a Saudi Joint Stock Company

Interim Consolidated Financial Statements for the Three –Month Period Ended March 31, 2012 (Unaudited)

First Quarter 2012

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three –Month Period Ended March 31, 2012 (Unaudited)

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 (0) 1 282 8400
Fax: +966 (0) 1 293 0880
www.deloitte.com
License No. 96
Head Office: Riyadh

AUDITORS' LIMITED REVIEW REPORT

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

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) (the "Company") as of March 31, 2012 and the related interim consolidated statements of income and cash flows for the three-month 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.

Deloitte & Touche
Bakr Abulkhair & Co.

Bakr A. Abulkhair
License No. 101

Jumada Al-Awal 26, 1433
April 18, 2012

Member of Deloitte Touche Tohmatsu Limited

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of March 31, 2012 (Unaudited)
(Saudi Riyals in thousands)

	Notes	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents		**6,730,483**	10,061,657
Short-term investments		**5,272,197**	347,732
Accounts receivable, net		**8,931,375**	9,100,306
Prepayments and other current assets		**4,952,622**	4,080,311
Total current assets		**25,886,677**	23,590,006
Non-current assets:			
Investments in equity and other		**2,719,190**	2,572,535
Property, plant and equipment, net		**55,083,240**	55,242,403
Intangible assets, net	3	**29,941,830**	31,937,509
Other non-current assets		**2,345,661**	3,153,697
Total non-current assets		**90,089,921**	92,906,144
Total assets		**115,976,598**	116,496,150
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		**6,454,445**	7,933,337
Other credit balances – current		**4,912,759**	5,200,586
Accrued expenses		**7,228,490**	6,279,166
Deferred revenues – current portion		**1,808,775**	1,956,060
Murabahas and loans – current portion	4	**4,632,018**	8,435,894
Total current liabilities		**25,036,487**	29,805,043
Non-current liabilities:			
Murabahas and loans – non-current portion	4	**25,920,709**	23,532,208
Provisions for end of service benefits		**3,158,669**	3,028,783
Other credit balances - non-current		**5,224,457**	6,264,823
Total non-current liabilities		**34,303,835**	32,825,814
Total liabilities		**59,340,322**	62,630,857
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		**21,037,218**	16,361,398
Other reserves		**(1,122,091)**	(1,227,868)
Financial statements' translation differences		**(862,315)**	93,915
Total shareholders' equity		**49,052,812**	45,227,445
Non-controlling interests		**7,583,464**	8,637,848
Total equity		**56,636,276**	53,865,293
Total liabilities and equity		**115,976,598**	116,496,150

The accompanying notes from 1 to 15 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–Month Period Ended March 31, 2012 (Unaudited)
(Saudi Riyals in thousands)

	Note	2012	2011
Revenue from services		**14,678,877**	13,076,300
Cost of services	5	**(6,244,179)**	(5,587,873)
Gross Profit		**8,434,698**	7,488,427
Operating Expenses			
Selling and marketing expenses	6	**(2,018,275)**	(1,813,536)
General and administrative expenses	7	**(1,042,742)**	(860,496)
Depreciation and amortization	8	**(2,195,997)**	(2,145,649)
Total Operating Expenses		**(5,257,014)**	(4,819,681)
Operating Income		**3,177,684**	2,668,746
Other Income and Expenses			
Cost of early retirement program		**(7,922)**	(135,274)
Finance costs		**(757,534)**	(435,144)
Commissions and interest		**57,572**	366,406
Other, net	9	**469,385**	(474,237)
Other income and expenses, net		**(238,499)**	(678,249)
Net Income before Zakat, Tax and Non-controlling interests		**2,939,185**	1,990,497
Provision for Zakat		**(55,089)**	(30,400)
Provision for Tax		**(176,279)**	(204,165)
Net Income before Non-controlling interests		**2,707,817**	1,755,932
Non-controlling interests		**(186,662)**	(182,808)
Net Income		**2,521,155**	1,573,124
Basic earnings per share on Operating Income (in Saudi Riyals)		**1.59**	1.33
Losses per share on Other Operations (Other income and expenses) (in Saudi Riyals)		**(0.12)**	(0.34)
Basic earnings per share on Net Income (in Saudi Riyals)		**1.26**	0.79

The accompanying notes from 1 to 15 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 Three- Month Period Ended March 31, 2012 (Unaudited)
(Saudi Riyals in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before zakat, tax and non-controlling interests	**2,939,185**	1,990,497
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	**2,195,997**	2,145,649
Doubtful debts expense	**278,411**	325,313
Earnings from investments accounted for under the equity method	**(34,208)**	(28,829)
Commissions and interest	**(57,572)**	(366,406)
Finance costs	**757,534**	435,144
(Gain) / Losses on foreign currency exchange fluctuations	**(218,596)**	355,433
Provision for end of service benefits	**117,240**	76,094
Losses / (Gains) on sale/disposal of property, plant and equipment	**13,401**	(172,870)
Changes in:		
Accounts receivable	**(454,306)**	(718,261)
Short-term investments	**(2,826,435)**	(37,410)
Prepayments and other current assets	**(775,383)**	(710,359)
Other non-current assets	**3,668**	(582,031)
Accounts payable	**1,264,442**	896,923
Other credit balances	**416,215**	389,142
Accrued expenses	**590,432**	221,164
Deferred revenues	**(96,443)**	367,928
Zakat paid	**(10,544)**	-
Taxes paid by subsidiaries	**(159,970)**	(125,944)
End of service benefits paid	**(20,668)**	(42,682)
Net cash provided by operating activities	**3,922,400**	4,418,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(1,925,119)**	(1,995,530)
Intangible assets, net	**(946,120)**	(419,192)
Investments in equity and other	**(36,749)**	3,212
Proceeds from commissions and interest	**57,572**	100,503
Proceeds from sale of property, plant and equipment	**39,746**	226,577
Net cash used in investing activities	**(2,810,670)**	(2,084,430)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	**(422)**	(277)
Murabahas and loans, net	**(621,296)**	1,780,046
Finance costs paid	**(757,534)**	(272,283)
Non-controlling interests	**409,451**	169,429
Net cash (used in) / provided by financing activities	**(969,801)**	1,676,915
NET INCREASE IN CASH AND CASH EQUIVALENTS	**141,929**	4,010,980
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	**6,730,483**	10,061,657
Non-cash items:		
Financial statements' translation differences	**612,108**	115,986
Other reserves	**11,245**	41,547

The accompanying notes from 1 to 15 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 Dhul Hijja 24, 1418 H (corresponding to 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 Dhul Hijja 23, 1418 H (corresponding to 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 Rajab 2, 1423 H (corresponding to 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 Muharram 6, 1419 H (corresponding to May 2, 1998), and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on Rabi Awal 4, 1419 H (corresponding to 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. Ltd. (Awal) - Kingdom of Saudi Arabia	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – 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 for Distribution and Communication Co. Ltd. – (Sale Co.) Kingdom of Saudi Arabia	60%	Full Consolidation
Kuwait Telecom Company (VIVA) - Kuwait	26%	Full Consolidation
Oger Telecom Ltd. - U.A.E.	35%	Proportionate Consolidation
Binariang GSM Holding - 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 networks 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 of machinery and equipment in telecom technology, especially in the filed of providing and managing services.
e- Provide information, technologies and systems that depend on customer's information including preparation, copying and delivering phone and commercial directory, brochures, information and 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 considers appropriate.
f- Wholesale, retail, import, export, purchases, 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 property, 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 activity, 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. The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended March 31, 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 interim consolidated financial statements and the amounts of revenue and expenses during the period of the interim consolidated financial statements.

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 interim 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 by the Group of an interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill.

2-2 <u>Period of the consolidated financial statements</u>

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

2-3 <u>Interim results</u>

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 interim 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 <u>Cash and cash equivalents</u>

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 <u>Accounts receivable</u>

Accounts receivable are stated at their net realizable value, which represents billings and accrued revenue relating to unbilled usage fees less allowances for doubtful debts.

2-6 <u>Offsetting of accounts</u>

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 outside operator or other party are subject to offsetting.

2-7 <u>Allowance for doubtful debts</u>

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 <u>Inventories</u>

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 caption, 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 movement of the major inventory categories separately. When such an exercise is impractical, the allowance is based on groups or categories of inventory items, ensuring that the individual items which may require significant reductions in their value are considered upon creation of the provision.

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 to the Company on May 2, 1998 has been recorded based on a valuation performed by the Company with the assistance of 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 paragraph (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 network 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. Fixed 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 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 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 Intangible assets

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 licenses to provide various telecommunication services

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 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 interim consolidated statement of income of the period in which it occurs. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount (except for goodwill) 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 Investments

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

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 shareholders equity in the interim consolidated balance sheet, if material. 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 non-temporary 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 consolidated financial statements in accordance with Shari'a 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 recognized 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 foreign entity in which the deferred tax assets have been recognised.

2-16 Provision for end of service benefits

The provision for 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 positions 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 at the rate prevailing on the financial position date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus interim net income for the period as per the translated interim consolidated statement of income 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 exchange 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 <u>Contingent liabilities</u>

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 <u>Revenue recognition</u>

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 from services rendered to customers is recognized in the period to which it relates.
- Revenue from services rendered to customers is recognized upon collection when collectability is highly uncertain.

2-20 <u>Cost of services</u>

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 investee 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 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 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 shareholder`s 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 accumulated gain/loss at that time remains in shareholders` equity and is recognized in the interim consolidated statement of income when the forecasted 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 parties' 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 Group and Oger Telecom Ltd.

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

Binariang GSM Holding– Malaysia

Binariang is a Malaysian holding investment 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 decreased to 70%.

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

In September 2007, the Company acquired 25% of its MYR 20 billion share capital, equivalent to approximately SR 22 billion at the exchange rate prevailing at 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 Group Binariang GSM Holding. In view of the current facts and available information, the management does not expect an impact on the Group's results as of March 31, 2012.

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

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 year 2008. The Company acquired 51% of its IDR 3.2 trillion share capital in September 2007, equivalent to approximately SR 1.3 billion considering the exchange rate prevailing at that date.

On April 6, 2011, the Company increased its share from 29.10% to 80.10%. Accordingly, the investment was reclassified as investment in subsidiaries instead of investment in joint ventures and the fair values of 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 revised.

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. The Company acquired 35% of its USD 3.5 billion share capital, equivalent to approximately SR 13.2 billion in April 2008.

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

In December 2007, the Company acquired 26% of the KD 50 million share capital of Kuwait Telecom Company, equivalent to approximately SR 650 million. This company operates in the field of mobile services in 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 (BSC Closed) was established in the Kingdom of Bahrain in February 2009, and the Company owns 100% of its BHD 75 million share capital, equivalent to SR 750 million at the exchange rate prevailing at 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 March 31, 2012:

(Thousands of Saudi Riyals)	2012 (Unaudited)	2011 (Unaudited)
Licenses	**15,463,269**	15,707,056
Goodwill arising on the consolidation of financial statements	**5,134,544**	5,602,673
Trademarks and contractual relations	**3,015,533**	3,727,156
Spectrum usage rights	**2,363,431**	2,597,676
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.	**826,395**	826,395
Goodwill arising on the acquisition of 80.10% in PT Axis Telekom	**405,208**	713,191
Others	**980,336**	1,010,248
	29,941,830	31,937,509

4 MURABAHAS AND LOANS

Murabahas and loans consist of:

(Thousands of Saudi Riyals)	2012 (Unaudited)	2011 (Unaudited)
Current portion	**4,632,018**	8,435,894
Non-current portion	**25,920,709**	23,532,208
	30,552,727	31,968,102

As of March 31, 2012 the Group's share in the investees' murabahas and loans amounted to SR 23,119 million (March 31, 2011: SR 21,890 million). There are also restricted bank deposits against loans of one of the Group's investees (joint ventures) amounting to SR 520 million.

5 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2012 (Unaudited)	Three Months ended March 31, 2011 (Unaudited)
Access charges	**2,385,926**	1,947,770
Government charges (*)	**1,448,176**	1,581,763
Repairs and maintenance	**632,667**	612,942
Employee costs	**786,038**	721,246
Rent of equipment, property and vehicles	**231,816**	272,939
Premises expenses	**107,264**	152,232
Other	**652,292**	298,981
	6,244,179	5,587,873

"Other" comprises various 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 March 31, 2012 (Unaudited)	Three Months ended March 31, 2011 (Unaudited)
The Company	**1,032,159**	1,081,209
Other Group companies	**416,017**	500,554
	1,448,176	1,581,763

6 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2012 (Unaudited)	Three Months ended March 31, 2011 (Unaudited)
Advertising and publicity	**516,900**	629,997
Employee costs	**673,754**	490,963
Doubtful debts expense	**278,411**	325,313
Printing of telephone cards and stationery	**46,397**	121,379
Repairs and maintenance	**43,677**	23,366
Others	**459,136**	222,518
	2,018,275	1,813,536

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2012 (Unaudited)	2011 (Unaudited)
Employee costs	**510,108**	451,656
Repairs and maintenance	**83,951**	93,410
Rent of equipment, property and vehicles	**32,874**	60,964
Consultancy, legal and professional fees	**51,458**	62,785
Premises expenses	**6,398**	43,461
Others	**357,953**	148,220
	1,042,742	860,496

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

8 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2012 (Unaudited)	2011 (Unaudited)
Depreciation	**1,873,916**	1,826,863
Amortization	**322,081**	318,786
	2,195,997	2,145,649

9 OTHER INCOME AND EXPENSES, NET

This item consists of the following:

(Thousands of Saudi Riyals)	2012 (Unaudited)	2011 (Unaudited)
Miscellaneous revenues	**620,531**	335,624
Gains / (Losses) on foreign currency exchange fluctuations	**218,596**	(355,433)
Miscellaneous expenses	**(369,742)**	(454,428)
	469,385	(474,237)

10 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Group enters into commitments during its ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,243 million as of March 31, 2012 (March 31, 2011: SR 1,375 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 first quarter of year 2012, total rent expense under operating leases amounted to SR 154 million (First quarter of year 2011: SR 187 million).

Contingencies

The Group, in the normal course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Group's financial position 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 amount for all financial instruments does not differ materially from their fair value as at 31 March 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 value of shares in active markets relies on fair market values.
- Fair values of government bonds and loans rely on discounted cash flows.

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

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 Murabahas and deposits. However, 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 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

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 when they arise. 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 outflows in relation to its floating rate debt. The notional principal amount and fair value of the effective impact of these hedges as of March 31, 2012 amounts to SR 10,836 million and SR 773 million respectively (2011: The notional principal amount and fair value of the effective impact of these hedges as of March 31, 2011 amounts to SR 6,165 million and SR 508 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 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.
- LANDLINE, 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 information according to the Group`s main activities for the three months ended March 31, 2012:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated /Adjustments	TOTAL
Revenue from services	10,087,043	2,335,237	2,331,623	(75,026)	14,678,877
Interconnect revenues	702,642	2,198,582	253,720	(14,708)	3,140,236
Interconnect expenses	(1,524,278)	(587,658)	(1,013,329)	(14,971)	(3,140,236)
Net revenue from services	9,265,407	3,946,161	1,572,014	(104,705)	14,678,877
Depreciation and amortization	1,107,581	875,251	161,281	51,884	2,195,997
Net income	1,953,288	525,439	174,394	(131,966)	2,521,155
Total assets	40,009,963	39,660,437	7,571,658	28,734,540	115,976,598
Total liabilities	22,039,217	13,928,977	2,335,736	21,036,392	59,340,322

The information according to the Group`s activities for the three months ended March 31, 2011 was as follows:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated / Adjustments	TOTAL
Revenue from services	8,612,494	2,145,436	2,210,445	107,925	13,076,300
Interconnect revenues	639,269	1,856,520	335,055	(19,951)	2,810,893
Interconnect expenses	(1,435,476)	(533,693)	(821,583)	(20,141)	(2,810,893)
Net revenue from services	7,816,287	3,468,263	1,723,917	67,833	13,076,300
Depreciation and amortization	1,000,376	953,936	147,098	44,239	2,145,649
Net income	1,513,282	(91,414)	329,042	(177,786)	1,573,124
Total assets	43,465,461	38,819,488	7,815,320	26,395,881	116,496,150
Total liabilities	20,550,268	12,472,626	2,058,639	27,549,324	62,630,857

- According to Group operations

The Group has divided its operations into domestic and international operations

The following table shows the information according to Group's operations during the three months ended March 31:

2012

(Thousands of Saudi Riyals)	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	PT Axis	OTL	Binariang
Operating revenues	**10,084,965**	**239,694**	**129,285**	**411,836**	**201,582**	**2,557,471**	**1,054,044**
Total assets (*)	**81,780,234**	**1,986,368**	**451,465**	**1,714,236**	**3,779,416**	**22,484,650**	**21,026,470**

The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (17,246,241) thousand

2011

(Thousands of Saudi Riyals)	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	PT Axis	OTL	Binariang
Operating revenues	8,597,917	154,105	77,584	257,693	70,702	2,864,843	1,053,456
Total assets (*)	74,604,598	2,060,720	378,245	1,607,051	2,256,727	26,062,948	23,409,871

The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (13,884,012) thousand

14 SUBSEQUENT EVENTS

According to the approval of the General Assembly of the shareholders held on Rabi Thani 11, 1433H corresponding to April 3, 2012 of the proposed interim dividends for the fourth quarter of year 2011 SR(0.50) for each share amounting to SR (1,000) million, the dividends were paid to the shareholders on Wednesday April 11, 2012.

The Board of Directors, in its meeting held on Jumad Awal 26, 1433 H (corresponding to April 18, 2012), approved the interim consolidated financial statements for the first quarter of 2012 and adopted interim dividends for the first quarter of 2012 amounting to SR 1,000 million, at the rate of SR 0.50 per share.

15 RECLASSIFICATION

Certain comparatives of the period ended March 31, 2011 have been reclassified to conform to the classifications used for the period ended March 31, 2012.