a Saudi Joint Stock Company

Interim Consolidated Financial Statements for the Three and Nine-Months Periods Ended September 30, 2012 (Unaudited)

Third Quarter 2012

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three and Nine-Months Periods Ended September 30, 2012(Unaudited)

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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) (the "Company") as of September 30, 2012 and the related interim consolidated statements of income for the three and nine-month periods then ended and the interim consolidated statement of cash flows for the nine months period then ended and the accompanying 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 standards in the Kingdom of Saudi Arabia, 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 limited 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 in the Kingdom of Saudi Arabia.

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Zul Hijjah 4, 1433
October 20, 2012

Deloitte & Touche
Bakr Abulkhair & Co.
C.P.A.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of September 30, 2012 (Unaudited)
(Saudi Riyals in thousands)

	Notes	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents		**13,788,347**	8,374,918
Accounts receivable, net		**10,713,588**	9,928,875
Prepayments and other current assets		**5,975,336**	4,680,016
Total current assets		**30,477,271**	22,983,809
Non-current assets:			
Investments in equity and other		**2,746,757**	2,643,809
Property, plant and equipment, net		**54,896,802**	54,048,359
Intangible assets, net	3	**29,471,558**	29,513,485
Other non-current assets		**2,027,453**	2,349,036
Total non-current assets		**89,142,570**	88,554,689
Total assets		**119,619,841**	111,538,498
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		**7,753,785**	7,364,861
Other credit balances - current		**4,020,368**	3,390,978
Accrued expenses		**7,475,972**	6,988,594
Deferred revenues – current portion		**1,943,992**	1,860,845
Murabahas and loans – current portion	4	**5,243,049**	6,665,917
Total current liabilities		**26,437,166**	26,271,195
Non-current liabilities:			
Murabahas and loans – non-current portion	4	**26,170,135**	24,497,029
Provisions for end of service benefits		**3,314,144**	3,029,847
Other credit balances - non-current		**4,559,016**	4,932,733
Total non-current liabilities		**34,043,295**	32,459,609
Total liabilities		**60,480,461**	58,730,804
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital:			
2,000,000,000 shares, par value SR 10 per share		**20,000,000**	20,000,000
Statutory reserve		**10,000,000**	10,000,000
Retained earnings		**23,398,586**	18,180,241
Other reserves		**(805,200)**	(1,368,937)
Financial statements' translation differences		**(869,675)**	(1,081,402)
Total shareholders' equity		**51,723,711**	45,729,902
Non-controlling interests		**7,415,669**	7,077,792
Total equity		**59,139,380**	52,807,694
Total liabilities and equity		**119,619,841**	111,538,498

The accompanying notes from 1 to 16 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-Months Periods Ended September 30, 2012 (Unaudited)
(Saudi Riyals in thousands)

	Note	Three Months ended September 30		Nine Months ended September 30	
		2012	**2011**	**2012**	**2011**
Revenue from services		**15,145,723**	14,015,110	**44,379,122**	40,971,082
Cost of services	5	**(6,543,732)**	(5,942,074)	**(18,926,460)**	(17,457,728)
Gross Profit		**8,601,991**	8,073,036	**25,452,662**	23,513,354
Operating Expenses					
Selling and marketing expenses	6	**(2,398,835)**	(1,870,606)	**(6,400,979)**	(5,547,159)
General and administrative expenses	7	**(949,787)**	(1,004,257)	**(3,054,214)**	(2,868,007)
Depreciation and amortization	8	**(2,236,782)**	(2,197,990)	**(6,645,498)**	(6,646,366)
Total Operating Expenses		**(5,585,404)**	(5,072,853)	**(16,100,691)**	(15,061,532)
Operating Income		**3,016,587**	3,000,183	**9,351,971**	8,451,822
Other Income and Expenses					
Cost of early retirement program		**(35,797)**	(7,377)	**(312,584)**	(296,497)
Finance costs		**(614,128)**	(691,194)	**(1,897,336)**	(1,687,456)
Commissions and interest		**100,121**	115,660	**259,379**	412,784
Other, net	9	**(153,504)**	(808,951)	**592,089**	(852,907)
Other income and expenses, net		**(703,308)**	(1,391,862)	**(1,358,452)**	(2,424,076)
Net Income before Zakat, Tax and Non-controlling interests		**2,313,279**	1,608,321	**7,993,519**	6,027,746
Provision for Zakat		**(90,470)**	(30,827)	**(211,958)**	(91,647)
Provision for Tax		**(132,731)**	(134,416)	**(405,031)**	(459,587)
Net Income before Non-controlling interests		**2,090,078**	1,443,078	**7,376,530**	5,476,512
Non-controlling interests		**(136,283)**	119,399	**(494,007)**	(84,545)
Net Income		**1,953,795**	1,562,477	**6,882,523**	5,391,967
Basic earnings per share on Operating Income (in Saudi Riyals)		**1.51**	1.50	**4.68**	4.23
Basic loss per share on income from other operations (Other income and expenses) (in Saudi Riyals)		**(0.35)**	(0.70)	**(0.68)**	(1.21)
Basic earnings per share on net income (in Saudi Riyals)		**0.98**	0.78	**3.44**	2.70

The accompanying notes from 1 to 16 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-Months Period Ended September 30, 2012 (Unaudited)
(Saudi Riyals in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, tax and non-controlling interests	**7,993,519**	6,027,746
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	**6,645,498**	6,646,366
Doubtful debts expense	**1,223,825**	984,557
Earnings from investments accounted for under the equity method	**(115,827)**	(133,712)
Commissions and interest	**(259,379)**	(412,784)
Finance costs	**1,897,336**	1,687,456
Losses on foreign currency exchange fluctuations	**39,107**	1,082,745
End of service benefits	**300,646**	257,496
Losses / (Gains) on sale/disposal of property, plant and equipment	**22,753**	(223,985)
Changes in:		
Short-term Investments	**2,080,214**	(506,533)
Accounts receivable	**(3,181,933)**	(2,206,074)
Prepayments and other current assets	**(1,432,549)**	(227,306)
Other non-current assets	**(321,876)**	222,630
Accounts payable	**2,563,782**	328,447
Other credit balances	**(741,475)**	(1,784,687)
Accrued expenses	**796,852**	(756,864)
Deferred revenues	**61,844**	233,432
Zakat paid	**(164,657)**	(61,754)
Taxes paid	**(475,106)**	(494,548)
End of service benefits paid	**(48,599)**	(223,020)
Net cash provided by operating activities	**16,883,975**	10,439,608
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(5,654,776)**	(4,762,550)
Intangible assets, net	**(1,231,528)**	1,415,224
Investments in equity and other	**(51,511)**	(30,397)
Proceeds from commissions and interest	**259,379**	412,784
Proceeds from sale of property, plant and equipment	**164,412**	393,463
Net cash used in investing activities	**(6,514,024)**	(2,571,476)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(2,996,231)**	(3,440,698)
Murabahas and loans, net	**1,481,753**	974,890
Finance costs paid	**(1,897,336)**	1,687,456
Non-controlling interests	**241,656**	(1,390,627)
Net cash used in financing activities	**(3,170,158)**	(5,543,891)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,199,793**	2,324,241
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**6,588,554**	6,050,677
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**13,788,347**	8,374,918
Non-cash items:		
Financial statements' translation differences	**604,748**	(1,059,331)
Other reserves	**328,136**	(99,522)

The accompanying notes from 1 to 16 form an integral part of these interim consolidated financial statements

1 GENERAL

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

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

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

Company's Name	Ownership	Accounting Treatment
Arabian Internet and Communications Services Co. (Awal) Kingdom of Saudi Arabia	100%	Full Consolidation
Telecom Commercial Investment Company –Kingdom of Saudi Arabia	100%	Full Consolidation
STC Bahrain (VIVA) (BSCC) – Bahrain	100%	Full Consolidation
PT Axis Telekom Indonesia - Indonesia	80.10%	Full Consolidation
Gulf Digital Media Holding (BSCC) – Bahrain	71%	Full Consolidation
Sale Advanced Co. Ltd. - Kingdom of Saudi Arabia	60%	Full Consolidation
Kuwait Telecom Company Ltd. (VIVA) - Kuwait	26%	Full Consolidation
Oger Telecom Ltd. - U.A.E.	35%	Proportionate Consolidation
Binariang GSM Holding ("Binariang") - Malaysia	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - Kingdom of Saudi Arabia	50%	Equity Method
Arab Satellite Communications Organization ("Arabsat") - Kingdom of Saudi Arabia	36.66%	Equity Method
Call Center Company–Kingdom of Saudi Arabia	50%	Equity Method

The main activities of the Group comprise the provision of a variety of telecommunications, information and media services which include, among other things:

a- Establish, manage, operate and maintain mobile and fixed telecommunication network and systems.

b- Deliver and provide diverse telecom services to customer, manage and maintain.

c- Prepare the required studies and plans to develop, execute and provide telecommunication services from technical, financial and managerial aspect. In addition, to prepare and execute training plans in the telecom field, provide and obtain consulting services which is directly or indirectly related to its business and activities.

d- Expand and develop telecom network and systems by utilizing the updated modern machinery and equipment in telecom technology, especially in the filed of providing and managing services.

e- Provide information and technologies and systems that depend on customer's information including preparation, copying and delivering phone and commercial directory, brochures, information, data and providing the required communication methods to transfer internet services which do not conflict with the Council of Ministers' Resolution No. 163 dated 23/10/1418 H and the general computer services, and any telecom activities or services the Company provides for media, trade, advertising or any other purposes the Company consider appropriate.

f- Wholesale, retail, import, export, purchase, own, lease, manufacture, marketing, selling, develop, design, setup and maintain equipment, machinery and components of different telecommunication networks including fixed, moving and special networks, and computer programs and the other intellectual properties, in addition providing services and construction work that are related to the different telecom networks.

g- Invest the Company's real estate properties and the resulting activities, such as buying, selling, leasing, managing, developing and maintenance.

In addition, the Group has the right to establish other companies and to join with other companies, and institutions, local or foreign, that are engaged in similar activities or completing to its core business or that may assist the Group to achieve its purpose and the Group can acquire the entire of the related company or part of it.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements are prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia which are issued by the Saudi Organization for Certified Public Accountants. The interim consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended September 30, 2012.

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, 2011.

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

The preparation of the interim consolidated financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia 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 reporting period.

The significant accounting policies are summarized below:

2-1 Consolidation basis

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 interim 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 interim 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.

2-2 Period of the consolidated financial statements
The Group's financial year begins on January 1 and ends on December 31 of each Gregorian year.

2-3 Interim results
The results of operations for the interim period may not represent a proper indication of the annual results of operations.

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.

2-4 Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, bank balances and all highly liquid investments with maturity of 90 days or less from the acquisition date. Otherwise, they are classified as short term investments.

2-5 Accounts receivable
Accounts receivable are stated at their net realizable value, which represents billings and unbilled usage revenues net of allowances for doubtful debts.

2-6 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.

2-7 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.

2-8 Inventories
Inventories, which principally comprise 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 individual items which may require significant reductions in their value.

2-9 Property, plant and equipment and depreciation

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

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

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

3. Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.

4. Property, plant and equipment, excluding land, are depreciated on a straight line basis over the following estimated useful lives:

	Years
Buildings	20 – 50
Telecommunications plant and equipment	3 – 25
Other assets	2 – 8

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.

6. Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-of / 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 capitalized at the inception of the lease at the lower of the fair value or 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.

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

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

2-10 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 an 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.

2-11 <u>Intangible assets</u>

Goodwill

- Goodwill arises upon the acquisition of stakes in subsidiaries and joint ventures. It represents the excess of the cost of the acquisition over the Group's share in the fair value of the net assets of the subsidiary or the joint venture at the date of purchase. When this difference is negative, a gain is immediately recognized in the interim consolidated statement of income in the period in which the acquisition occurred.
- Goodwill is recorded at cost and is reduced by impairment losses (if any).

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

2-12 <u>Impairment of non-current assets</u>
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 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 does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous financial periods.

2-13 <u>Investments</u>

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 polices.

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 interim consolidated statement of income.

Other investments

Available for sale marketable securities that do not lead to 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 objectively 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 interim 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 in the interim consolidated statement of income.

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 interim consolidated statement of income in the period in which the decline occurs.

2-14 Zakat

The Group calculates and reports the Shari'a zakat provision based on the zakat base in its interim consolidated financial statements in accordance with Zakat rules and principles in the Kingdom of Saudi Arabia. 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.

2-15 Taxes

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

Deferred taxes

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 assets have been recognised.

2-16 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 of Saudi Arabia and the countries invested in.

2-17 Foreign currency transactions

Functional and presentation currency

Items included in the interim 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 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.
- Assets and liabilities are translated using the exchange rate prevailing at the balance sheet date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus interim net income for the interim period as per the translated interim income statement less declared dividends within the period translated at the rate prevailing on the date of declaration.
- Interim consolidated statement of income 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 interim consolidated statement of income as part of the gains or losses on sale.

2-18 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.

2-19 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 service revenue is recognized in the period to which it relates.
- Service revenue is recognized upon collection when collectability is highly uncertain.

2-20 Cost of services
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 countries, including the 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.

2-21 Selling and marketing expenses
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.

2-22 General and administrative expenses
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.

2-23 Earnings per share
Earnings per share are calculated by dividing operating income and other operations (other income and expenses) before eliminating non-controlling interests, and net income for the financial period, by the weighted average number of shares outstanding during the period.

2-24 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 interim 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 liabilities 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 interim consolidated statement of income, together with any changes in the fair value of the hedged assets or liabilities. In the case of cash flow hedges, the effective portion of changes in fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the interim 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 in the interim consolidated statement of income when the forecast transaction is no longer expected to occur.

2-25 Related parties
During the ordinary course of business, the Group deals with related parties, all material transactions with related parties are disclosed regardless of the presence or absence of balances for these transactions by the end of the financial period. Transactions of the same nature are grouped into a single disclosure, with the exception of separate disclosures for transactions, which are necessary to understand the impact of the related party transactions on the financial data of the Group.

3 INTANGIBLE ASSETS, NET

Intangible assets include goodwill arising on the acquisition of the Group's shares in Binariang, PT Axis Telekom 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 Holding Group "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. In July 2012, 5% of its share in Maxis has been sold. The percentage ownership of Binariang in Maxis has accordingly reduced to 65%.

Binariang has other investments in telecommunications companies in India (Aircel Company) and Indonesia (PT Axis Telekom).

In September 2007, Saudi Telecom Company acquired 25% of Binariang Group MYR 20 billion share capital, equivalent to approximately SR 22 billion at the rate of exchange prevailing on that date.

The official authorities in India are currently collecting and studying the information raised in the media on Aircel Company, a subsidiary of the Binariang GSM Holding Group. In view of the current facts and available information, the management does not expect an impact on the Group's results as of 30 September 2012.

PT Axis Telekom Indonesia – Indonesia – (AXIS) (formerly known as NTS)

PT Axis Telekom 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 of 2008. Saudi Telecom Company acquired 51% of its IDR 3.2 trillion share capital in September 2007, equivalent to approximately SR 1.3 billion at the exchange rate prevailing on that date.
On April 6, 2011, the Company increased its share by 29.10% to 80.10%. Accordingly, the investment was reclassified as investment in subsidiaries instead of investment in joint ventures and the fair value of the net assets in April 6, 2011 were used for the calculation of goodwill arising from the Company's acquisition of an additional 29.10% of PT Axis Telekom based on the fair value reports completed in the end of the fourth quarter of 2011. As a result, the amounts recorded as goodwill were accordingly reallocated.

Oger Telecom Ltd. - U.A.E.

Oger Telecom Ltd. is a holding company registered in Dubai, the United Arab Emirates, having investments in companies operating in the telecommunications sector in Turkey and South Africa. In April 2008, the Company acquired 35% of its USD 3.5 billion share capital, equivalent to approximately SR 13.2 billion.

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

In December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of Kuwait Telecom Company, equivalent to approximately SR 650 million considering the exchange rate on that date. This company operates in the field of mobile services in the Kuwaiti market, and commenced commercial operations on December 4, 2008.
Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies as the

Group's representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

STC Bahrain (VIVA) (BSCC) – Bahrain

STC Bahrain (VIVA) (BSCC) was established in the Kingdom of Bahrain in February 2009, and Saudi Telecom Company owns 100% of its BHD 75 million share capital, equivalent to SR 750 million at the exchange rate on that date. This company operates in the field of mobile services, international telecommunications, broadband and other related services in the Bahraini market, and commenced commercial operations on March 3, 2010.

Net intangible assets consist of the following as of September 30, 2012:

(Thousands of Saudi Riyals)	2012	2011
Licenses	**15,326,516**	15,010,436
Goodwill arising on the consolidation of financial statements	**5,029,398**	4,932,120
Trade marks and contractual relations	**2,805,440**	3,061,708
Spectrum usage rights	**2,275,320**	2,356,527
Goodwill arising on the acquisition of 25% in Binariang Holding Group	**1,753,114**	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	**826,395**	826,395
Goodwill arising on the acquisition of 80.10% in PT Axis Telekom	**405,208**	661,208
Others	**1,050,167**	911,977
	29,471,558	29,513,485

4 MURABAHAS AND LOANS

Murabahas and loans consist of:

(Thousands of Saudi Riyals)	2012	2011
Current portion	**5,243,049**	6,665,917
Non-current portion	**26,170,135**	24,497,029
	31,413,184	31,162,946

As of September 30, 2012 the Group's share in the investees' murabahas and loans amounted to SR 25,257 million (September 30, 2011: SR 22,452 million).

In addition, the company has restricted bank deposit for loans to one of the investee (Joint Venture) amounting to SR 850 million. Furthermore, the non-current portion of Islamic murabaha and loan facilities obtained by one of the subsidiaries amounting to SR 1,158 million are secured against that subsidiary's fixed assets.

5 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	Three Months ended September 30, 2012	2011	Nine-Months ended September 30, 2012	2011
Access charges	**2,454,450**	2,406,028	**7,540,677**	6,486,052
Government charges (*)	**1,420,695**	1,533,735	**4,212,853**	4,675,651
Repairs and maintenance	**702,688**	664,504	**1,972,417**	1,931,812
Employee costs	**629,645**	650,483	**2,127,391**	2,111,135
Rent of equipment, property and vehicles	**321,022**	247,752	**880,353**	858,615
Utilities	**161,450**	213,895	**469,351**	461,159
Other	**853,782**	225,677	**1,723,418**	933,304
	6,543,732	5,942,074	**18,926,460**	17,457,728

"Other" comprises different items, the main ones being: printing costs of telephone cards, consultancy fees, security and safety expenses and postage and courier expenses.

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

(Thousands of Saudi Riyals)	Three Months ended September 30, 2012	2011	Nine-Months ended September 30, 2012	2011
The Company	**1,033,128**	1,109,253	**3,079,011**	3,307,247
Other Group companies	**387,567**	424,482	**1,133,842**	1,368,404
	1,420,695	1,533,735	**4,212,853**	4,675,651

6 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	Three Months ended September 30, 2012	2011	Nine-Months ended September 30, 2012	2011
Advertising and publicity	**619,228**	446,401	**1,351,182**	1,150,444
Sales commission	**180,553**	199,596	**896,827**	789,509
Employee costs	**576,668**	472,823	**1,912,408**	1,464,664
Doubtful debts expense	**673,639**	326,395	**1,223,825**	984,557
Printing of telephone cards and stationery	**45,452**	89,206	**141,762**	294,027
Repairs and maintenance	**47,143**	83,977	**124,351**	138,273
Consultancy & legal and professional fees	**21,462**	28,590	**72,826**	106,485
Safety and security fees	**3,799**	33,987	**7,963**	102,376
Others	**230,891**	189,631	**669,835**	516,824
	2,398,835	1,870,606	**6,400,979**	5,547,159

"Others" comprises different items, the main ones being: rent of equipment, property, motor vehicles, postage and courier.

7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	Three Months ended September 30,		Nine-Months ended September 30,	
(Thousands of Saudi Riyals)	**2012**	2011	**2012**	2011
Employee costs	**446,958**	422,208	**1,434,711**	1,374,447
Repairs and maintenance	**85,145**	77,973	**271,314**	255,027
Rent of equipment, property and vehicles	**114,030**	68,928	**339,740**	194,896
Consultancy & legal and professional fees	**92,660**	80,223	**273,035**	219,610
Utilities	**25,670**	41,736	**80,243**	139,332
Safety and security fees	**22,606**	23,526	**69,353**	67,859
Others	**162,718**	289,663	**585,818**	616,836
	949,787	1,004,257	**3,054,214**	2,868,007

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

8 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

	Three Months ended September 30,		Nine-Months ended September 30,	
(Thousands of Saudi Riyals)	**2012**	**2011**	**2012**	**2011**
Depreciation	**1,909,922**	1,878,436	**5,655,993**	5,672,156
Amortization	**326,860**	319,554	**989,505**	974,210
	2,236,782	2,197,990	**6,645,498**	6,646,366

9 OTHER INCOME AND EXPENSES, NET

This item consists of the following:

	Three Months ended September 30,		Nine-Months ended September 30,	
(Thousands of Saudi Riyals)	**2012**	2011	**2012**	2011
Miscellaneous revenue	**212,168**	404,674	**1,381,351**	1,239,493
Losses on foreign currency exchange fluctuations	**(115,448)**	(779,869)	**(39,107)**	(1,082,745)
Miscellaneous expenses	**(250,224)**	(433,756)	**(750,155)**	(1,009,655)
	(153,504)	(808,951)	**592,089**	(852,907)

The increase in the other income and expenses, net is mainly due to the decrease of the loses of the currency exchange transactions resulted from currency transfer differences from Turkish Lira and South African Rand versus US Dollar.

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 4,418 million on September 30, 2012 (September 30, 2011: SR 2,798 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-months period ended September 30, 2012, total rent expense under operating leases amounted to SR 304 million and SR 694 million respectively (third quarter and the nine-months period ended September 30, 2011: SR 218 million and SR 617 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 or on the results of its operations as reflected in the interim consolidated financial statements.

11 FINANCIAL INSTRUMENTS

Fair value

Fair value 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 approximate their fair values as at 30 September 2012 and 2011 which are as follows:

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

Management does not believe that the fair values of the Group's financial assets and liabilities differ materially from their carrying values.

Commission rate risk

Commission rate risk 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 and murabahas, but the related commission rate risk is not considered to be significant.

Currency risk

Currency risk 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 enters into hedging agreements where possible to reduce the currency risk; the official currency of the Group is the 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

Credit risk 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 nonperformance 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
Liquidity risk 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.

12 FINANCIAL DERIVATIVES

The Group enters into interest rate swap agreements to hedge its interest rate risk of expected future cash flows in relation to its floating rate interest of debt. The notional principal amount and fair value of the effective impact of these hedges as of September 30, 2012 was SR 11,771 million and SR 849 million respectively (2011: The notional principal amount and fair value of the effective impact of these hedges as of September 30, 2011 was SR 11,387 million and SR 596 million respectively) The fair value of the effective impact of these hedges is included in other reserves in the interim consolidated balance sheet.

13 SEGMENT INFORMATION

- According to the main activities of the Group

The Group has identified its main 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, 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 nine-months ended September 30, 2012 according to the main activities of the Group:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated /adjustments	TOTAL
Revenue from services	28,204,613	6,346,261	10,279,164	(450,916)	44,379,122
Interconnect revenues	2,173,282	6,789,251	801,530	(49,316)	9,714,747
Interconnect expenses	(4.755.587)	(1,817,838)	(3,091,180)	(50,142)	(9,714,747)
Net revenue from services	25,622,308	11,317,674	7,989,514	(550,374)	44,379,122
Depreciation and amortization	3,351,141	2,617,332	496,202	180,823	6,645,498
Net income	3,537,696	221,289	3,459,399	(335,861)	6,882,523
Total assets	46,808,806	36,211,439	12,439,208	24,160,388	119,619,841
Total liabilities	22,799,028	14,411,777	3,322,611	19,947,045	60,480,461

The following table shows the segmental information for the nine-months ended September 30, 2011 according to the main activities of the Group:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated /adjustments	TOTAL
Revenue from services	27,448,354	6,279,267	6,847,875	395,586	40,971,082
Interconnect revenues	1,925,957	5,989,445	1,025,269	(51,416)	8,889,255
Interconnect expenses	(4,570,727)	(1,607,814)	(2,658,490)	(52,224)	(8,889,255)
Net revenue from services	24,803,584	10,660,898	5,214,654	291,946	40,971,082
Depreciation and amortization	3,222,084	2,812,232	478,435	133,615	6,646,366
Net income	5,257,162	(236,841)	1,070,731	(699,085)	5,391,967
Total assets	40,557,878	36,697,847	8,715,314	25,567,459	111,538,498
Total liabilities	20,470,971	12,229,951	2,135,169	23,894,713	58,730,804

- According to Group operations

The Group has divided its operations into domestic and international operations

The following table shows the segmental information according to Group operations during the nine months ended September 30:

2012

	Domestic Operations	International Operations					
	KSA	**STC-Bahrain**	**GDMH**	**VIVA-Kuwait**	**PT Axis**	**OTL**	**Binariang**
Operating revenues	**30,340,632**	**717,654**	**438,501**	**1,322,128**	**691,391**	**7,776,380**	**3,092,436**
Total assets (*)	**85,088,991**	**2,468,696**	**479,054**	**1,735,731**	**3,637,310**	**22,451,675**	**20,885,038**

(*) The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR
ıousand

2011

	Domestic Operations	International Operations					
	KSA	**STC-Bahrain**	**GDMH**	**VIVA-Kuwait**	**PT Axis**	**OTL**	**Binariang**
Operating revenues	27,253,639	567,080	276,821	900,741	394,690	8,608,314	2,969,797
Total assets (*)	76,356,418	2,040,466	422,524	1,720,419	3,564,227	22,015,078	20,355,244

(*) The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (14,935,878)

14 CHANGE OF PROPORTIONATE CONSOLIDATION TO EQUITY METHOD

The Company has Joint Venture Projects, and since the standard issued by Saudi Organization for Certified Public Accountants does not cover such projects, the company treats these projects by using the proportionate consolidation according to IAS 31.

The International Accounting Standards Board issued IFRS 11 on 12 May 2011 to replace IAS 31, which cancelled the application of proportionate consolidation method and uses the equity method of accounting starting from January 1, 2013.

Accordingly, the Company starting from 2013, will account for investments in joints ventures by using the equity method, retroactively, as per SOCPA accounting standard No. 16.

The following table demonstrates comparison of significant items of balance sheet and income statement had the project been treated using the equity method starting from 2012:

	Nine Months ended 30-Sep-12		**Nine-Months ended 30-Sep-11**	
(Millions of Saudi Riyals)	**Post -Equity Method** (Unaudited)	**Pre - Equity Method** (Unaudited)	**Post -Equity Method** (Unaudited)	**Pre - Equity Method** (Unaudited)
Revenue from services	**33,950**	**44,379**	29,322	40,971
Gross profit	**19,193**	**25,453**	16,757	23,513
Net income	**6,883**	**6,883**	5,392	5,392
Total assets	**84,177**	**119,620**	77,046	111,538
Total liabilities	**32,571**	**60,480**	31,293	58,731
Total murabahas and loan	**11,556**	**31,413**	12,352	31,163
Shareholders' equity	**51,724**	**51,724**	45,730	45,730

15 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Saturday 4 Dhul-Hijjah 1433 H (corresponding to October 20, 2012), approved the interim consolidated financial statements for the third quarter of 2012 and adopted the interim dividends for the third quarter of 2012 amounting to SR 1,000 million, at the rate of SR 0.50 per share.

16 RECLASSIFICATION

Certain comparatives of the period ended September 30, 2011 have been reclassified to conform to the classifications used for the period ended September 30, 2012.