Telepon Seluler (“NTS”) (AXIS) - Indonesia	51%	51%	Proportionate Consolidation
Oger Telecom Ltd. - U.A.E.	35%	35%	Proportionate Consolidation
Binariang GSM SDN BHD (“Binariang”) - Malaysia	25%	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - The Kingdom	50%	48.6%	Equity Method
Arab Satellite Communications Organization (“Arabsat”) - The Kingdom	36.66%	36.66%	Equity Method
Call Center Company– The Kingdom	50%	-	Equity Method

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

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

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

#### **Telecom Investment Company Ltd – The Kingdom**

Telecom Investment Company was established in the Kingdom of Saudi Arabia in January 2004 for the purpose of operation and maintenance of telecommunication networks and business systems, computer networks and Internet networks, maintenance and operation and installation of systems and communications software and information technology which working in the Saudi market, the Company owns 100% of its one million share capital.



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

### **Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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#### **STC Bahrain (VIVA) (BSCC) – Bahrain**

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

#### **Gulf Digital Media Holding (BSCC) – Bahrain**

This company was formed in June 2009. It is a holding company which owns stakes in companies operating in the field of content services and digital media in gulf countries. The Company owns 51% of its BHD 20 million share capital is equivalent to approximately SR 200 million.

#### **Kuwait Telecom Company (VIVA) (KSCC) – Kuwait**

In December 2007, the Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 650 million. This company operates in the field of mobile services, and has commenced commercial operations in December 2008.

#### **PT Natrindo Telepon Seluler “NTS” (AXIS) - 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 its IDR 3.2 trillion share capital, equivalent to approximately SR 1.3 billion 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 its USD 3.5 Billion share capital, equivalent to approximately SR 13.2 billion in April 2008.

#### **Binariang GSM SDN BHD “Binariang” – Malaysia**

Binariang is a Malaysian investment holding company that had owned 100% of Maxis, an 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 on the Malaysian stock market. The percentage ownership of Binariang in Maxis has accordingly reduced to 70%.

Binariang has other investments in telecommunications companies in India (Aircel company) and Indonesia (NTS- AXIS).

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

#### **Arab Submarine Cables Company Ltd. – The Kingdom**

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

#### **Arab Satellite Communications Organization “Arabsat” – The Kingdom**

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

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

### **Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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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.

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

#### **Call Center Company– The Kingdom**

Call Center Company was established to provide call center services and directory queries with Aegis company at the end of December 2010 in kingdom of Saudi Arabia, with a capital of SR 4.5 million, The Company owns approximately 50% of shares (225,001 out of 450,000 shares).

## **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, 2010.

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

The preparation of the consolidated 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 consolidated financial statements and the amounts of revenue and expenses during the consolidated financial period.

The significant accounting policies are summarized below:

#### **2-1 Period of the consolidated financial statements**

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

#### **2-2 Revenue recognition**

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying approved rates.

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

#### **2-3 Cash and cash equivalents**

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

#### **2-4 Accounts receivable**

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

#### **2-5 Offsetting of accounts**

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

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**Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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**2-6 Allowance for doubtful debts**

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

**2-7 Inventories**

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

**2-8 Property, plant and equipment and depreciation**

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

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

2. Other than what is mentioned in (1) above, property, plant and equipment acquired by the Group are recorded at historical cost.
3. Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.
4. Property, plant and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful lives:

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

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

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**Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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9. Assets under concession agreements are depreciated over their estimated useful lives or the contract duration whichever is the shorter.

**2-9 Software costs**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
- 5) Software training and data-conversion costs are expensed as incurred.

**2-10 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 this difference is negative Non-current assets fair values must be reduced except for non-current investments in securities by such difference. The adjustment to the non-current assets is done proportionately according to their net book values
- Goodwill is recorded at cost and is reduced by impairment losses (if any).

**Spectrum rights and Second/Third Generation licenses**

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

**2-11 Impairment of non-current assets**

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

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**Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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**2-12 Investments**

**Subsidiaries**

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

**Investments in joint ventures**

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

Contractual arrangements that involve a separate entity in which each 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 Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.

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

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

**Other investments**

Available for sale marketable securities that do not lead to the control or significant influence 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.

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.

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.

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**2-13 Zakat**

The Group calculates and reports the zakat provision based on zakat base in its 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 by the Department of Zakat and Income tax.

**2-14 Taxes**

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

**2-15 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.

**2-16 Foreign currency transactions**

**Functional and presentation currency**

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

**Transactions and balances**

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

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

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

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

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus net income for the 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 or disposed of, exchange differences that were recorded in shareholders' equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

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**Notes to the Consolidated Financial Statements for the Year Ended December 31, 2010**

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**2-17 Contingent liabilities**

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

**2-18 Cost of services**

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

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

**2-19 Selling and marketing expenses**

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

**2-20 General and administrative expenses**

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

**2-21 Earnings per share**

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

**2-22 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 the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship.

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

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated statement of income, together with any changes in the fair value of the hedged assets or liability. In the case of cash flow hedges, the effective portion of changes in fair value the of

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

**2-23 Related parties**

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

**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 2010 was 0.53% (2009: 0.96%). Total commission earned on these deals during the year 2010 was SR 7.3 million (2009: SR 35.5 million).

The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 242 million (2009: SR 324 million).

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Collection accounts	230,137	3,922,421
Short-term Murabaha deals	990,040	1,614,182
Short-term deposits	4,064,358	1,612,473
Disbursement accounts	<u>766,142</u>	<u>561,002</u>
	<u>6,050,677</u>	<u>7,710,078</u>

**4 ACCOUNTS RECEIVABLE, NET**

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Billed receivables	9,360,558	8,464,008
Unbilled receivables	<u>1,291,600</u>	<u>2,423,457</u>
	10,652,158	10,887,465
Allowance for doubtful debts	<u>(1,944,800)</u>	<u>(2,189,747)</u>
	<u>8,707,358</u>	<u>8,697,718</u>

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Balance at January 1	2,189,747	1,726,228
Additions (Note 20)	<u>1,586,519</u>	<u>1,507,983</u>
	3,776,266	3,234,211
Bad debts written-off	<u>(1,831,466)</u>	<u>(1,044,464)</u>
Balance at December 31	<u>1,944,800</u>	<u>2,189,747</u>



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- (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 2010 amounted to SR 111 million (2009: SR 101 million), with an annual average of SR 192 million for the eleven years preceding 2010.
- (c) The Group has agreements with outside network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31, 2010 the net amounts included in accounts receivable and accounts payable were as follows:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Accounts receivable, net	<u>1,383,985</u>	<u>1,420,829</u>
Accounts payable, net	<u>1,473,240</u>	<u>1,176,877</u>

- (d) In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), the Company settles the amounts due to the Government as government charges against accumulated receivable balances due from Government for usage of the Company's telecom services. (Refer to Note 27).

**5 PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Inventories	759,573	710,276
Advances to suppliers	328,632	624,860
Prepaid rent	653,408	387,666
Prepaid tax	214,099	334,200
Short-term investments	385,142	298,698
Frequency evacuation project	292,843	292,843
Accrued commissions and receivables	319,266	152,333
Deferred expenses	374,939	82,379
Other	<u>618,275</u>	<u>608,603</u>
	<u>3,946,177</u>	<u>3,491,858</u>

The frequency evacuation project, which is agreed upon with official parties, is to evacuate the frequencies used for the benefit of CITC and to build an alternative network by the Company. In 2005, an amount of SR 250 million were deducted and during the year 2010 the rest of the project amount (SR 50 million) was deducted from the balance payable to the Government and reflected under "Other payables". Upon the finalizing of the handover of the project a final report has been signed. (Refer to Note 11).

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

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**6 INVESTMENTS IN EQUITY AND OTHER**

These investments consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>		<u>2009</u>	
	<u>Ownership</u>		<u>Ownership</u>	
<b>Investments accounted for under the equity method:</b>				
Arab Satellite Communications Organization (“Arabsat”)				
	36.66%	1,204,803	36.66%	1,088,478
Arab Submarine Cables Company Ltd.				
	50%	52,207	48.6%	53,597
Call Center Company				
	50%	<u>2,250</u>	-	<u>-</u>
		<u>1,259,260</u>		<u>1,142,075</u>
<b>Investment in Sukuk and other</b>		<u>1,281,234</u>		<u>1,390,851</u>
Total investments in equity and other		<u>2,540,494</u>		<u>2,532,926</u>

**Investments in Sukuk**

Represents the group’s share in sukuk investments, which has been undertaken by one of the Group’s entities in December 2007. Maturing in 10 years amounting to SR 1,266 million, commission margin is equal to Kuala Lumpur Inter-Bank Offered Rate (“KLIBOR”) plus 0.45%. This financing is a part of related party transactions within the Group. (Refer to Note 27).

**Investment in Sabic’s Sukuk**

Sukuk were acquired from Saudi Basic Industries Corporation “Sabic” in July 2006 in the amount of 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 2010 amounted to SR 1.7 million (2009: SR 2.4 million). Because the period of maturity is less than one year, Sabic’s Sukuk have been re-classified as current assets as at December 31, 2010

**7 PROPERTY, PLANT AND EQUIPMENT, NET**

(Thousands of Saudi Riyals)	<u>Land and Buildings</u>	<u>Telecommunications Plant and Equipment</u>	<u>Other Assets</u>	<u>Capital Work In Progress</u>	<u>Total</u>	
					<u>2010</u>	<u>2009</u>
<b>Gross book value</b>						
At January 1	13,896,347	77,776,462	6,284,572	3,806,510	101,763,891	88,617,970
Additions	7,546	116,976	62,143	5,188,855	5,375,520	5,982,756
Transfers	381,204	4,550,127	237,244	(5,168,575)	-	-
Group’s share in total PPE costs of investees	49,045	4,196,606	699,698	744,509	5,690,092	7,702,569
Disposals	<u>(24,484)</u>	<u>(725,274)</u>	<u>(131,888)</u>	<u>(234)</u>	<u>(881,880)</u>	<u>(539,404)</u>
At December 31	<u>14,309,658</u>	<u>85,914,897</u>	<u>7,151,769</u>	<u>4,571,299</u>	<u>111,947,623</u>	<u>101,763,891</u>
<b>Accumulated depreciation</b>						
At January 1	(5,812,960)	(39,434,119)	(3,779,939)	-	(49,027,018)	(44,236,431)
Depreciation	(405,277)	(4,519,320)	(357,487)	-	(5,282,084)	(6,879,169)
Group’s share in remaining movement of accumulated depreciation of investees	(93,239)	(2,378,980)	(121,870)	-	(2,594,089)	1,713,338
Disposals	<u>6,329</u>	<u>51,679</u>	<u>25,003</u>	<u>-</u>	<u>83,011</u>	<u>375,244</u>
At December 31	<u>(6,305,147)</u>	<u>(46,280,740)</u>	<u>(4,234,293)</u>	<u>-</u>	<u>(56,820,180)</u>	<u>(49,027,018)</u>
<b>Net book value</b>	<u>8,004,511</u>	<u>39,634,157</u>	<u>2,917,476</u>	<u>4,571,299</u>	<u>55,127,443</u>	<u>52,736,873</u>

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- (a) Land and buildings above include land of SR 2,238 million as of December 31, 2010 (December 31, 2009: SR 2,260 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 1,924 million as of December 31, 2010. The transfer of the ownership of the remaining land parcels with a value of SR 217 million is still in progress.
- (c) Property, plant and equipment Include fixed assets subject to concession agreements belonging to one of the investees, the Group's share in concession agreements amounted to SR 2,890 million, the ownership of these assets will construe at the end of the agreements to the government.

**8 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 Group's share in the goodwill recorded in the financial statements of Binariang and Oger Telecom Ltd.

Intangible assets consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Licenses	15,641,615	15,313,139
Goodwill arising on the consolidation of financial statements	5,610,971	5,137,389
Trade marks and contractual relations	3,812,645	4,319,416
Spectrum usage rights	2,482,891	303,395
Goodwill arising on the acquisition of 25% in Binariang	1,753,114	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	826,396	826,396
Goodwill arising on the acquisition of 51% in NTS	713,191	713,191
Other	<u>996,282</u>	<u>855,746</u>
	<u>31,837,104</u>	<u>29,221,786</u>

**9 OTHER NON-CURRENT ASSETS**

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Employee housing loans	849,344	717,751
Deferred taxes	584,746	543,651
Deferred costs	283,245	453,234
Investment property	363,746	398,476
Other	<u>490,585</u>	<u>319,618</u>
	<u>2,571,666</u>	<u>2,432,730</u>

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

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**10 ACCOUNTS PAYABLE**

Accounts payable consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Outside network operators` settlements	1,584,991	1,226,416
Trade	3,538,335	2,653,173
Government charges	836,865	684,878
Capital expenditures	1,013,633	409,609
Other	<u>62,589</u>	<u>26,879</u>
	<u>7,036,414</u>	<u>5,000,955</u>

**11 OTHER CREDIT BALANCES - CURRENT**

Other credit balances - current consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Provision for Zakat and Tax (Refer to Notes 25 & 26)	1,164,976	1,089,616
Suppliers` retentions	393,274	996,099
Withholding tax provision	548,201	931,455
Customers` refundable deposits	101,121	273,422
Frequency evacuation project (Refer to Note 5)	300,000	250,000
Settlement of seconded employees` entitlements	-	119,052
Other	<u>1,000,928</u>	<u>1,158,925</u>
	<u>3,508,500</u>	<u>4,818,569</u>

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

**OTHER CREDIT BALANCES-NON-CURRENT**

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Deferred tax	1,655,625	2,422,741
Deferred revenues-non current portion	943,330	192,670
Derivative financial instruments	645,509	-
Trade -non current	617,678	-
Accrued licenses fees	344,840	517,411
Obligations under finance lease	347,141	236,944
Sport clubs sponsoring	174,625	156,875
Other	<u>1,232,992</u>	<u>332,287</u>
	<u>5,961,740</u>	<u>3,858,928</u>

“Other” comprises different items, the main ones being: Long term prepayments

**12 ACCRUED EXPENSES**

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Capital expenditures	2,292,853	2,511,149
Trade	2,342,431	2,022,443
Employee accruals	701,045	1,103,033
Other	<u>721,673</u>	<u>460,731</u>
	<u>6,058,002</u>	<u>6,097,356</u>

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**13 BORROWINGS**

They are composed of:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Current portion	8,446,926	8,579,020
Non-current portion	<u>21,741,130</u>	<u>22,711,062</u>
	<u>30,188,056</u>	<u>31,290,082</u>

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

As of December 31, 2010, the Group's share in the investees' borrowings and bank facilities amounted to SR 8,945 million.

**Binariang GSM SDN BHD "Binariang" – Malaysia**

As of December 31, 2010, the Group's share was SR 3,001 million in the Sukuk, and SR 5,928 million in the bank facilities and finance lease contracts. The Sukuk were utilized in financing the acquisition of outstanding shares of Maxis, the Malaysian holding group. Which subsequently put 30% of them to the public and incorporated in the Malaysian financial market

**The Company**

During the third quarter 2007, the Company obtained financing facilities in the forms of Murabaha deals from several local banks based on the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.25%. Maturity is 60 months, the amounts utilized of the facilities as of December 31, 2010 amounted to SR 6,000 million.

During the fourth quarter 2007, financing facilities have been obtained in the forms of Murabaha deals from a branch of local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. Maturity is 120 months, the amounts utilized of the facilities as of December 31, 2010 amounted to SR 1,688 million.

In April 2008, the Company obtained financing facilities in the forms of Murabaha deals from several local banks based on the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.25%. Maturity is 120 months, the amounts utilized of the facilities as of December 31, 2010 amounted to SR 9,500 million.

During the third quarter 2010, the Company obtained financing facilities in the forms of Murabaha deals from several local banks based on the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.50%. Amounted to one billion Saudi Riyal, the amounts are not utilized as of December 31, 2010

During the fourth quarter 2008, the Company started repayment of due installments of the financing facilities. Amounts settled as of December 31, 2010 amounted to SR 4,874 million, of which SR 2,555 million were settled during the year ended December 31, 2010.

**14 EMPLOYEES' END OF SERVICE BENEFITS**

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Balance at January 1	2,843,869	2,738,025
Charges during the year	559,980	424,267
Settlements during the year	<u>(408,478)</u>	<u>(318,423)</u>
Balance at December 31	<u>2,995,371</u>	<u>2,843,869</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.

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**15 SHARE CAPITAL**

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As of December 31, 2010 and 2009, the Government owned 70% of the Company's shares.

**16 STATUTORY RESERVE**

As per the Company's Articles of Association, 10% of annual net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. During the year 2010 the Company appropriated an amount of SR 701 million (2009: SR 1,066 million). The statutory reserve on December 31, 2010 amounted to SR 10,000 million, which represents 50% of share capital (December 31, 2009: SR 9,299 million, which represents 46.5% of share capital). Therefore, the appropriation was stopped when it reached the formal limit and raising the request for approval to the Ordinary General Assembly of shareholders to be held at the end of March 2011 to approve such a moratorium.

**17 OTHER RESERVES**

Other reserves consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Hedging reserves (Refer to Note 30)	760,803	-
Step acquisition reserve	461,079	-
Other reserves	<u>47,533</u>	<u>-</u>
	<u>1,269,415</u>	<u>-</u>

**18 REVENUE FROM SERVICES**

Revenue from services consists of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Usage charges	34,773,232	36,359,130
Subscription fees	15,008,968	12,482,543
Activation fees	337,223	422,954
Other	<u>1,667,405</u>	<u>1,515,460</u>
	<u>51,786,828</u>	<u>50,780,087</u>

**19 COST OF SERVICES**

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Access charges	8,059,503	7,494,284
Government charges (*)	5,723,173	5,664,399
Repairs and maintenance	2,350,700	2,026,145
Employee costs	2,922,611	3,140,651
Other	<u>2,408,243</u>	<u>1,453,913</u>
	<u>21,464,230</u>	<u>19,779,392</u>

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

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(\*)The details of government charges are as follows:  
(Thousands of Saudi Riyals)

	<u>2010</u>	<u>2009</u>
Commercial service provisioning	4,734,944	4,744,136
License fees	383,092	372,021
Frequency spectrum	<u>605,137</u>	<u>548,242</u>
	<u>5,723,173</u>	<u>5,664,399</u>

**20 SELLING AND MARKETING EXPENSES**

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)

	<u>2010</u>	<u>2009</u>
Advertising and publicity	2,360,389	2,464,119
Employee costs	1,909,389	1,878,848
Doubtful debts expense	1,586,519	1,507,983
Printing of telephone cards and stationery	413,295	272,068
Repairs and maintenance	123,768	145,826
Other	<u>689,740</u>	<u>597,495</u>
	<u>7,083,100</u>	<u>6,866,339</u>

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

**21 GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)

	<u>2010</u>	<u>2009</u>
Employee costs	1,692,439	1,752,098
Repairs and maintenance	367,581	451,173
Rent of equipment, property and vehicles	264,003	226,024
Consultancy & legal and professional fees	361,300	271,582
Utilities expenses	167,683	191,013
Others	<u>765,977</u>	<u>630,140</u>
	<u>3,618,983</u>	<u>3,522,030</u>

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

**22 DEPRECIATION AND AMORTIZATION**

(Thousands of Saudi Riyals)

	<u>2010</u>	<u>2009</u>
Depreciation	7,421,506	6,879,169
Amortization	<u>1,220,698</u>	<u>919,570</u>
	<u>8,642,204</u>	<u>7,798,739</u>

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**23 FINANCE COST**

Composed of:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
The Company	118,719	221,863
Other Group's companies	<u>1,661,951</u>	<u>1,163,437</u>
	<u>1,780,670</u>	<u>1,385,300</u>

**24 OTHER INCOME AND EXPENSES - OTHER, NET**

Other income and expenses – other, net consist of the following:

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Miscellaneous revenue	1,398,666	1,464,907
Gain on foreign currency exchange fluctuations	359,318	642,153
Gains / (Losses) on sale/disposal of property, plant and equipment	941,096	(112,818)
Miscellaneous expenses	<u>(622,827)</u>	<u>(843,204)</u>
	<u>2,076,253</u>	<u>1,151,038</u>

Gains / (Losses) on sale/disposal of property, plant and equipment for the year ended December 31, 2010 includes the amount of SR 728 million which represents the Group's share from sale of fixed assets (towers) gains by one of Binariang Holding Group's subsidiaries. In 2009 miscellaneous revenue includes the Group's share in the gains of selling 30% of Maxis amounting to about SR 687 million

**25 ZAKAT**

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

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Share capital – beginning of the year	<u>20,000,000</u>	<u>20,000,000</u>
<u>Additions:</u>		
Retained earnings, Statutory reserve and Provisions – beginning of the year	25,617,777	22,513,744
Borrowings and payables	12,874,014	13,181,348
Adjusted net income	11,163,172	12,942,872
<u>Deductions:</u>		
Net property, plant & equipment and investments	(59,067,022)	(58,874,316)
Dividends paid	(6,000,000)	(5,942,869)
Non-current deferred costs	(284,566)	(13,500)

The Zakat is calculated by 2,5% of the Zakat base, where the company during the year amended Zakat provision calculation on the basis of the Zakat base instead of Zakat base or profit for the purposes of Zakat, whichever is higher, and management believes that the company would not entail any additional zakat obligations that may arise as a result of the adoption of the policy set out above.



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**(b) Zakat provision**

(Thousands of Saudi Riyals)	<u>2010</u>	<u>2009</u>
Balance at January 1	785,340	531,935
Charge for the year	118,208	331,868
Amounts paid during the year	<u>(110,433)</u>	<u>(78,463)</u>
Balance at December 31	<u>793,115</u>	<u>785,340</u>

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004, 2005, 2006 and 2007 have not yet been finalized pending decisions on the Company's objections to certain items, totaling approximately SR 443 million. Zakat declarations for 2008 and 2009 have been submitted, but final zakat assessments on them have not been issued yet. The Company has received a restricted zakat certificate with validity up to 27/5/1432H (30/4/2011).

**(c) Subsidiaries and joint ventures**

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

**26 TAX PROVISION**

The amount shown in the income statement represents the Group's share of taxes chargeable on subsidiaries and joint ventures in accordance with tax laws applicable in their countries. The balance of the provision on December 31, 2010 amounted to SR 372 million (December 31, 2009: SR 308 million).

**27 RELATED PARTY TRANSACTIONS**

**Government entities in Kingdom**

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

Revenues and expenses related to Government entities in 2010 (including Government charges discussed in Note 19 above) amounted to SR 1,459 million and SR 5,009 million, respectively (2009: SR 1,239 million and SR 5,027 million, respectively).

Amounts receivable from and payable to Government entities at December 31, 2010 totaled SR 327 million and SR 332 million, respectively (2009: SR 260 million and SR 488 million, respectively).

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

Transactions with Investments accounted for under the equity method, in subsidiaries joint ventures during the year were not material, with the exception of the investment in Sukuk amounting to SR 1,266 million (Refer to Note 6).

**28 COMMITMENTS AND CONTINGENCIES**

**Commitments**

(a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,498 million on December 31, 2010 (December 31, 2009: SR 3,347 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 year 2010, total rent expense under operating leases amounted to SR 633 million (2009: SR 598 million).

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**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.

**29 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, the carrying amounts for all financial instruments do not differ materially from their fair values as at 31 December 2010 and 2009 which is as follows:

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

Management does not believe that the fair values of the Group 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 Group'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 entering into hedging agreements for the need to reduce the currency risk, the official currency of the Group is Saudi Riyal, the base currency dealing by the group and its price is currently fixed with a minor margin against the U.S. dollar

**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.

**30 FINANCIAL DERIVATIVES**

The Group entered into interest rate swap agreements to hedge its 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 December 31, 2010 is SR 7,387 million and SR 761 million respectively. The

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fair value of the effective impact of these hedges is included in other reserves in the consolidated balance sheet.

The impact of these financial derivatives has been recorded in the consolidated financial statements as at December 31, 2010, with no comparative effect due to immateriality.

**31 SEGMENT INFORMATION**

**According to the main activities of the group**

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.

**The following table shows the segmental information for the year ended December 31, 2010:**

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

**The segmental information for the year ended December 31, 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	34,088,015	9,286,127	7,247,552	158,393	50,780,087
Interconnect revenues	1,954,109	6,436,629	595,874	-	8,986,612
Interconnect expenses	<u>(5,989,930)</u>	<u>(1,600,558)</u>	<u>(1,396,124)</u>	-	<u>(8,986,612)</u>
Net revenue from services	<u>30,052,194</u>	<u>14,122,198</u>	<u>6,447,302</u>	<u>158,393</u>	<u>50,780,087</u>
Depreciation and amortization	3,459,603	3,712,344	486,468	140,324	7,798,739
Net income	9,129,198	(471,988)	1,882,198	323,948	10,863,356
Total assets	42,992,628	38,393,497	5,781,234	19,656,610	106,823,969
Total liabilities	20,955,081	15,895,708	1,245,200	17,895,032	55,991,021

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**32 SUBSEQUENT EVENTS**

The Board of Directors, in its meeting held on Wednesday 15 Safar 1432 H (January 19, 2010), proposed interim dividends for the fourth quarter 2010 amounting to SR 1,500 million, at the rate of SR 0.75 per share, resulting in a total dividend for 2010 of SR 3.00 per share (2009: SR 3.00 per share).

The Board also approved in its meeting held on Monday, 18 Rabi Awal 1432 AH (February 21, 2011) the consolidated financial statements for 2010

**33 PRESENTATION IN THE CONSOLIDATED STATEMENT OF INCOME AND RECLASSIFICATION OF 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 figures for the year ended December 31, 2009 have been reclassified to conform to the classifications used for the year ended December 31, 2010. Also certain comparative figures have been reclassified to conform to the current period presentation.