Saudi Telecom Company Annual Report 2011

ANNUAL REPORT

# 2011

stc.com.sa

calque paper

بسم الله الرحمن الرحيم

**King Abdulaziz Bin Abdulrahman Al Saud**
(May Allah's mercy be upon him)
Founder of the Kingdom of Saudi Arabia

**Custodian of the Two Holy Mosques**
King Abdullah Bin Abdulaziz Al Saud
The King of Saudi Arabia

**His Royal Highness**
Prince Naif Bin Abdulaziz Al Saud
Crown Prince, Deputy Prime Minister and Minister of Interior



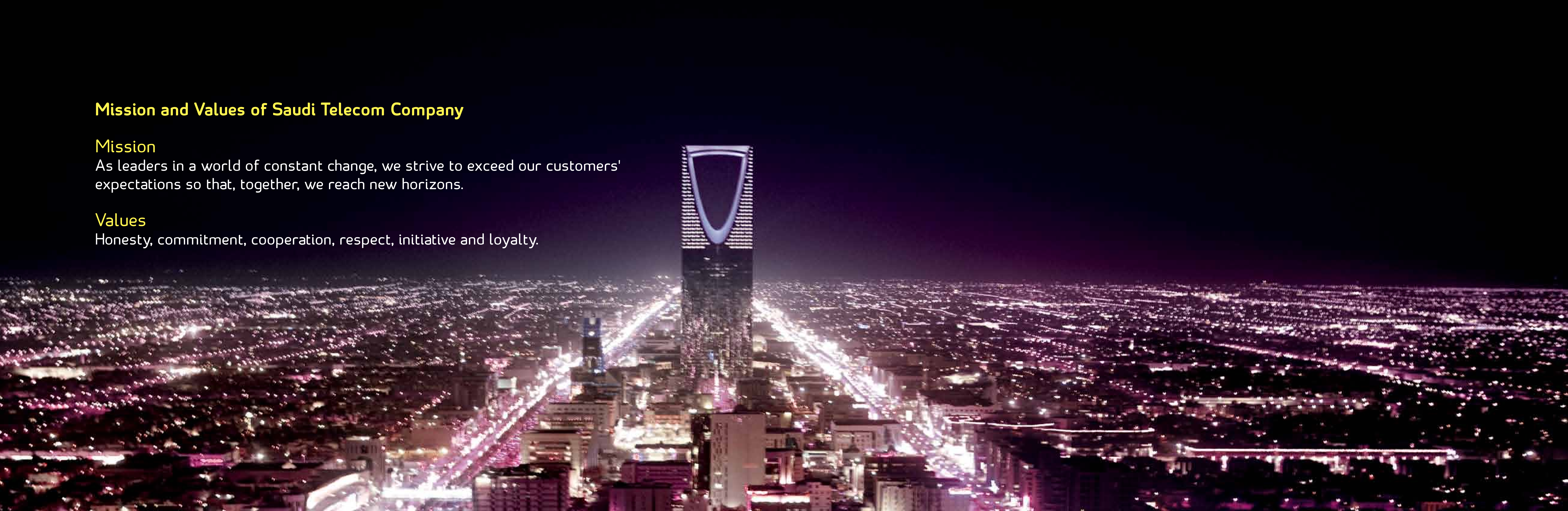


# Table of Contents

## Mission and Values of Saudi Telecom Company

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

### Values
Honesty, commitment, cooperation, respect, initiative and loyalty.



# A word by

**Dr. Muhammad Bin Suleiman Al-Jasser**

**Chairman of the Board of STC**

The Saudi Telecom Company (STC) has maintained its leading role in the local market with positive financial results at the end of 2011, reflected in the shareholders' equity. By the end of the year, operating revenues reached SR 56,220,000,000 (Fifty-Six Billion, Two Hundred and Twenty Million Saudi Riyals) compared to SR 51,787,000,000 (Fifty-One Billion, Seven Hundred and Eighty-Seven Million Saudi Riyals) at the end of the previous year, representing a 9% rise and demonstrating STC's robust financial position of flourishing revenues and returns.

STC has developed from a local operator providing integrated services in the Kingdom to a leading communications company across the region and the world, widely present in several highly populated countries. As a result, STC's customer base grew locally and globally and reached 160 million, and global operating revenues hit approximately 32%, reflecting over 10% growth.

However, STC continued to strive to develop its services and meet its customers' needs by providing multi-service and interactive offerings of the highest quality and performance. STC offers advanced services in technological and video communication through the most advanced networks using fiber-optics and advanced e-cabins throughout the Kingdom.

Moreover, STC has capitalized on growing opportunities in the business sector by launching many outstanding initiatives in the economic, educational, and industrial sectors. It has also supported the public and private sectors in the Kingdom which helped boost the Saudi economy. This is due to STC's high standards and level of service, notable honesty, creativity, innovation in service content and cooperation with all sectors in the Saudi market in order to ascertain their needs and ways of working. STC is always keen to provide comprehensive solutions and respect the need of all its customers (from large and medium companies to individuals) to continuously improve. Thanks to this approach, STC has managed to develop a new operating model to improve the customer experience, develop the skills of its employees and establish a single identity for the company. In addition, it was able to devise successful plans that have brought it closer to the community and built a relationship of trust with its customers.

STC's acquisition of Sale Distribution & Communication Co. Ltd. proved to be positive in terms of increasing the Group's income, and its share in Integral, whose business grew by over 100% in 2011 to SR 455,000,000 (Four Hundred and Fifty-Five Million Saudi Riyals).

STC is constantly monitoring competition in the telecommunications sector. Moreoever, it continuously looks for ways to cut costs and improve operating efficiency by enhancing the concept of shared services, ensuring cost-effectiveness and implementing changes on various levels to manifest STC's strategy of sustaining its leadership and make its customer services stand out. In 2011, the telecom market grew by SR 8,000,000,000 (Eight Billion Saudi Riyals) locally, of which the Company has won a 40% share. STC enhanced its infrastructure to cope with increasing traffic and diversity of services offered, capitalizing on the operator's 2G and 3G networks covering more than 99% of populated streets and regions.

STC was a pioneer in launching 4G services in the Middle East - KSA, Bahrain and Kuwait. With this launch the Company reinforced its strategy to invest in solution and product development in promising markets in the region, in order to enjoy a competitive advantage and continue to expand and invest outside the Kingdom.

**Peace Be Up on You**

**Dr. Mohammad Bin Suleiman Al-Jasser**
**Chairman of the Board of STC**

# A word by

**Engineer Saud Bin Majed Al Daweesh**

**CEO of STC Group**

STC continues to realize high growth rates, reflected by a series of positive results during the year 2011, and promote the development of the telecommunications industry in the Kingdom. Locally, the Company is a main driver of the digital era by fundamentally improving the form and content of the telecommunications and media sector through strategic investments in wired/wireless next-generation telecommunications infrastructure (e.g. fiber-optics networks for facilities and homes and the 4G network).

At the end of 2011, STC achieved its strategic objectives, further underlining its pioneering role in local and global markets, content services and multi-media offerings. However, the Company stands out by providing its customers with various services, leading the Kingdom's telecommunications market. At the heart of its challenges is the need to serve more than 30 million customers and offer high-quality services. Services and achievements of STC in 2011, addressed in this report, are as follows:

- The mobile network covers over 99% of populated areas of the Kingdom, capitalizing on the region's deemed to be the largest infrastructure. Besides, STC is an advanced provider of fiber-optics networks and the first to install fiber-optics cables to homes and facilities, content services and multimedia (Invision).

- STC has been the first company in the MENA region to launch 4G LTE, and it even covers over 600 sites throughout the Kingdom. Its ambitious aim is to expand to cover the entire Kingdom.

- STC maintained its leadership by providing advanced and exclusive offers and services for smart and touch-screen devices, receiving great attention from all customers.

- Locally, out of interest for the development of its staff, STC has received the Saudization Award with a 91.07% Saudization rate.

- As last year closed, an agreement was signed to purchase a holding share in Sale Distribution & Communication Co. Ltd., whereby STC acquired 60% of Sale's shares through self-financing of a sum amounting to SR 208 million. The financial impact of Sale's financial operations of 2011 reflected on the consolidated financial statements of Q4 for STC in 2011

Globally, STC has continued its leading presence and expanded its operations to 10 countries, with its customer base reaching 160 million. In addition, STC is a key leader in providing marine cables that link South East Asia to Western Europe and North America. STC's subsidiaries realized a robust growth, especially in Kuwait, Bahrain and Indonesia.

Moreover, STC's intra-company cooperation grew remarkably, through a consolidated purchase of primary materials for telecommunication services, which saved millions of riyals. The STC Group implemented a strategy to continuously cooperate in marketing its common services, such as offers launched during the Hajj season, that both its subsidiaries and customers benefited from.

STC's presence and expansion has been highly appreciated by several local, regional and global bodies. STC has been awarded 12 awards last year; it was ranked first in Forbes' Top 100 Companies in the Arab World List for telecommunication providers, named the Best Mobile Operator across the region and ranked 14th among the 20 largest mobile operators worldwide for its strong presence in 10 global markets (www.rdiff.com). This is thanks to its acquisition and great management of several telecommunication companies in East and South Asia, the Middle East, Africa and the Arabian Gulf.

I would like to conclude and thank everyone who has helped us achieve our numerous accomplishments on a local and global level. To achieve even more, I can assure you once again that STC is keen to explore new and promising investment opportunities, which further emphasize our leading role in the local market and instill our presence in regional and global markets.

**Peace Be Upon You**

**Engineer Saud Bin Majed Al Daweesh**
**CEO of STC Group**

## The Board of Directors of STC

From right to left:

Mr. Khaled Bin Abdulrahman Al-Rajhi

Mr. Abdulrahman Bin Abdulaziz Mazi

Eng. Mohammed Bin Omran Al-Omran

Mr. Abdulaziz Bin Haban Alhabdan

Mr. Mohammed Bin Abdullah Al-Kharashi

Dr. Mohammed Bin Suleiman Al-Jasser (Chairman)

Dr. Hamed Bin Suleiman Al-Qassumi

Mr. Mohammed Bin Saleh Al-Daham

Mr. Ibrahim Bin Ali Al-Hassen

## Executive Management

Eng. Saud Bin Majed Al Daweesh
CEO of STC Group

Dr. Fahd Bin Hussein Bin Mashit,
VP of Strategy Affairs

Mr. Khaled Bin Abdulrahman Al-Jasser,
VP of Shared Services

Eng. Ghassan Hasbani,
CEO International Operations

Dr. Ziad Bin Thamer Al-Otaibi,
CEO of Technical Operations

Dr. Saad Bin Dhafer Al-Qahtani,
CEO of Strategic Operations

Mr. Jamil Bin Abdullah Al-Mulhim,
CEO STC

Eng. Mohammad Bin Nasser Al-Jassir,
VP of Business Sector Unit

Eng. Ibrahim Bin Abdulrahman Al-Omar,
VP of Personal Service Unit

Eng. Mazid Bin Nasser AL-Harbi,
VP Home Sector Unit

Mr. Ameen Bin Fahd Al-Shiddi,
VP of Finance

Dr. Mahmoud Abdulkareem Al-Khatib,
VP of Regulatory Affairs

Dr. Abdullah Bin Mohammed Al-Humidan,
VP of Human Capital and Organizational Excellence

Eng. Bander Bin Mohammad Al-Qafari,
VP of Network Sector

Eng. Omar Bin Abdullah Al-Nuamani,
VP of IT

Dr. Hamood Bin Mohammed Al-Kussayer,
VP of Mobile and Operator Unit

# In the name of Allah, the Most Gracious, the Most Merciful

**Dear Shareholders of the Saudi Telecom Company**
**May Allah's peace, mercy and blessings be upon you**

The Saudi Telecom Company (the 'Company') was established as a Saudi Joint Stock Company pursuant to the Royal Decree No. M/35 dated 24th Dhul Hijja 1418H (April 21st, 1998). The decree authorized the transfer of the telegraph and telephone division of the Ministry of Post (Telegraph and Telephone (MoPTT), hereinafter referred to as 'Telecom Sector', with its various components and technical and administrative facilities to the Company, in accordance with the Council of Ministers' Resolution No. 213 dated 23rd Dhul Hijja 1418H (April 20th, 1998), which approved the Company's Articles of Association (the 'Articles'). The Company was, at this point completely owned by the Government of the Kingdom of Saudi Arabia (the 'Government'). Pursuant to the Council of Ministers' Resolution No. 171 dated 2nd Rajab 1423 H (September 9th, 2002), the Government sold 30% of its shares.
The Company commenced its operations as the provider of telecommunications services in the Kingdom of Saudi Arabia (the 'Kingdom') on the 6th Muharram 1419H (May 2nd, 1998) and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on 4th Rabi I 1419H (June 29th, 1998). The Company's head office is located in Riyadh.



**The Company has made various investments in associates, subsidiaries and joint ventures, collectively known as the 'Group'. The details of these investments are as follows:**

| Name of Company | Ownership % |
|---|---|
| Arabian Internet and Communications Services LLC. (Awal Net), KSA | 100% |
| Telecom Investment Company Ltd., KSA | 100% |
| STC Bahrain BSCC (VIVA), Kingdom of Bahrain | 100% |
| Gulf Digital Media Holding BSCC, Kingdom of Bahrain | 71% |
| Sale For Distribution & Communication Co. Ltd. | 60% |
| Kuwait Telecom Company KSCC (VIVA), Kuwait | 26% |
| BT AXIS Telecom Indonesia (formerly NTS), Indonesia | 80.10% |
| Oger Telecom Ltd., UAE | 35% |
| Binariang GSM Holding Group, Malaysia | 25% |
| Arab Submarine Cables Company Ltd., KSA | 50% |
| Arab Satellite Communications Organization (Arabsat), KSA | 36.66% |
| Call Center Company, KSA | 50% |

The main activities of the Group are the provision of a variety of telecommunications services, which include mobile (second, third, and fourth generation), fixed local national and international telephone services, and data services such as data transmission, leased lines, Internet services and e-commerce.
The Board of Directors is pleased to present its respected stakeholders with the Annual Report of the Company's performance and activities for the fiscal year 2011, which reflects sustained progress in performance across its various areas of activity. STC plays the role of developing the telecommunications sector in a manner that serves the Saudi Arabian society and efficiently contributes to boosting the national economy and payment of promising dividends to shareholders.

Below is a brief overview of the financial and operating performance, as well as STC's activities and management throughout 2011.

# Section 1:

The Company's activities and performance during the fiscal year 2011

## The Company's activities and performance during the fiscal year 2011

### a. Operating Performance

#### 1. Saudi Telecom Company

Sustaining its leading role in state-of-the-art and world-class services, STC was the first to launch 4G LTE in the MENA region and is, therefore, the first mobile operator adopting such a technology for its customers. STC embraced the technology early in 2010 and declared the launch as successful; this technology will be crucial in the new era of mobile telecommunications. It also improved network broadband capacity and efficiency with actual data speeds of over 100 Mbps.
In addition, LTE enables operators to offer the same quality of the fixed services for the mobile services and improve the fixed mobile conversion. Another added value of the LTE services is high quality, particularly for high-speed traffic. It also enables operators to improve and strengthen the network capacity with 3 to 4 HSPAs for data download, compared to 2 to 3 times more for data upload. In 2011, STC added 200 new sites covered by 4G LTE in additional 5 cities across the Kingdom.
To sustain its leadership, STC expanded its coverage to encompass the cities Medinah Al Munawarah, Abha, Khamis Mushait and Dhahran, in order for them to join the list of already covered cities; which are Riyadh, Jeddah, Dammam, Jubail, Khubar and Ahsa. Hence, there are over 600 4G LTE sites in such cities. These cities enjoy speeds higher than those currently offered by other mobile operators.
STC's plans include implementing advanced technologies over the coming period for the benefit of its customers in order to progress from the 2G and 3G technologies - that are somehow limited - to the more advanced broadband technology (+HSPA and 4G LTE) at unprecedented speeds. The advanced 3G network will offer up to 84 Mbps in speed, while the highly advanced 4G network offers speeds starting from 100 Mbps and up to more than 1000 Mbps over the coming few years.
Striving to meet its customers' needs with state-of-the-art technological improvements, STC has offered STS on the Apple Store, which provides applications for iPhone, iPad and iPod. This application allows Jawal customers to be in control of STC's services and have access to information through their mobile phones and landlines.
In order to provide its customers with the best services, offering various options for mobile access to Internet through all devices (e.g. laptops, handsets, smart or mobile phones), STC launched QUICKnet, an innovative mobile Internet package, the result of several analytical studies on customer Internet needs.
QUICKnet Express is the right choice for browsing, emailing and downloading at high Internet speeds, including a prepaid Internet card, a 7.2 Mbps modem with a free 1000 Mbps Internet package. In addition, the customer gets one free and unlimited download hour per day. The QUICKnet packages also offer several usage options with various packages like QUICKnet Pro 1 and 2, QUICKnet Action 1 and 2, QUICKNet Express, QUICKnet Style 1 and 2 to suit all users and budgets.
With QUICKnet Light, however, STC launched the best Internet package in the Kingdom. It's a SR 25 prepaid Internet SIM card with a free balance of 400 Mbps allowing its customers to flexibly use mobile Internet at high speeds and offering them unlimited browsing and emailing at a speed of up to 42 Mbps, which is exclusively offered by STC. Moreover, STC launched the most innovative 3G Wifi router providing data transfer speeds of up to 28 Mbps with a HSPA+, HSUPA, HSDPA, WCDMA, GPRS and EDGE supporting modem, a compact RELAY.NET and DHCP. DNS server and a security system equipped with a firewall. The device can be accessed through a web browser and supports Windows 2000, Windows XP, Windows Vista and Windows 7.
The QUICKnet device underlines STC's pioneering role in offering Internet services. The device enables customers to enjoy amazing QUICKnet packages (QUICKnet Pro 1 and 2, QUICKnet Action 1 and 2, QUICKnet Express, QUICKnet Style 1 and 2, QUICKnet Light and QUICKnet Jawal) offered under the slogan 'Internet Customized to Suit You'. The slogan was embraced by the Company with the launch of the new Internet packages that allow flexible use of mobile Internet.
In line with STC's strategy to provide state-of-the-art products and services at the best rates with the biggest network and the widest coverage in the Kingdom, the Company offered postpaid and prepaid line customers diverse BlackBerry bundles, demonstrating its ability to cope with the technological advancement and giving customers the chance to get the device. It also provided the Arabized Sony Ericsson Xperia™ Arc (Google™ Android, version 2.3). In line with STC's strategy to focus on its customers and offer services at the best prices, STC was the first to launch smart devices and services in order to provide state-of-the-art and high-quality technology.
In recognition of STC's leading position in the region, it has been nominated as TMT's Best Mobile Phone Operator reflecting its edge in the market. STC has vast experience in the mobile telecommunications technology with large-scale investments in broadband, various products and services. STC is also a leader in offering integrated and innovative Internet packages and

smart and touch-screen devices that meet its customers' needs. According to Wireless Intelligence, the research arm of GSMA, STC is one of the World's 20 Largest Mobile Operators.

*** Home Business Unit**

STC continued to lead in the field of broadband offerings by installing VERVE at the highest speeds and locally most competitive prices throughout the Kingdom. This allows family members to enjoy present and future services and applications such as Invision, network and interactive games, video communication, e-learning, e-medical services, e-commerce and many more.

STC's leading role in the Kingdom's broadband field is unprecedented. In the MENA region, the company was the first to offer unparalleled VERVE-supported speeds, which allow customers to enjoy high-speed Internet reaching 100 Mbps. These are currently available in only three countries worldwide, as they require a highly reliable infrastructure.

STC achieved great success by initiating the launch of VERVE. This highlights its edge in the local market's broadband offerings and confirms its continuous efforts to use all its financial, human and technological capabilities to provide customers with the best, integrated services and boost the national economy.

STC adopted highly advanced technological solutions to prove its broadband leadership, as it was the first company to provide fast 3G and fiber-optic services and the only to offer comprehensive packages for voice, Internet and interactive TV. Having the most up-to-date infrastructure worldwide, STC provides over 1600 terabytes of Internet traffic, handling 90% of the total Internet traffic in Saudi Arabia.

With Invision, STC achieved true success. The interactive TV contributed to achieving its customers' satisfaction and enjoying their confidence. Besides, the company was the first in Saudi Arabia and the region to offer TV, communications and Internet services and, thus, took its service offerings to a higher level in only a short period of time. The service is an essential improvement in Saudi houses as it offers TV channels with high-quality content that benefits each family and a wide range of services that help the customer not to miss out on any television program. Exclusive services within the long list of STC's leading offerings include the encrypted high-definition channel packages accessible through a sole receiver with 150 additional Invision channels as well as high-definition channels (HD). Furthermore, STC added a modern channels package, such as YouTube Invision, offering the customer to watch and research YouTube videos from their homes for free. As a result, user browsing exceeded 100,000 hits a week.



The number of Invision customers, exceeding 20,000 in only a short period of time, is a crowning achievement that only emphasizes STC's active role in making Saudi Arabia a technologically advanced country. STC aims to duplicate this figure in the near future by pursuing its strategic plans and endeavors to provide Invision throughout the Kingdom. Besides, STC aims to improve its services by enriching content, adding more channels in various categories, and offering exclusive services in line with its customers' interests.

It is worth noting that STC is a leading IPTV provider worldwide and the only corporation in Saudi Arabia and the Middle East to offer its customers Invision services.

And the list goes on. STC launched X Band Jood Premium, the only integrated package that meets the needs of all family members. It provides four services, namely Hatif with 20 Mbps, Internet with 40 Mbps for VERVE customers, Invision and the well-priced QUICKnet. All these allow family members to benefit from a variety of Internet services and enjoy all current and future applications, high-quality games and the best watching experience with Invision channels.

In line with STC's continuous efforts to provide the best technical support, it provides a Customer Care Center (906), recently launched e-channels (via BlackBerry), social networks (Facebook and Twitter), online technical support services and a DSL Broadband Online Chat via the m3com portal available around the clock. With these, customers can directly contact the technical support team for Internet and Broadband matters and receive comprehensive support. This is in accordance with STC's sincere interest in providing its customers with comprehensive solutions and advice for their technical problems, using its technological abilities.

*** Enterprise Business Unit**

STC introduced advanced Cloud Computing for its corporate customers of different business sizes. It's an addition to its smart business solutions and leading services, STC's point of distinction in Saudi Arabia and the Middle East. The Company also offers state-of-the-art and advanced innovations and applications of the telecom and information technology.

STC adopted this technology in cooperation with leading global corporations, such as Cisco, EMC and VMWare. Within this field, this technology will give rise to significant growth, great improvement, increased productivity and lower costs for all customers of STC. The company intends to focus more on this essential field in order to meet increased demand and future expectations. Following the platform of achieving excellence in all sectors within STC and in light of its readiness to provide essential services, STC offers Cloud Computing services catering to all business sectors, such as fast host computing, network and storage hardware, email for the corporate staff, websites and information security services. These services ensure the ability of our business customers to turn their businesses into e-run companies at low costs of equipment, facilities and staff specialized in the continuously changing IT field.

STC finalized the development of the National Network Control Centre (NNCC) in Riyadh and opened an additional unit of the Center, the region's largest performance control center. This unit controls the 'www' performance, the largest Internet portal in the region, and gives STC a strategic dimension because it provides the Middle East with International DSP that offers wired and wireless broadband services for regular customers (QUICKnet, broadband and VERVE) and for business customers in the Kingdom. It also monitors the performance of the largest filtration system in the Middle East in order to cope with the fast growth of Internet and broadband services. With it STC maintains a leading position in Saudi Arabia and the Middle East. In addition, STC handles over 90% of Internet and data traffic in Saudi Arabia, as the total data traffic exceeds 1600 terabytes per day, via huge portals with capacities reaching 300 Gbps. These are connected through several marine cables to the east and west (FLA), namely SMWE3 and SWME4, the new marine cable IMW and the new continental cable JADI. The latter was established by STC together with its strategic partners to make its capacities more efficient, improve reliability and provide reserve capacities via alternative cables in case of external cutoffs to avoid any impact on the customer service.

In addition, the NNCC follows the Domain Name System (DNS), which encompasses state-of-the-art and specialized devices certified by leading global sites. It also hosts Root DNS to provide Internet users inside and outside the Kingdom with the domain transfer service in order to achieve STC's global mission.

Striving to meet customer needs by offering innovative solutions and applications at the highest-quality level across all business units, STC launched CDN in order to be the only integrated operator that provides a wide range of comprehensive innovative telecommunication services.

The CDN services design has taken into account the expectations of customers and their need for high-quality Internet access with utmost ease. This paves the way for improved performance, fast upgrading and reliability that meets their ambitions. Besides, this bridges the distance between high-quality content services and the final consumer to guarantee maximum precision. This allows customers to watch satellite channels and a variety of videos and films in different categories, including religion, social, economy, news and sports. In addition, a customer can download a set of different Internet programs and watch live regional and global events, conferences and videos on demand at high speed and quality. This enabled STC to provide all operators in the MENA region with CDN with the reliability that customers demand thanks to its +50 POPs in Europe and the world in cooperation with Level 3 and supported by the Apex Group through its regional offices in Riyadh and Dubai.

Dedicated to offering state-of-the-art telecommunication solutions and smart applications, STC has made every effort to support huge development corporations that are a main contributor to the national economy and the Kingdom's current progress. It has set up and enhanced a wide range of telecommunication and integrated networking infrastructure facilities for leading national institutions, most notably the King Abdullah Financial District (KAFD) in Riyadh. STC supplies the facility and develops its infrastructure with state-of-the-art networks, IT systems and smart telecommunication that lives up to its national role and mission. In addition, STC has provided modern telecom services for users of the Mashair Railway, serving Pilgrims during the last Hajj season, by connecting all stations and main sites with IPVPN and with a very high capacity. The list of additional major projects includes the King Abdullah University of Science and Technology (KAUST), Olaya Towers, the preliminary phase of King Abdullah Economic City (KAEC) among others.

In the healthcare sector, STC has completed the necessary technical preparations and supplies to launch Easy Clinic dedicated to business customers in the health sector in Saudi Arabia. It enables primary healthcare centers to carry out e-mechanization of the health files, procedures and means of operation turning them into 'paperless health centers' by making use of state-of-the-art health applications. Such applications include medical specialties, specialized clinics, financial applications, procurement, stock and performance management; all within a working environment that provides the highest levels of security and privacy for the health center's data and information.

Easy Clinic includes alternative connection circuits and additional equipment that ensure continuous operation of health centers in emergency cases. Easy Clinic also enables healthcare customers of the enterprise business unit to move from investment in infrastructure and capital expenditure on technologies, software and licenses to an operating expenditure without the need for specialized IT staff. This results in improved efficiency of health centers, lower costs and risk, and business progress through e-connection with STC's health network partners, including insurers, pharmacies, laboratories, specialized radiographic centers and other health corporations and an exchange of benefits among service partners.

In addition, Easy Clinic offers health center customers an unprecedented healthcare, which includes home follow-up via pressure, diabetes and pulse devices and electronic file updating. In addition, a customer is reminded via SMS of his medication timings, visit and vaccination appointments and can make an appointment online, thus, paving the way for a better medical care. Locally and globally, Easy Clinic is the first integrated and specialized health service provided via Cloud Computing and is expected to significantly improve healthcare in the Kingdom of Saudi Arabia. It reinforces STC's leading position in the enterprise business unit in Saudi Arabia in general and in the health sector in particular.

*** Wholesale Business Unit**

STC realized substantial growth by establishing the most advanced international networks in the MENA region because it owns the world's best infrastructure facilities (marine and land cables and satellites). It is regarded as the number one MENA provider of wholesale services for service providers. In 2011, STC managed to manifest its pioneering role locally and regionally with several achievements, notably the completed operation and expansion of four international and continental cables, ensuring that no shares were available for other operators in the region. STC provides the largest state-of-the-art regional and continental marine cable network and holds a share in more than 10 marine cables passing through the region. It owns capacities of several other cables outside the region, giving it the opportunity to receive a high capacity of cables that are connected with the majority of countries in the world now or later. As a result, STC offers high quality and reliability of international services. This is due to the variety of phone traffic paths, data transfer and Internet services. Currently, it uses over 600 Gbps of its international and continental capacities.

In addition, the Group has completed Phase II of its International expansion plan (NPW) by establishing various international touch points in cooperation with a number of international operators. Currently, it has 10 POPs worldwide to serve its customers locally and overseas via its network at a quality meeting the expectations of enterprise business unit customers and regional and international providers.

STC supported the increase of international Internet domains to meet the 60% increase in demand this year. These domains are linked to various global operators and international Internet providers (Tirel Providers). STC further supports the expansion of IGnet, which is offered to local and regional companies and operators through the regional center in Saudi Arabia (Riyadh and Jeddah), which is connected to the largest Data Center in the MENA region. This enabled STC to provide high-class services in terms of quality, continuity and fast content download and offered STC's customers exclusive benefits not available to customers of other companies by providing a large capacity of international incoming and outgoing phone traffic at the highest quality, particularly in Ramadan and the Hajj season.

STC sustained its regional and global leadership through its contributions to the international network. This is a network of international connections via marine and continental cables, of which STC owns a big part in the region. Mostly notably, the 3rd Continental Marine Cable, 'Sea-ME-WE3', regarded as the longest marine cable in the region, extending from Germany in the West to Japan and Australia in the East; the 4th Continental Marine Cable, 'Sea-ME-WE4', one of the world's most successful cables; and the Marine Cable FLAG, which extends from Japan in the East to Britain in the West. An additional two cables, SAS-1 and SAS-2, are directly connected to Sudan and are considered as key gateways to connect East Africa with the rest of the world. These two cables are also connected to the marine cable EASSY, which extends across the eastern coast of Africa. In addition to these most up-to-date cables in the region, there are a number of continental cables in the region that recently entered service, namely EIG and IMEWE, which go from the Indian Peninsula to Europe. Moreover, STC owns MENA and GBI cables, which are the most up-to-date cables in the Arab Gulf. As far as continental cables are concerned, the JADI cables, the region's first continental cables, start from Jeddah (KSA), pass by Amman (Jordan) and Damascus (Syria) and end in Istanbul (Turkey) and have the potential to be extended to West Europe.

At the same time, STC's SGMNs via PoPs are available in few neighboring countries such as Bahrain, Qatar, Kuwait, UAE and Jordan regionally and, globally, in London (UK), Singapore and India. Points that will be established in Phase II will be available in Oman, Yemen, Egypt, Sudan and Algeria regionally and, globally, in Turkey, Pakistan and Germany. Through this expansion of the international network, STC aims to expand and achieve comprehensive international services for all countries of the region and the world in order to meet the needs of its local and international customers, business customers, Internet and information service providers and global corporations operating in the Middle East and the world. At the same time, it gives them the chance to stay in touch with their branches regionally and globally in order to achieve their economic and marketing objectives and develop their business. STC notably provides Internet speeds reaching 270 Gbps, the highest in the Middle East, although usage capacity accounts for only 127 Gbps. STC signed the Upgrade Agreement of the 4th Continental Marine Cable, the longest cable using state-of-the-art messaging technologies at a speed of 40 Gbps to meet the growing demand of the customers. The 4th Marine Cable, extending over 20,000 km, will be the longest marine cable worldwide with 40 Gbps, the highest available messaging capacity for a marine cable to date.

2. Local Subsidiaries

*** Arabian Internet and Communications Services LLC. (Awal Net), KSA**
Arabian Internet and Communications Services LLC. was established in April 2002. It is an Internet service provider, carries out telecoms projects and provides data transfer and processing in the Saudi market. STC owns 100% of Arabian Internet and Communications Services LLC., totaling SR 10 million.

*** Telecom Investment Company Ltd., KSA**
The Telecom Investment Company was established in the Kingdom of Saudi Arabia in October 2007. Its purpose is to operate and maintain telecommunications networks and business systems, computer and Internet networks, maintain and operate and install systems and communications software and information technology in the Saudi market. STC owns 100% of its one million share capital.

*** Sale For Distribution & Communication Co. Ltd. (SALECO), KSA**
Sale For Distribution & Communication Co. Ltd. was established in the Kingdom of Saudi Arabia in January 2008. It operates in the retail and wholesale of recharge services for prepaid telecom SIM cards, telecom devices, accessories and computer services (computer applications, maintenance and spare parts), electronic appliances, wired telecom devices and associated spare parts, carries out the sale and resale of all fixed and mobile telecom services and maintains and operates commercial centers. The company operates in the Saudi market and STC holds 60% of its basic capital amounting to ten million Saudi Riyals.

3. International Subsidiaries

*** STC Bahrain BSCC (VIVA), Kingdom of Bahrain**
STC Bahrain BSC Closed (VIVA), a Bahraini closed Joint Stock Company, was established in February 2009 in the Kingdom of Bahrain and is an owned subsidiary of STC with a capital of BD 75 million, equivalent to approximately SR 750 million. Starting operations in March 2010, the Company is active in all fields of mobile communication services, international communication, broadband and other services relevant to the Bahraini market. In spite of fierce competition in the Bahraini market, VIVA Bahrain managed to exceed expectations this year.
According to Telecommunications Regulatory Authority's network quality report, VIVA Bahrain is the best network operator in the Bahraini market, particularly in data transfer.



*** Gulf Digital Media Holding (BSCC), Kingdom of Bahrain**
Gulf Digital Media Holding was established in June 2009 in the Kingdom of Bahrain. The holding company holds shares in several companies active in the content services and digital media fields in the Gulf region. STC owns 51% of its capital of BD 28 million, which is equivalent to approximately SR 280 million according to the then prevailing exchange rate. In line with the Group's strategy to focus on content services leading to a great customer experience, ownership was increased to 71% in December 2011.
Gulf Digital Media Holding offers a wide range of content services and develops digital media content that aims to enrich its customers' lives. During the last two years, it successfully launched several applications for STC's customers, such as the 'Deeni Yaqeeni' application, donation services for charity organizations and game portals. While the company offers 150 interactive TV channels via Invision, it also provided a set of services for Internet browsing via mobile phones in order to serve its customers.

*** Kuwait Telecom Company KSCC (VIVA), Kuwait**
In December 2007, STC acquired 26% of the Kuwait Telecom Company K.L.L. (VIVA), a total of KD 50 million, equivalent to approximately SR 650 million at the then prevailing exchange rate. VIVA provides mobile telecom services in Kuwait and commenced its commercial operations in December 2008.
The Company's operations in Kuwait grew largely in the first few years. VIVA Kuwait acquired a 20% market share by the end of the year and achieved a leading position in offering broadband services at the market's highest speeds. This is largely a result of high network quality, its reliance on up-to-date 3G technologies and comprehensive coverage all of Kuwait.
As a result of its outstanding performance, the Kuwait Telecom Company VIVA received financing that it used to further expand and continue its great operation. In spite of fierce competition in the telecommunication sector, the company accomplished the highest income growth rate among all operators.
Being a leading operator in the region, Viva Kuwait has been elected as a member of the South Asia, Middle East & North Africa (SAMENA) Telecommunications Council Board and plans to launch LTE technologies with innovative packages and offers in 2012. Due to its outstanding financial and operating results, it also intends to issue shares in the Kuwait Stock Exchange.

*** PT AXIS Telekom Indonesia (formerly NTS), Republic of Indonesia**
PT AXIS Telekom Indonesia obtained a license to operate a 3G mobile phone network in Indonesia. It commenced commercial activity in the Indonesian market during the first quarter of 2008.

STC acquired 51% of PT AXIS Telekom Indonesia in September 2007 for IDR 3.2 trillion, equivalent to approximately SR 1.3 billion according to the then-prevailing exchange rate. In April 2011, STC increased its share in PT AXIS Telekom Indonesia from 29.10% to 80.10%.
PT Axis Telekom Indonesia started to compete in the Indonesian telecom market, which is considered as a big market, by continuing to develop its local network coverage through providing its own network coverage, leasing towers and making local roaming agreements. These steps manifested its presence and increased its revenue. The company also managed to acquire 3G frequencies, which will enhance its abilities and services in the Indonesian market.

### 4. Joint Ventures

*** Oger Telecom Ltd., UAE**
Oger Telecom Ltd. is a holding company registered in Dubai, UAE, with investments in companies operating in the telecommunications field in Turkey and South Africa. In April 2008, STC acquired 35% of Oger Telecom Ltd. for USD 3.5 billion, equivalent to approximately SR 13.2 billion at the then-prevailing exchange rate.
The Oger Telecom investment portfolio provides opportunities to penetrate large emerging markets within both Africa and Eastern Europe. Besides, the company is already present in the two largest economic markets in the Middle Eeast and Africa, namely Turkey and South Africa. The Company developed a dual strategy for markets in the MENA region aiming to achieve high market penetration in order to dominate the market. This enables STC to play an important role in Eastern Europe and the Middle East and hold a leading position in the region.

*** Binariang GSM Holding Group, Malaysia**
The Malaysian Binariang Group is an investment holding company owning 100% of the Malaysian Holding Company Maxis, which operates in the mobile communication sector in Malaysia. At first, it was not listed on the Malaysian Stock Market. However, it issued 30% of its shares for public subscription in November 2009 and is, since then, listed on the Malaysian Stock Market. Following this, Binariang's ownership of Maxis was reduced to 70%.
Moreover, Binariang GSM Holding made several other investments in telecommunications companies, namely in India (Aircel) and PT AXIS Telekom Indonesia.
In September 2007, STC acquired 25% of the Binariang Group's capital for MYR 20 billion, equivalent to approximately SR 22 billion according to the then prevailing exchange rate. The purpose of this acquisition was to be present in highly populated countries, which resemble the local market in Saudi Arabia. This enabled STC to penetrate high-profile South Asian economic markets where the GDP reaches USD two trillion.
The above-mentioned subsidiary companies or joint ventures didn't issue any debt instruments in the form of Sukuk, except for Binariang GSM Holding Group. As of the 31st of December 2011, the Group's share was SR 2.910 million in the Sukuk, which was used to finance the acquisition of the Malaysian Holding Group Maxis. Later on, 30% of its shares have been issued for public subscription and listed on the Malaysian Stock Market. The Sukuk's maturity is in ten years. The average profit rate reached the Kuala Lumpur Interbank Offered Rate (KLIBOR) plus 0.45%.

### 5. Investments

**a. Investments accounted for under equity method (associate companies)**
Arab Submarine Cables Company Ltd., KSA
The Arab Submarine Cables Company Ltd. was established in September 2002. It provides, rents, manages and operates a marine cable connecting Saudi Arabia and the Republic of the Sudan to facilitate the communication between them and any other country. The Company commenced operations in June 2003 and STC owns 50% of its capital amounting to SR 75 million.

*** Arab Satellite Communications Organization (Arabsat), KSA**
This organization was established in April 1976 by member states of the Arab League. Arabsat offers various services to member states and to all public and private sectors within its coverage area, mainly the Middle East. Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. The Company owns 36.66% of its USD 500 million share capital, equivalent to approximately SR 1,875 million.

*** Call Center Company, KSA**
The Call Center Company (limited liability) was established in KSA at the end of December 2010 to provide call center services and directory assistance in collaboration with Aegis. The company's share capital is SR 4.5 million and STC owns approximately 50% of its shares (225,001 out of 450,000 shares).

**b. Other Investments**
**Venture Capital Fund**
STC has established and financed a venture capital fund, which invests in emerging, small and medium-sized telecommunications and information technology companies in Saudi Arabia and other global markets. Initially, STC intends to invest a self-financed

amount of USD 50 million, of which USD 12.5 million has been paid. In principle, the Company will be the sole investor and local and international companies will be invited to invest later. The Fund will target local, MENA, European and US markets in order to reduce its investment risks. The Fund will be managed by Ares Capital - a leading global venture capital fund manager.

**The Group's financial performance**

Net income in 2011 reached SR 7,729 million, compared to SR 9,436 in 2010, a decrease of 18% (despite the 2% increase in the operating income). Earnings per share in 2011 amounted to SR 3.86 against SR 4.72 in 2010.

Gross profit in 2011 amounted to SR 31,328 million compared to SR 30,323 million in 2010, an increase of 3%, whereas operating income reached SR 11,171 million, compared to SR 10,978 million in 2010, an increase of 2%.

2011 Earnings Before Interest, Tax, Depreciation and Amortization, "EBITDA", reached SR 20,025 million, compared to SR 19,620 in 2010, an increase of 2%. Cash flows from operating activities decreased by 22% (after amending the comparative figures) compared to 2010, in parallel with the decrease in the net profit of 2011.

Total assets increased to SR 111,402 million at the end of 2011, compared to SR 110,781 million in 2010, an increase of 1%. In addition, liabilities reached SR 57,319 million, compared to SR 57,317 million at the end of 2010.

The Group has a solid financial position and generates high profits, reflected in shareholders' equity, which increased by the end of 2011 at 4%, to reach SR 46,908 million, compared to SR 44,996 million at the end of 2010.

*** The financial impact of major activities at Group level**

STC provides telecom services throughout KSA and has various investments in local and international subsidiaries, associates and joint ventures, collectively known as the "Saudi Telecom Group" for the purpose of these financial statements. The main activities of the Group comprise the provision of a variety of telecommunications services, including: mobile (second, third and fourth-generation); fixed local, national and international telephone; and data services, such as data transmission, leased lines, internet services and e-commerce.

The main operating segments of the Group are:

- GSM, in which the main services are: mobile, third and fourth-generation services, prepaid cards, international roaming and messages.
- PSTN, in which the main services are: fixed line, card telephones, interconnect and international calls.
- DATA, in which the main services are: leased data transmission circuits, DSL and internet.
- Unallocated, comprising items not included in the main operating segments of the Group.



**The following table shows The financial impact of the main activities at the Group level:**

| (Saudi Riyals in millions) | Mobile | Landline | DATA | Unallocated | Total |
|---|---|---|---|---|---|
| Revenue from services | 37,909 | 8,309 | 9,388 | 56 | 55,662 |
| Depreciation and amortization | 4,362 | 3,650 | 644 | 198 | 8,854 |
| Net revenue | 7,620 | (1,006) | 1,429 | (314) | 7,729 |
| Total assets | 41,477 | 35,538 | 8,181 | 26,206 | 111,402 |
| Total Liabilities | 20,674 | 12,717 | 2,083 | 21,845 | 57,319 |

Table of the assets, liabilities and result of Group operations across the previous five fiscal years:

| Description (Saudi Riyals in millions) | 2007 Consolidated Audited | 2008 Consolidated Audited | 2009 Consolidated Audited | 2010 Consolidated Audited | 2011 Consolidated Audited |
|---|---|---|---|---|---|
| **Income statement:** | | | | | |
| Operating revenues | 34,458 | 47,469 | 50,780 | 51,787 | 55,662 |
| Operating expenses | (21,840) | (32,134) | (37,967) | (40,809) | (44,491) |
| Gross profit | 12,618 | 15,335 | 12,814 | 10,978 | 11,171 |
| Other income and expenses, net | (172) | (3,293) | (683) | (1) | (2,683) |
| Zakat, taxes and non-controlling interest | (424) | (1,005) | (1,267) | (1,541) | (759) |
| Net income | 12,022 | 11,038 | 10,863 | 9,436 | 7,729 |
| **Balance sheet:** | | | | | |
| Current assets (a) | 13,977 | 18,946 | 22,663 | 18,704 | 21,967 |
| Current liabilities (b) | 17,220 | 22,899 | 29,341 | 26,618 | 25,263 |
| Working capital (a-b) | (3,242) | (3,952) | (6,678) | (7,914) | (3,296) |
| Current assets | 13,977 | 18,946 | 22,663 | 18,704 | 21,967 |
| Other non-current assets | 6,609 | 4,739 | 4,966 | 5,112 | 5,032 |
| Fixed and intangible assets | 48,225 | 76,077 | 81,959 | 86,966 | 84,403 |
| Total assets | 68,811 | 99,762 | 109,588 | 110,781 | 111,402 |
| Current liabilities | 17,220 | 22,899 | 29,341 | 26,618 | 25,263 |
| Long-term loans | 13,019 | 28,081 | 22,711 | 21,741 | 23,960 |
| Other liabilities | 2,680 | 6,220 | 6,703 | 8,957 | 8,096 |
| Total liabilities | 32,919 | 57,200 | 58,755 | 57,317 | 57,319 |

| Description (Saudi Riyals in millions) | 2007 Consolidated Audited | 2008 Consolidated Audited | 2009 Consolidated Audited | 2010 Consolidated Audited | 2011 Consolidated Audited |
|---|---|---|---|---|---|
| Paid-up capital | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Reserves and retained earnings | 15,876 | 17,638 | 22,035 | 24,996 | 26,908 |
| Shareholders' equity | 35,876 | 37,638 | 42,035 | 44,996 | 46,908 |
| Non-controlling interest | 16 | 4,924 | 8,798 | 8,468 | 7,174 |
| Equity | 35,892 | 42,562 | 50,833 | 53,464 | 54,082 |
| Total liabilities and Shareholders' equity | 68,811 | 99,762 | 109,588 | 110,781 | 111,402 |
| **Cash flow statement** | | | | | |
| Net operating cash flows | 18,541 | 21,149 | 15,956 | 18,989 | 16,488 |
| Net investing cash flows | (16,919) | (35,469) | (13,542) | (12,365) | (8,264) |
| Net financing cash flows | 3,087 | 14,763 | (2,765) | (8,283) | (7,686) |
| Net cash flows | 4,709 | 443 | (351) | (1,659) | 538 |
| Cash and cash equivalents at the beginning of the period | 2,909 | 7,618 | 8,061 | 7,710 | 6,051 |
| Cash and cash equivalents at the end of the period | 7,618 | 8,061 | 7,710 | 6,051 | 6,589 |

Geographic analysis of the consolidated service revenues at Group level:

During 2011, the Group achieved revenues of SR 55,662 million, of which foreign investments at Group level contributed 33%. The following table outlines the geographic analysis of these revenues according to the Group's strategic investments:

| Local revenues (Saudi Riyals in millions) | International revenues (Saudi Riyals in millions) | | | | | | Total |
|---|---|---|---|---|---|---|---|
| STC, Arabian Internet and communications Services LLC. (Awal net), Telecom Investment Company Ltd., Sale For Distribution & Communication Co. Ltd (Sale Co.) | STC Bahrain (VIVA) | Gulf Digital Media Holding (Integral) | Kuwait Telecom Company (VIVA) | Oger Telecom Ltd. | PT AXIS Telecom | Binariang GSM Holding Group | |
| 37,479 | 783 | 476 | 1,267 | 11,153 | 567 | 3,937 | 55,662 |

As for the local segmentation of revenues, it is not practical to segment them on the basis of areas or cities, since revenues generated from services are not related to a single area. Billing of a customer's calls may be completed across several areas of KSA, regardless of the area where the customer's account and billing have been created. International and roaming calls made or received by a customer are also not attributed to a particular area, since they are made outside the geographic borders of the Kingdom.



**The most important operating performance figures at Group level in 2011, compared to 2010, are as follows:**

| Description (Saudi Riyals in millions) | 2011 Consolidated | 2010 Consolidated | Change | % |
|---|---|---|---|---|
| Income statement | | | | |
| Revenues from services | 55,662 | 51,787 | 3,875 | 8% |
| Cost of services | (24,334) | (21,464) | (2,870) | 13% |
| Gross profit | 31,328 | 30,323 | 1,005 | 3% |
| | | | | |
| Operating expenses | (20,157) | (19,345) | (812) | 4% |
| | | | | |
| Operating income | 11,171 | 10,978 | 193 | 2% |
| | | | | |
| Other income, expenses, zakat, taxes and non-controlling interests | (3,442) | (1,542) | (1,900) | 123% |
| Net income | 7,729 | 9,436 | (1,707) | (18%) |

* The most important reasons for the 18% decrease in the net income in 2011, compared to 2010, are as follows:

- Recorded losses in balance sheets of up to SR 1,105 million caused by changes in foreign currency rates.
- Miscellaneous revenues for the year 2010 included the amount of SR 728 million which represented the sale of fixed assets (towers) by Aircel company, one of Binariang GSM Holding Group's subsidiaries.

Murabaha and loans

| Description (Saudi Riyals in millions) | 2011 Consolidated |
|---|---|
| Short-term | 5,972 |
| Long-term | 23,959 |
| Total | 29,931 |

**- Oger Telecom Ltd. - UAE**
As of December 31st, 2011, the Group's share in the borrowings and bank facilities extended to Oger Telecom Ltd. amounted to SR 9,670 million.

**- Binariang GSM Holding Group**
As of December 31st, 2011, the Group's share was SR 2,910 million in the Sukuk, and SR 5,360 million in the bank facilities and finance lease contracts. The Sukuk were utilized in financing the acquisition of Maxis, the Malaysian holding group, which subsequently put 30% of them to the public and was listed on the Malaysian financial market.

**- PT AXIS Telecom - Indonesia (previously NTS)**
As of December 31st, 2011, the Group's share in the borrowings and bank facilities extended to PT AXIS Telecom amounted to SR 1,340 million.

**- Kuwait Telecom Company (VIVA) (KCC) - Kuwait**
As of December 31st, 2011, the Group's share in Kuwait Telecom Company (VIVA) borrowings and bank facilities amounted to SR 337 million.

**- STC Bahrain (VIVA) (BSCC) - Bahrain**
As of December 31st, 2011, the Group's share in STC Bahrain (VIVA) borrowings and bank facilities amounted to SR 555 million.

**- Saudi Telecom Company**
During the third quarter 2007, the Company obtained financing facilities in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.25%. Maturity is 60 months. The total amount of these facilities utilized as of December 31st, 2011 was SR 6,000 million.
During the fourth quarter 2007, financing facilities were obtained in the form of Murabaha deals from a branch of local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. Maturity is 120 months. The total amount of these facilities utilized as of December 31st, 2011 was SR 1,688 million.
In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.25%. Maturity is 120 months. The total amount of these facilities utilized as of December 31st, 2011 was SR 9,500 million.
During the third quarter 2010, financing facilities of SR 1,000 million were obtained in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.50%. None of this facility has been utilized as of December 31st, 2011.
During the third quarter 2011, financing facilities of SR 2,250 million were obtained in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.60%. None of this facility has been utilized as of December 31st, 2011.
During the fourth quarter 2008, the Company started repayment of due instalments of the financing facilities. Amounts settled as of December 31st, 2011 amounted to SR 7,429 million, of which SR 2,555 million were settled during the year ended December 31st, 2011.

**The following is a list of settled and due regulatory payments, along with a brief description and reasons:**

| Item | (Saudi Riyals in millions) | Description | Reason |
|---|---|---|---|
| Government charges | 4,508 | Paid or incurred during the year in accordance with the rules pertaining to the licenses given to the Company in return for offering commercial services and the use of a frequency spectrum. | A regular requirement |
| Profit dividends | 3,762 | Paid or incurred during the year as profit dividends to the Government and semi-Governmental authorities (Public Investment Fund, Public Pension Agency and the General Organization for Social Insurance) | A regular requirement |
| Social insurance | 282 | Paid or incurred during the year in accordance with the labor law in the Kingdom. | A regular requirement |
| Zakat, withholding tax and other | 137 | Paid or incurred during the year in accordance with Zakat rules and principles and income tax rules in the Kingdom. | A regular requirement |
| Total amounts due/paid to Governmental and semi-Governmental bodies | 8,689 | Represents regulatory amounts due/paid to the Saudi Government | |

*** Penalties, sanctions and reserve limits**

There have been some fines imposed by the Communications and Information Technology Commission, but these remain unapproved by the Company, pending legal proof. As per the applicable regulations, complaints have been submitted to the Grievances Department. All judgments issued have been passed in favour of the Company and they have cancelled such penalties. As for other penalties, under consideration by the Grievances Department, no decisive judgments have been passed to date. During 2011, STC was fined SR 50,000 for not adhering to Article 46, paragraph (a) of the Financial Market regulations, Article 25, paragraph (a) of the Registration and Enlistment rules and paragraph 8 of the General Rules to be followed by companies when advertising. The Company was late to inform the Capital Market Authority and the public that the Ministry of Communication and Technology - Syria has postponed the auction of third-generation mobile operator licenses.

*** Potential Risks**

**- Operating risks**

No economic sector is free from potential risks. Undoubtedly, some risks may be a result of the developments in the Saudi telecoms sector, which is witnessing rapid changes. Major risks lie in the launch of new competitors and fiercer competition, as well as the need to provide customers with outstanding, high-quality and versatile services. Furthermore, fast-paced technological progress, which is now a major challenge to many telecom companies, compels them to adopt new high-cost technologies that may involve substantial risks. The company has taken this into consideration, when developing its “LEAD” strategy for future years, thereby maintaining its primary position in the market.

**- Financial Risks**

**Fair value risk:**

This is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31st December 2011 and 2010, which is as follows:

- Cash & cash equivalents, accounts receivables, payables and other receivables and payables' 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 value 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:**

This comprises various risks related to the effect of changes in commission rates on the Group’s financial position and cash flows. The Group manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the company’s commission income through holding balances in short-term and long-term bank deposits, but the related commission rate risk is not considered to be significant.

**Currency risk:**

This 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 hedge agreements when the need arises, in order to minimize any potential impact. In addition, the official and basic currency of the Group is the Saudi Riyal. Currently, its price is fixed, with a small margin, against the US Dollar.

**Credit risk:**

This 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 consider itself exposed to high levels 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:**

This is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by ensuring, periodically, its availability in amounts sufficient to meet any future commitments. The Group does not consider itself exposed to significant risks in relation to liquidity.

*** The Company Dividend Distribution Policy**

Article 46 of STC Articles of Association states that the Company’s annual net profits are distributed after deducting all general expenses and other costs as follows:

1- 10% of the net profit is appropriated to the statutory reserve. The Annual General Meeting may freeze such appropriation if the said reserve reaches half of the capital. It is to be noted that such a reserve reached the maximum statutory limit during 2010. Therefore, appropriations have been frozen.

2- The Annual General Meeting may, upon the proposal of the BoD, appropriate a percentage of the net profits to form a contingency reserve and allocate it for a specific purpose(s).

3- After such appropriation, and from the remaining amount, 5% of the paid-up capital shall be distributed as an initial payment to the shareholders.

4- After taking the above step, a percentage of the remaining amount not exceeding 0.5% (half of one per cent) shall be allocated as remuneration for the BoD as identified by the Annual General Meeting. All remaining amounts shall then be distributed as an additional share in profits to the shareholders, while taking into consideration the instructions issued by the Ministry of Trade in this respect.

Article 47 of STC Articles of Incorporation states that the profits scheduled to be distributed to shareholders shall be distributed at the place and on the dates defined by the BoD, provided that the date of distribution shall not exceed one month from the date of approval of the distribution, by the Annual General Meeting.

Dividend distribution depends on the company's profits and its cash flow, as well as future investment prospects of both main and new investments, taking into consideration the necessity of maintaining a solid financial position to counter any change in general conditions or any significant variation in the telecoms sector. The company has always paid substantial quarterly dividends, compared to the net profits and cash flow achieved. Despite expectations to pay shareholders dividends on a quarterly basis, there are no guarantees that this policy will continue, or assurances as to the amount to be paid in any given year. Hence, the dividend distribution policy may be subject to change from time to time. Cash dividends shall be paid in Saudi Riyals.

*** Contribution in the National Income**

The Company's contribution in the national income, since 2000 and up to the end of 2011 amounts to more than SR 107 billion, in the form of fees paid and the Government's share in annual profits.

**C- Strategic orientations**

STC is looking forward to adopt and lead developments and trends in the regional telecommunications industry. This can be achieved through planning the stages of development and shifting towards a new wave of development that includes investing in digital strategies serving vital sectors such as education and health. Achieving this requires the building of an integrated digital communications value chain – from infrastructure and content services to applications and cloud computing. For this reason, the Company focuses on achieving its strategy, known as "LEAD", with the following six principles:

• Leadership in providing the new-generation services for broadband
• Excellence in providing an integrated experience to customers
• Supporting international leadership
• Investment in human capital
• Supporting flexibility and financial performance
• Establishing the leading reputation and brand of the Company



**D- Human resources**

Striving for further development and advancement to maintain its leading role as the largest telecommunications company in the region, STC aims to extend its influence both locally and internationally. To achieve this, STC is applying a new organizational structure that will help develop its leadership though growth and integration.

The organizational structure of the Group comprises many major sectors, including Operations in KSA, Strategic Operations and Technical Operations. The structure is part of the "LEAD" strategy, which focuses efforts on exploiting opportunities and facing future challenges. STC is preparing itself for a new stage of development, in the light of significant changes in the telecommunications industry, and seeks to establish itself as a major international operator. STC's HR objective is to raise the efficiency of personnel, improve workforce performance and to develop the internal work environment. With this in mind, the Company is focused on the following programs:

*** Human resources training and development program**

About 1,085 training courses have been held and about 8,030 members of company staff have benefited from attending them. In addition, 93 workshops have been held using the WebEx technique – and 7,138 employee have benefited from them.

*** Early retirement program**

The Workforce Improvement Program is still available and it allows employees who wish to leave their jobs and obtain pension entitlements to do so. To date, 546 employees have benefited from the program, at a cost of SR 422 million.

*** Staff Loans Program**

The Housing Loans Program is also still being offered and, during 2011, 199 employees benefited from it by borrowing an amount of SR 247 million. In addition, during 2011, 266 employees benefited from the Vehicle Loans Program at a cost of SR 47 million.

*** The Social Solidarity Fund Program**

The company continued to adopt the Social Solidarity Fund which aims to develop team spirit, cooperation and solidarity among the Company's staff. The Fund contributes towards overcoming any difficulties in life, experienced by colleagues, by providing non-refundable financial subsidies to eligible staff and refundable interest-free loans to the program participants. The Company contributed an amount of SR 5 million in the program's first year, and has since provided annual support of SR 2 million. During 2011, the company provided 125 solidarity scholarships worth SR 13.5 million and 666 financial subsidies worth SR 13.6 million.

**E- Social responsibility**

STC has been known for participating in key national events in its

homeland and communities. In this spirit, STC has implemented “Wafaa Programs” and many distinct social initiatives, as a part of a humanitarian program that contributes to the nation’s sustainable development. As a result, STC has succeeded in touching many people’s lives through its participation in and patronage of conferences, symposia and events.
These include: the Social Responsibility Exhibition, the Saudi Conference for Orphans Care, the Medina Mass Marriage Ceremony, and the International Exhibition Conference on Higher Education 2011, as well as anti-smoking campaigns, the rehabilitation of addiction patients, sponsorship of the Aseer Festival, relief efforts for Somalis, STC clients’ endowment in Mecca, an Online Charitable Auction “Be unique and get a unique number”, The Prophet’s Companion, Eid-Al-Fitr festivals in Riyadh, the Buraidah dates festival, the Armed Forces’ celebrations on Saudi National Day, and breast cancer awareness campaigns.
STC regards no field as more important than the Health sector, in terms of the effect of its contributions on the overall development of society. For that reason, the Company has taken the lead in establishing and equiping dozens of health centers in the Kingdom at a cost of SR 100 million, acting as a role model for other national companies. During the year, many of these centers opened and began operations. Centers like these primarily benefit local people in the villages where they are established. This is the most powerful private-sector initiative targeting the health of KSA citizens.
In addition, STC has launched unique initiatives to benefit individuals with special needs. The Company held an auction of unique phone numbers, the proceeds of which were devoted to charity organizations serving children in this category. Proceeds of this auction were allocated equally between the Disabled Children’s Association, the Prince Fahad bin Salman Charity Association for Renal Failure Patients Care and the Charity Committee for Orphans Care (Inasan). STC is leading the way, regardless of material targets, to contribute at a higher level to community development and advancement. This was obvious in the overwhelming success of the auction event, both on the local and international levels. In addition, the Company created a new method of charity fundraising through its technologies and networks, enabling clients to donate to whichever KSA charity association they wished, while taking the responsibility for transferring those donations to the charities.
STC has been keen to adopt and support the projects of charitable and humanitarian groups targeting all segments of society, particularly those with special needs and those suffering from chronic diseases. Extending its humanitarian program, the Company offered significant discounts to customers with special needs, by granting them special discount packages to meet their needs and exceed their expectations.
Under directions from the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud, and in a humanitarian gesture by the Company, STC launched a donation campaign to support the people of Somalia. This successful campaign helped customers deliver their donations, through official channels, to the authorities responsible for delivering relief to those in need. It has enabled people to communicate and provide assistance in the simplest, most effective way.
All of these initiatives, and others launched by the Company, put STC at the forefront of national companies fulfilling their responsibilities to the community, earning the respect of everyone and praise to leading specialists, as well as securing awards both internally and externally.

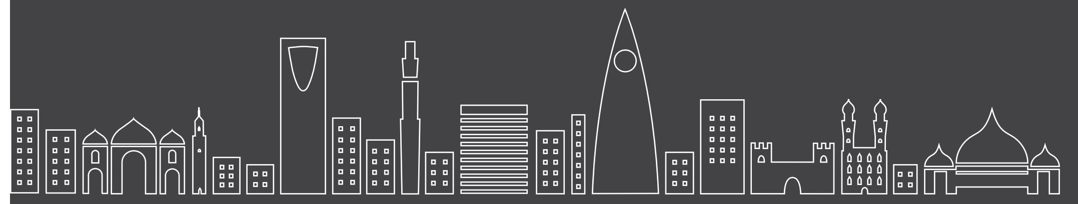
**F- Offering services to the pilgrims of the Holy Mosque**

Believing it is honorable to support pilgrimages, STC continued its active efforts to serve the pilgrims of the Holy Mosque for the year 1432H - confirming its leading role in such major religious rituals and continuing its outstanding achievements over recent years. During Hajj season this year, the traffic-volume capability of mobile network were increased in Mecca, other Sacred Ritual areas and Medina, to more than 15 million mobile users. The Company also provided complete coverage for Al Mashaaer Al Muqaddassah Metro along its route from Mina to Mt. Arafat, passing Muzdalifah, and increased the traffic volumes of mobile networks in areas through which the train passes, supporting the intensive use of the network as pilgrims travel between the holy sites.
The Company built hundreds of base stations that support third-generation technology to provide better coverage than last year to the area of Mecca, the holy sites and Medina. In addition, the Company established new and updated sites in areas around the Holy Sanctuary to enhance network coverage and increase its capacity in areas of high population density, such as the expanding areas of the Haram, and the Towers of King Abdul Aziz Endowment, as well as a number of major hotels nearby.
Using smart solutions, the company also provided comprehensive coverage of all tunnels surrounding the Holy Sanctuary, and updated this service capability using advanced telecoms technologies such as fiber-optics. This, in turn, allowed an easier flow of communications traffic among pilgrims and those who serve them, from all sectors of the State. The successful operation of Saudi Telecom networks during the Hajj season was the result of the collaborative work between 132 teams that supported the streaming of the communications traffic, and overcame all technical obstacles, at the holy sites and in Mecca.
On the Day of Arafa, the number of customers using the mobile network rose to more than 2.5 million. Demonstrating its

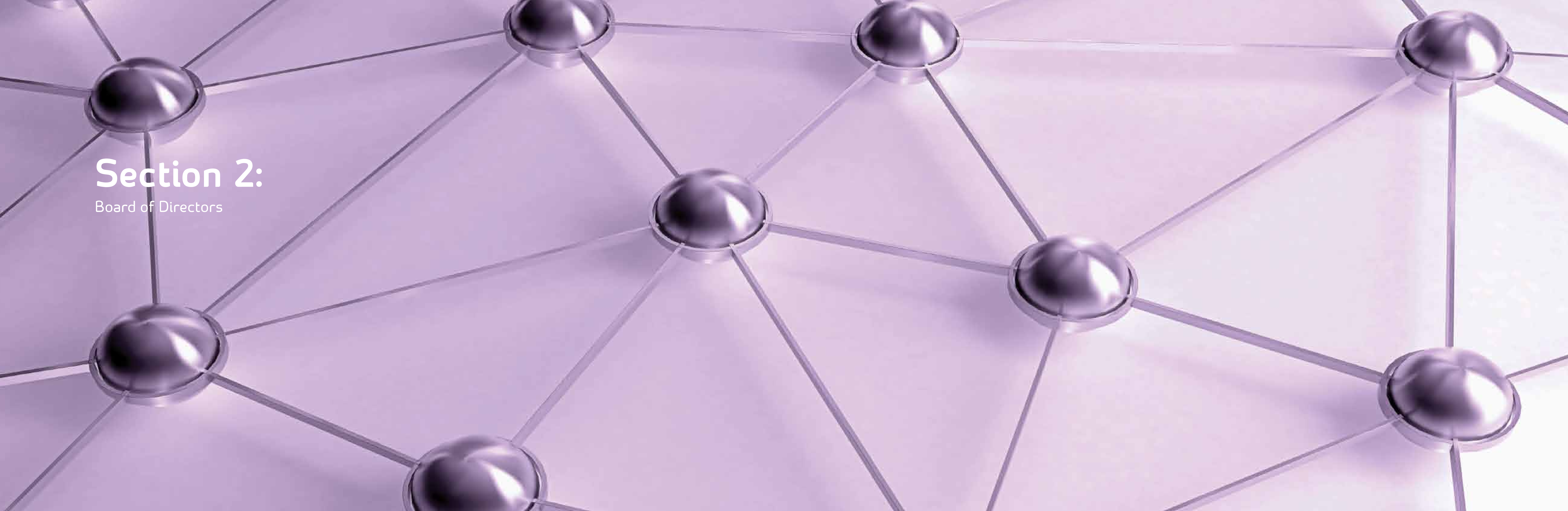
commitment to serving pilgrims, STC allocated five thousand employees to help guarantee a successful pilgrimage, and dedicated its full technical potential to the success of the Hajj rituals. STC managed, praise be to Allah, to achieve great success, and excellent numbers were recorded for the first time in the Hajj, both in data traffic and calls. For example, the Day of Arafat saw more than 400 million mobile calls, and the Company reported a significant increase in the number of customers roaming on a mobile network during the days of Hajj. This resulted in a significant increase the number of calls and the volume of mobile traffic – in Mecca, Medina and the holy sites – of 14% compared to the previous year. The network also saw an increase of 51% in SMSs, and a similar increase in local and international MMSs, monitored by the King Khalid Center for National Network Control in Riyadh.

The 1432H pilgrimage benefited from a comprehensive plan for transferring incoming and outgoing calls between the Holy Region, the rest of the Kingdom and countries around the world. Coordination and cooperation among the Group's companies in countries where they operate, such as Indonesia, Malaysia, Kuwait and Bahrain, achieved outstanding success with pilgrims, who are customers from these countries, receiving offers to meet their needs during Hajj period. Despite the increasing demand for services, the Company was not prevented from achieving record traffic flow during the peak days of pilgrimage, such as the Day of Arafat and the first day of Eid, and significant increases in various communications traffic services were recorded, compared to previous years. The increase in data usage, information transfer and the use of mobile and fixed internet exceeded five times their levels during the 1431H Hajj. Pilgrims, and many of the staff serving them, showed much interest in broadband services, either through DSL, mobile phones or the QuickNet modem, due to the high speed offered by the Company – which can be attributed to the strength of its network, as well as its good customer services. The offer of an additional SAWA SIM card created a large demand from pilgrims. A SAWA SIM card for SR 25 gave two minutes of international calls and the first two SMSs free of charge, and a 40% discount on a specified international number chosen by the pilgrim. In addition, STC provided inexpensive mobile handsets at low prices that suited pilgrims of different nationalities. The Company enjoyed wide distribution through its fixed and mobile outlets, as well as street vendors carrying the official logo of the Company and official ID cards, to provide services to pilgrims and organizers wherever they were, while on the move between holy sites and Mecca.

The Company commits to all these activities in the belief that Hajj is a divine command by the grace of Allah, and that the responsibility for keeping pilgrims in touch with their relatives has been ours for many years. We will continue to develop the Company's services for pilgrims, always maintaining the highest levels of quality to meet and exceed expectations.



# Section 2:
Board of Directors



## The Board of Directors

* Structure of the Board of Directors and categories of members
Article 17 of the STC Articles of Association defines the number of Board of Directors members as nine, in accordance with section (a) of Article 12 of the guiding Corporate Governance Regulations issued by CMA via decree number 1-212-2006, dated 21/10/1427 AH, corresponding to 12/11/2006. During the fiscal year 2009, a new Board of Directors was elected for the fourth session which shall end in 2012. The following table lists names of Board of Directors members, their categories and membership in the Board of Directors of joint stock and other companies:

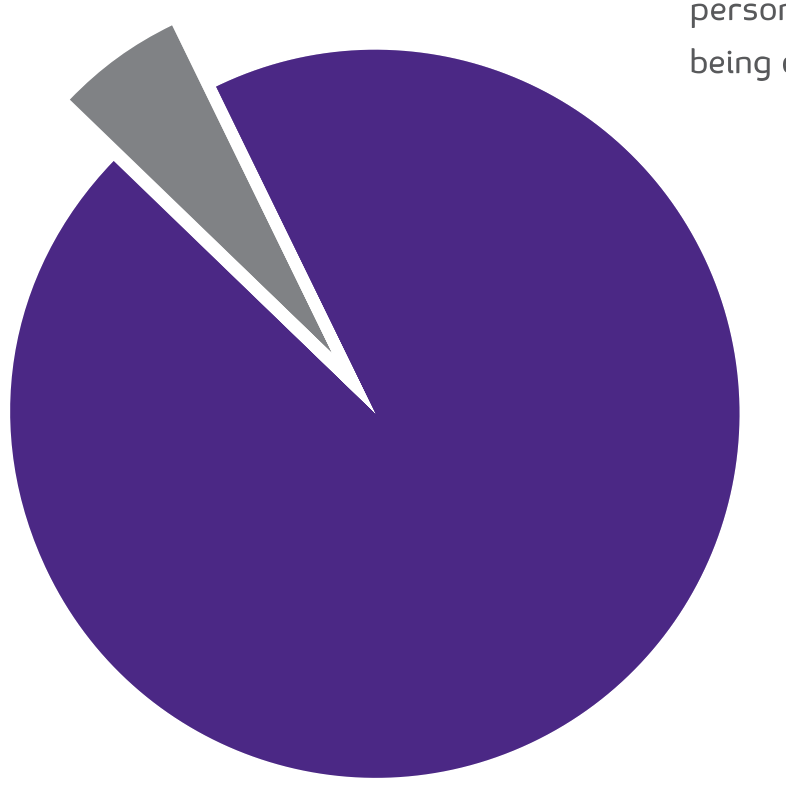
| Ser. | Name | Membership in other Board of Directors | Membership Category | | | |
|---|---|---|---|---|---|---|
| | | | Executive | Non-Executive | Independent | Non-Independent |
| 1 | H.E. Dr. Mohammad Bin Suleiman Al-Jasser<br>Chairman and Head of the Executive Committee | None | | √ | | √ |
| 2 | H.E. Mohammed Bin Abdullah Al-Kharashi<br>Vice Chairman, Head of the Nomination and Compensations Committee and member of the Executive Committee | • Saudi Research and Marketing Group<br>• Saudi Industrial Investment Group (SIIG)<br>• Saudi Arabian Mining Company (Maaden) | | √ | | √ |
| 3 | H.E. Dr. Hamad Bin Suleiman Al-Qassumi, member of the Nomination and Compensations Committee | None | | √ | | √ |
| 4 | H.E. Mohammad Bin Saleh Ad-Dahham, member of the Executive Committee and the Investment Committee | • Saudi Railway Company (SAR)<br>• Al-Elm Information Security | | √ | | √ |
| 5 | H.E. Ibrahim Bin Ali Al-Hassan, member of the Executive Committee | None | | √ | | √ |
| 6 | H.E. Abdulaziz Bin Habdan Al-Habdan, Member of the Nominations and Compensations Committee, and Member of the Audit Committee | • Banque Saudi Fransi<br>• Allianz Saudi Fransi for Cooperative Insurance | | √ | | √ |
| 7 | H.E. Mohammed Bin Omran Al-Omran, Head of the Investment Committee, Member of the Executive Committee | • Ar-Rajhi Company for Cooperative Insurance • Saudi British Bank<br>• Saudi Orix for Financial Leasing • Credit Suisse - Saudi Arabia | | √ | √ | |
| 8 | H.E. Abdulrahman Bin Abdulaziz Mazi, Member of the Nominations and Compensations Committee, and Member of the Investment Committee | • Technical Investments Co.<br>• SyriaTel Mobile Telecom Company | | √ | √ | |
| 9 | H.E. Khalid Bin Abdulrahman Al-Rajhi, Head of the Audit Committee, and Member of the Investment Committee | • Al Bilad Bank • Walaa Insurance<br>• Saudi Cement Company • Takween Advanced Studies | | √ | √ | |

• **Members' Participation in meetings of the Board of Directors**

The following table shows the number of Board's meetings in the fourth round, and members' attendance throughout 2011:

| Ser. | Name | Attendance Sheet | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Total |
| 1 | H.E. Dr. Mohammad Bin Suleiman Al-Jasser | √ | √ | √ | √ | √ | X | √ | √ | √ | X | √ | √ | 10 |
| 2 | H.E. Mohammed Bin Abdullah Al-Kharashi | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 3 | H.E. Mohammad Bin Saleh Ad-Dahham | X | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 11 |
| 4 | H.E. Ibrahim Bin Ali Al-Hassan | √ | √ | √ | √ | √ | √ | √ | √ | √ | X | √ | √ | 11 |
| 5 | H.E. Dr. Hamad Bin Suleiman Al-Qassumi | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 6 | H.E. Abdulaziz Bin Habdan Al-Habdan | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 7 | H.E. Mohammed Bin Omran Al-Omran | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 8 | H.E. Abdulrahman Bin Abdulaziz Mazi | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 9 | H.E. Khalid Bin Abdulrahman Al-Rajhi | √ | √ | X | √ | √ | √ | √ | X | √ | √ | √ | √ | 10 |

Some members were unable to attend some of the meetings of the Board of Directors due to personal circumstances or on account of their being outside KSA.



*** Committees of the Board of Directors**

According to the Corporate Governance Regulations approved in February 2005, the Board of Directors shall set up the committees it deems fit to work in the areas where there are specific conflicts of interest and which require the independent consideration of the Board. These areas include the Company's strategies, financial reports, nominating a Board member and the remuneration of members and executives. There should be a minimum limit of independent members in the committees initiated by the Board of Directors. When setting up committees, their responsibilities and business procedures shall be identified by the Board of Directors in writing. Related decisions shall be issued and relevant stakeholders shall be notified in an appropriate manner.

The Board of Directors committees for the fourth session have been set up as follows:

### The Executive Committee

| | | |
|---|---|---|
| 1 | H.E. Dr. Mohammad Bin Suleiman Al-Jasser | Head |
| 2 | H.E. Mohammed Bin Abdullah Al-Kharashi | Member |
| 3 | H.E. Mohammad Bin Saleh Ad-Dahham | Member |
| 4 | H.E. Ibrahim Bin Ali Al-Hassan | Member |
| 5 | H.E. Mohammed Bin Omran Al-Omran | Member |

**Duties and Responsibilities:**

The Executive Committee is charged with reviewing strategies, as well as domestic and global activities of the company in basic and non-basic areas of work, and granting them approval as per the authority vested in them by the Board of Directors. The Committee held three meetings during 2011.

| No. | Name | Attendance Sheet | | | |
|---|---|---|---|---|---|
| | | 1 | 2 | 3 | Total |
| 1 | H.E. Dr. Mohammad Bin Suleiman Al-Jasser | √ | √ | √ | 3 |
| 2 | H.E. Mohammed Bin Abdullah Al-Kharashi | √ | √ | √ | 3 |
| 3 | H.E. Mohammad Bin Saleh Ad-Dahham | √ | √ | √ | 3 |
| 4 | H.E. Ibrahim Bin Ali Al-Hassan | √ | √ | √ | 3 |
| 5 | H.E. Mohammed Bin Omran Al-Omran | √ | √ | √ | 3 |



### The Nominations and Compensations Committee

| | | |
|---|---|---|
| 1 | H.E. Mohammed Bin Abdullah Al-Kharashi | Head |
| 2 | H.E. Dr. Hamad Bin Suleiman Al-Qassumi | Member |
| 3 | H.E. Abdulaziz Bin Habdan Al-Habdan | Member |
| 4 | H.E. Abdulrahman Bin Abdulaziz Mazi | Member |

**Duties and Responsibilities:**

The Committee is charged with formulating, approving and endorsing an operating mechanism, structuring salaries in accordance with market criteria and ensuring fair implementation in a manner that motivates management and employees to perform their duties effectively. The Committee is also entitled to review the structure of the Board of Directors, refer recommendations with respect to required changes, verify annually the independence of independent members and ensure no conflicts of interest arise where members are also on the boards of other companies, and review and approve the compensation and rewarding policy as a preliminary step before referring it to the Board of Directors. The Committee held nine meetings during 2011.

| No. | Name | Attendance Sheet | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Total |
| 1 | H.E. Mohammed Bin Abdullah Al-Kharashi | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| 2 | H.E. Dr. Hamad Bin Suleiman Al-Qassumi | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| 3 | H.E. Abdulaziz Bin Habdan Al-Habdan | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| 4 | H.E. Abdulrahman Bin Abdulaziz Mazi | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |

| Audit Committee | | |
|---|---|---|
| 1 | H.E. Khalid Bin Abdulrahman Al-Rajhi | Head |
| 2 | H.E. Abdulaziz Bin Habdan Al-Habdan | Member |
| 3 | H.E Abdulaziz Bin Ibrahim Al Omar | Member |
| 4 | H.E. Dr. Ahmad Bin Abdullah Al-Mughames | Member |

**Duties and Responsibilities:**

The Committee is charged with reviewing STC financial and administrative policies and procedures, and compiling financial reports and their outcome. The Committee also reviews the reports and observations of Internal Audit regularly and in a manner that ensures the efficiency of supervision and risk management in STC. The Committee held twelve meetings during 2011.

| No. | Name | Attendance Sheet | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | Total |
| 1 | H.E. Khalid Bin Abdulrahman Al-Rajhi | √ | √ | √ | X | √ | √ | √ | √ | √ | X | √ | √ | 10 |
| 2 | H.E. Abdulaziz Bin Habdan Al-Habdan | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 12 |
| 3 | H.E Abdulaziz Bin Ibrahim Al Omar | √ | √ | √ | √ | X | √ | X | √ | √ | √ | X | √ | 9 |
| 4 | H.E. Dr. Ahmad Bin Abdullah Al-Mughames | √ | √ | √ | √ | √ | √ | √ | √ | √ | X | X | √ | 10 |

Some members were unable to attend some of the meetings of the Committee due to personal circumstances or on account of their being outside KSA.



| The Investment Committee | | |
|---|---|---|
| 1 | H.E. Mohammed Bin Omran Al-Omran | Head |
| 2 | H.E. Muhammad Bin Saleh Ad-Dahham | Member |
| 3 | H.E. Abdulrahman Bin Abdulaziz Mazi | Member |
| 4 | H.E. Khalid Bin Abdulrahman Al-Rajhi | Member |

**Duties and Responsibilities:**

The Committee is charged with reviewing the Company's strategic investments as per Company strategies. The Committee also reviews and studies strategic investment opportunities and makes recommendations on suitable investments. The Committee held four meetings during 2011.

| No. | Name | Attendance Sheet | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | المجموع |
| 1 | H.E. Mohammed Bin Omran Al-Omran | √ | √ | √ | √ | 4 |
| 2 | H.E. Muhammad Bin Saleh Ad-Dahham | √ | √ | √ | √ | 4 |
| 3 | H.E. Abdulrahman Bin Abdulaziz Mazi | √ | √ | √ | √ | 4 |
| 4 | H.E. Khalid Bin Abdulrahman Al-Rajhi | √ | √ | √ | √ | 4 |

*** Interests of Members of the Board of Directors**

STC has not entered into any businesses or contracts involving substantial interests of Board of Directors members, the CEO, the Vice-President for Financial Affairs or any persons related to them.

Ownerships of Board of Directors members, their wives and minor children

| Member's Name | Ownership at the beginning of the year 2011 | Ownership at the end of the year 2011 | Percentage of Change during the year 2011 |
|---|---|---|---|
| H.E. Dr. Mohammad Bin Suleiman Al-Jasser | 330,140 | 330,140 | 0 % |
| H.E. Mohammed Bin Abdullah Al-Kharashi | None | None | - |
| H.E. Mohammad Bin Saleh Ad-Dahham | None | None | - |
| H.E. Ibrahim Bin Ali Al-Hassan | None | None | - |
| H.E. Dr. Hamad Bin Suleiman Al-Qassumi | 546 | 546 | 0 % |
| H.E. Abdulaziz Bin Habdan Al-Habdan | 1000 | 1000 | 0 % |
| H.E. Mohammed Bin Omran Al-Omran | 713,666 | 713,666 | 0 % |
| H.E. Abdulrahman Bin Abdulaziz Mazi | 51,000 | 51,000 | 0 % |
| H.E. Khalid Bin Abdulrahman Al-Rajhi | 6,620,485 | 1,162,000 | (82) % |

Ownership of top executives, their wives and minor children

| Member's Name | Ownership at the beginning of the year 2011 | Ownership at the end of the year 2011 | Percentage of Change during the year 2011 |
|---|---|---|---|
| Saud Bin Majed Al Daweesh | 0 | 0 | 0 |
| Jamil Bin Abdullah Al-Melhem | 0 | 0 | 0 |
| Ziad Bin Thamer Al-Iteibi | 11,333 | 6,666 | 41% |
| Saad Bin Dhafer Al-Qahtani | 0 | 0 | 0 |
| Ghassan Hasbani | 0 | 0 | 0 |
| Khaled Bin Abdulrahman Al-Jasser | 1,273 | 1,273 | 0 |
| Mohammad Nasser Al-Jasser | 0 | 0 | 0 |
| Humud Bin Mohammad Al-Qassir | 2,933 | 2,933 | 0 |
| Amin Bin Fahd Ash-Sheddi | 0 | 0 | 0 |
| Mazid Nasser Al-Harbi | 0 | 0 | 0 |
| Ibrahim Abdulrahman Al-Omar | 0 | 0 | 0 |
| Abdullah Mohammad Al-Humidan | 0 | 0 | 0 |
| Omar Bin Abdullah An-Nuamani | 8,501 | 8,501 | 0 |
| Bander Mohammad Al-Qafari | 1,766 | 1,766 | 0 |
| Fahad Hassan Bin Mashit | 0 | 0 | 0 |
| Mahmoud Abdulkareem Al-Khateeb | 0 | 0 | 0 |
| Khalid Mohammad Al-Salea' | 2,000 | 2,000 | 0 |

*** Corporate Governance:**

STC endorsed Corporate Governance Regulations in Dhul Hijja, 1426H, corresponding to February, 2005. The Regulations are made up of 31 principles covering the field of corporate governance statute articles, issued by the Capital Market Authority (CMA) in 2006, as well as some of the best international practices in governance, conforming to the statutes and rules issued by relevant bodies in KSA. STC has also approved a written Disclosure Policy, determining what should be disclosed, when, how and by whom. The policy was published on the STC website. As such, STC has complied with the guiding Corporate Governance Regulations, as issued by CMA in decree 20061-212-, dated 211427/10/H, corresponding to 122006/11/, in terms of the number of committees, their make-up, members independence, as well as several other articles of the statute. The following table details how far STC conforms to Saudi Executive Rules of Corporate Governance issued by CMA:

| Ser. | Article number in Corporate Governance Regulations | Compliance | Partial Compliance | Non-Compliance | Details |
|---|---|---|---|---|---|
| 1 | Third: Shareholders' Equities | • | | | |
| 2 | Fourth: Facilitating stakeholders exercising their rights and access to information | • | | | |
| 3 | Fifth: Stakeholders' rights relating to the General Assembly | • | | | |
| 4 | Sixth: Voting rights | | • | | |
| 5 | Seventh: Stakeholders' equities in assets' profits | • | | | |
| 6 | Eighth: Disclosure-related policies and procedures | • | | | |
| 7 | Ninth: Disclosure in the Board's report | • | | | |
| 8 | Tenth: BoD main functions | • | | | |
| 9 | Eleventh: BoD responsibilities | • | | | |
| 10 | Twelfth: BoD structure | • | | | |
| 11 | Thirteenth: BoD Committees and their independence | • | | | |
| 12 | Fourteenth: The Audit Committee | • | | | |
| 13 | Fifteenth: Nominations and Compensations Committee | • | | | |
| 14 | Sixteenth: BoD meetings and agenda | • | | | |
| 15 | Seventeenth: BoD members remunerations and compensations | • | | | |
| 16 | Eighteenth: Conflict of interest in the BoD | • | | | |



*** Internal Control**

The Board of Directors hereby acknowledges that account ledgers have been compiled correctly, and hence the Board has no doubts regarding the ability of STC to continue its activities. The Board attests that the internal control of the financial statements relies on a proper base and operates adequately and efficiently.

The Audit Committee, stemming from the Board, oversees the internal audit of the Company, which regularly checks the adequacy and efficiency of the internal control systems. This is part of the Board target, namely to attain a high degree of trust concerning the soundness and efficiency of the internal control systems in the company. To this end, the Audit Committee, during the fiscal year, has held twelve meetings which discussed many topics related to the Committee's work, such as review of the financial statements, investments, business units, strategic and regulatory affairs, shared services, as well as network and information systems verification. Officials from Internal Audit and other relevant sectors within STC, attended these meetings. Other issues relating to the business process, in all areas, have also been discussed.

*** Internal Audit**

Internal Audit is an objective and independent checking and advisory function whose aim is to add value and improve Company operations. An internal audit assists an organization in achieving its objectives by providing regular input on the process of assessing and improving the efficiency of risk management, control, and operation, subject to the Internal Audit of the Company. The Internal Audit has carried out several regular and special audits. It concentrated on high-risk activities and functions in order to increase the efficiency, effectiveness and profitability of Company operations. It included – for example – auditing policies and procedures relating to shared services, corporate strategy, IT, business units and the financial sector. This resulted in reducing income loss, minimizing costs, in addition to taking part in reviewing preliminary and final financial statements and coordinating the work of external audit bodies. It is to be taken into account that necessary procedures to follow up the notes in the audit reports have been made, in order to check that corrective procedures have been undertaken.

# Section 3:

## APPROPRIATION OF PROFITS AND BONUSES AND RECOMMENDATIONS OF THE BOARD OF DIRECTORS

## Appropriation of profits and bonuses and recommendations of the Board of Directors

*** The Proposed Distribution of Dividends in 2011**

The Board of Directors proposed distributing dividends throughout the fiscal year 2011, on the basis of SR 1.50 per share. It also recommends the distribution of dividends totaling SR 1,000 million in the fourth quarter of 2011, or SR 0.50 per share. Therefore, total dividends distributed in 2011 reached SR 2 per share, representing 20% of the shares' nominal value.

**The recommended and approved distributions for 2011 were as follows:**

| Description | Total Dividend (in SR millions) | Share Dividend (in SR) | Date of Announcement | Maturity Date | Date of Distribution |
|---|---|---|---|---|---|
| Cash dividends in the first quarter of 2011 | 1,000 | 0.50 | 19/4/2011 | 27/4/2011 | 11/5/2011 |
| Cash dividends in the second quarter of 2011 | 1,000 | 0.50 | 18/7/2011 | 27/7/2011 | 10/8/2011 |
| Cash dividends in the third quarter of 2011 | 1,000 | 0.50 | 19/10/2011 | 26/10/2011 | 16/11/2011 |
| Cash dividends in the fourth quarter of 2011 | 1,000 | 0.50 | 18/1/2012 | TBA | TBA |
| Total dividends | 4,000 | 2 | | | |

*** The Board members' and senior executives' bonuses and remunerations**

Bonuses and remunerations paid to members of the Board for their attendance of Board meetings and its committees, in addition to the five most senior Board members, including the President and the VP of Finance, for the fiscal year ending in 2011 are recorded in the table below. The Board recommends that SR 200,000 shall be issued to each member as an annual bonus for 2011 as per Article 46 of the STC Articles of Incorporation.

| Description | Executive Members | Independent Board Members | The five most senior executives in the Company including the CEO and VP of Finance |
|---|---|---|---|
| Salaries and allowances | - | 813,000 | 9,640,083,66 |
| Periodical and annual bonuses | - | 3,240,000 | 6,055,647,40 |
| Total | - | 4,053,000 | 15,695,731,06 |

*** The Board's Declarations:**

The STC Board of Directors hereby acknowledges that:

- Account ledgers have been compiled correctly.
- The Board of Directors has no doubts regarding the ability of STC to continue its activities.
- The internal control of the financial statements relies on proper bases and operates adequately and efficiently.
- The Consolidated Financial Statements for 2011 have been prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).
- The company has not been notified about any person who owns 5% or more of the Company's issued shares, during 2011.
- There are no debt instruments convertible to shares, option rights, application right notes or similar rights issued or granted by the Company during 2011.
- There is no redemption, purchase or cancellation made by the Company during 2011 with regard to any redeemable instrument debts.
- There are no arrangements or assignment agreements under which any of the Board members or senior executives shall waive any salary or compensation.
- There are no arrangements or assignment agreements under which any of the Company shareholders shall waive any rights in dividends.
- STC has not entered into any businesses or contracts involving substantial interests of a Board member, the CEO, VP of Finance or any person related to them.
- The Company has not granted a cash loan to any Board members or guaranteed a loan contract made by any of them with a third party.
- There are no option or application rights attributable to the Board members, senior executives, their wives or minor children.
- There are no subsequent substantial events which affect the integrity of the Company's financial position and the outcomes of its operations which have not been disclosed, except for the announcement to recommend the distribution of the profits of the fourth quarter of 2011.

*** Recommendations**

The STC Board of Directors recommends to the General Assembly the following:

1) Approval of the Board's report for the fiscal year ending on 31/12/2011.
2) Approval of the Financial Statements of the Company and the auditor's report for the fiscal year ending on 31/12/2011.
3) Approval of the Board's proposal to distribute dividends for the fourth quarter of the fiscal year 2011, on a basis of SR 0.50 per share, in addition to what has been distributed for the first three quarters in 2011, amounting to SR 1.50 per share. Total dividends distributed for the fiscal year 2011 are thus equal to SR 2 per share.
4) Approval of the selection of the Company's auditor from among candidates by the Audit Committee to audit and review the quarterly financial statements for the fiscal year 2011 and determine their fees.
5) Acquitting the Board members with regard to the fiscal year ending on 31/12/2011.
6) Election of a new Board of Directors for the fifth round, which commences as of 7.6.1433 H, corresponding to April 28th, 2013.

# Section 4:

Consolidated Financial Statements for the year ended December 31st, 2011



# Consolidated balance sheet

as at December 31st, 2011 (Saudi Riyals in thousands)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | 6,588,554 | 6,050,677 |
| Short-term investments | 4 | 2,445,762 | 385,142 |
| Accounts receivable, net | 5 | 8,755,480 | 8,707,358 |
| Prepayments and other current assets | 6 | 4,177,239 | 3,561,035 |
| **Total current assets** | | 21,967,035 | 18,704,212 |
| **Non-current assets:** | | | |
| Investments in equity and other | 7 | 2,682,441 | 2,540,494 |
| Property, plant and equipment, net | 8 | 55,085,184 | 55,127,443 |
| Intangible assets, net | 9 | 29,317,791 | 31,837,104 |
| Other non-current assets | 10 | 2,349,329 | 2,571,666 |
| **Total non-current assets** | | 89,434,745 | 92,076,707 |
| **Total assets** | | 111,401,780 | 110,780,919 |
| **Liabilities and equity** | | | |
| **Current liabilities:** | | | |
| Accounts payable | 11 | 5,190,003 | 7,036,414 |
| Other payables - current | 12 | 3,666,828 | 3,508,500 |
| Accrued expenses | 13 | 8,576,456 | 6,058,002 |
| Deferred revenues - current portion | | 1,857,994 | 1,568,491 |
| Murabaha and loans - current portion | 14 | 5,971,814 | 8,446,926 |
| **Total current liabilities** | | 25,263,095 | 26,618,333 |

| | | | |
|---|---|---|---|
| **Non-current liabilities:** | | | |
| Murabaha and loans – non-current portion | 14 | 23,959,617 | 21,741,130 |
| Provisions for end of service benefits | 15 | 3,062,097 | 2,995,371 |
| Other payables – non-current | 12 | 5,034,653 | 5,961,740 |
| **Total non-current liabilities** | | 32,056,367 | 30,698,241 |
| **Total liabilities** | | 57,319,462 | 57,316,574 |
| **Equity** | | | |
| **Shareholders' equity:** | | | |
| Authorized, issued and outstanding shares: | | | |
| 2,000,000,000 shares, par value SR 10 per share | 16 | 20,000,000 | 20,000,000 |
| Statutory reserve | 17 | 10,000,000 | 10,000,000 |
| Retained earnings | | 19,516,064 | 16,287,412 |
| Other reserves | 18 | (1,133,336) | (1,269,415) |
| Financial statements' translation differences | | (1,474,423) | (22,071) |
| **Total shareholders' equity** | | 46,908,305 | 44,995,926 |
| Non-controlling interests | | 7,174,013 | 8,468,419 |
| **Total Equity** | | 54,082,318 | 53,464,345 |
| **Total liabilities and equity** | | **111,401,780** | **110,780,919** |

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements



# Consolidated statement of income

for the year ended December 31st, 2011 (Saudi Riyals in thousands)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Revenues from services | 19 | 55,662,079 | 51,786,828 |
| Cost of services | 20 | (24,333,827) | (21,464,230) |
| **Gross profit** | | 31,328,252 | 30,322,598 |
| **Operating expenses** | | | |
| Selling and marketing expenses | 21 | (7,424,448) | (7,083,100) |
| General and administrative expenses | 22 | (3,878,940) | (3,618,983) |
| Depreciation and amortization | 23 | (8,853,844) | (8,642,204) |
| **Total operating expenses** | | (20,157,232) | (19,344,287) |
| **Operating income** | | 11,171,020 | 10,978,311 |
| **Other income and expenses** | | | |
| Cost of early retirement | | (413,529) | (605,559) |
| Finance cost | 24 | (2,237,858) | (1,780,670) |
| Interest | | 449,904 | 308,727 |
| Other, net | 25 | (481,184) | 2,076,253 |
| **Other income and expenses, net** | | (2,682,667) | (1,249) |

The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements

| | | | |
|---|---|---|---|
| **Net income before Zakat, tax, and non controlling interests** | | 8,488,353 | 10,977,062 |
| Provision for Zakat | 26 | (118,002) | (118,208) |
| Provision for tax | 27 | (478,845) | (820,171) |
| **Net income before non-controlling interests** | | 7,891,506 | 10,038,683 |
| Share of non-controlling interests | | (162,854) | (602,361) |
| **Net income of the year** | | **7,728,652** | **9.436.322** |
| **Basic earnings per share on Operating Income (in Saudi Riyals)** | | **5.59** | **5.49** |
| **Basic loss per share on Other Operations (Other income and expenses) in Saudi Riyals** | | **(1.34)** | **-** |
| **Basic earnings per share on Net Income (in Saudi Riyals)** | | **3.86** | **4.72** |

# Consolidated statement of cash flows

for the year ended December 31st, 2011 (Saudi Riyals in thousands)

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income before Zakat, tax, and non-controlling interests | 8,488,353 | 10,977,062 |
| **Adjustments to reconcile net income to net cash provided** | | |
| by operating activities: | 8,853,844 | 8,642,204 |
| Depreciation and amortization | 1,346,221 | 1,586,519 |
| Doubtful debts expense | (171,273) | (82,538) |
| Earnings from investments accounted for under the | (449,904) | (308,727) |
| equity method | 2,237,858 | 1,780,670 |
| Losses\ (Gains) on foreign exchange | 1,105,323 | (359,318) |
| End of service benefits | 381,676 | 401,147 |
| (Gains)\ Losses on sale/disposal of property, plant and equipment | (97,968) | (941,096) |

**The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements**



| | | |
|---|---|---|
| Changes in: | | |
| Accounts receivable | (1,394,343) | (1,596,159) |
| Short-term investments | (2,060,620) | 86,444 |
| Prepayments and other current assets | (623,945) | (580,716) |
| Other non-current assets | 222,337 | (138,936) |
| Accounts payable | (1,846,411) | 2,035,459 |
| Other payables | (1,096,097) | (57,543) |
| Accrued expenses | 2,518,454 | (39,354) |
| Deferred revenues | 178,406 | 237,888 |
| Paid Zakat | (61,754) | (110,433) |
| Taxes paid by subsidiaries | (726,805) | (97,980) |
| Paid end of service benefits | (314,950) | (249,645) |
| **Net cash provided by operating activities** | 16,488,402 | 21,184,948 |
| | | |
| **Cash flows from investing activities** | | |
| Capital expenditures | (7,837,438) | (11,353,074) |
| Intangible assets, net | (1,329,523) | (3,836,016) |
| Investments in equity and other | (29,326) | (74,970) |
| Dividends received | 457,645 | 348,680 |
| Proceeds from sale of property, plant and equipment | 474,239 | 1,739,965 |
| **Net cash used in investing activities** | (8,264,403) | (13,175,415) |
| | | |
| **Cash flows from financing activities** | | |
| Dividends paid | (4,432,134) | (6,108,787) |
| Murabaha and loans, net | (256,625) | (1,844,154) |
| Financing costs paid | (1,702,957) | (1,386,289) |
| Non-controlling equity | (1,294,406) | (329,704) |
| **Net cash used in financing activities** | (7,686,122) | (9,668,934) |
| Net increase\(decrease) in cash and cash equivalents | 537,877 | (1,659,401) |
| Cash and cash equivalents at the beginning of the year | 6,050,677 | 7,710,078 |
| Cash and cash equivalents at the end of the year | 6,588,554 | 6,050,677 |
| **Non-cash items** | | |
| Financial statements' translation differences | (1,452,352) | 794,194 |
| Other reserves | 136,079 | (1,269,415) |

**The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements**

# Consolidated statement of changes in equity

for the year ended December 31st, 2011 (Saudi Riyals in thousands)

| | Share Capital | Statutory Reserve | Retained Earnings | Other Reserves | Financial statements translation differences | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2009 | 20,000,000 | 9,298,723 | 13,552,367 | - | (816,265) | 8,798,123 | 50,832,948 |
| Net income | - | - | 9,436,322 | - | - | - | 9,436,322 |
| Dividends | - | - | (6,000,000) | - | - | - | (6,000,000) |
| Transferred to statutory reserve (Refer to Note 17) | - | 701,277 | (701,277) | - | - | - | - |
| Other reserves (Refer to Note 18) | - | - | - | (1,269,415) | - | - | (1,269,415) |
| Financial statements translation differences | - | - | - | - | 794,194 | - | 794,194 |
| Non-controlling interests | - | - | - | - | - | (329,704) | (329,704) |
| Balance at December 31, 2010 | 20,000,000 | 10,000,000 | 16,287,412 | (1,269,415) | (22,071) | 8,468,419 | 53,464,345 |
| Net income | - | - | 7,728,652 | - | - | - | 7,728,652 |
| Dividends | - | - | (4,500,000) | - | - | - | (4,500,000) |
| Other reserves (Refer to Note 18) | - | - | - | 136,079 | - | - | 136,079 |
| Financial statements translation differences | - | - | - | - | (1,452,352) | - | (1,452,352) |
| Non-controlling interests | - | - | - | - | - | (1,294,406) | (1,294,406) |
| Balance at December 31, 2011 | 20,000,000 | 10,000,000 | 19,516,064 | (1,133,336) | (1,474,423) | 7,174,013 | 54,082,318 |

**The accompanying notes from 1 to 37 form an integral part of these consolidated financial statements**



## Notes to the consolidated financial statements for the year ended December 31st, 2011

### 1- GENERAL

Saudi Telecom Company (the "Company") was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35, dated 24th Dhul Hijja 1418H (April 21st, 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 23rd Dhul Hijja 1418H (April 20th, 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 2nd Rajab 1423H (September 9th, 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 6th Muharram 1419H (May 2nd, 1998), and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on 4th Rabi Awal 1419H (June 29th, 1998). The Company's head office is located in Riyadh.

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

| Company name | Ownership 2010 | Ownership 2011 | Accounting treatment |
|---|---|---|---|
| Arabian Internet and Communications Services Co. Ltd (Awalnet) - KSA | 100% | 100% | Full Consolidation |
| Telecom Investment Company Ltd - KSA | 100% | 100% | Full Consolidation |
| STC Bahrain (VIVA) ( BSCC) - Bahrain | 100% | 100% | Full Consolidation |
| Gulf Digital Media Holding (Integral) (BSCC) - Bahrain (Refer to Note 34) | 51% | 71% | Full Consolidation |
| Sale For Distribution & Communication Co. Ltd. (Sale Co.) - KSA (Refer to Note 35) | - | 60% | Full Consolidation |
| Kuwait Telecom Company (VIVA) (KCC) - Kuwait | 26% | 26% | Full Consolidation |
| PT AXIS Telecom Indonesia - Indonesia - (previously NTS) (Refer to Note 33) | 51% | 80.10% | Full Consolidation |
| Oger Telecom Ltd. - U.A.E. | 35% | 35% | Proportionate Consolidation |
| Binariang GSM Holding - Malaysia | 25% | 25% | Proportionate Consolidation |
| Arab Submarine Cables Company Ltd. - KSA | 50% | 50% | Equity Method |
| Arab Satellite Communications Organization ("Arabsat") - KSA | 36.66% | 36.66% | Equity Method |
| Call Center Company - KSA | 50% | 50% | Equity Method |



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

**Arabian Internet and Communications Services Co. (AwalNet) - KSA**

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

**Telecom Investment Company Ltd - KSA**

Telecom Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia in October 2007 for the purpose of operation and maintenance of telecommunication networks, computer networks systems and Internet networks, and maintenance, operation and installation of communications and information technology systems and software in the Saudi market. The Company owns 100% of its one million share capital.

**STC Bahrain (VIVA) (BSCC) - Bahrain**

STC Bahrain (VIVA) (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 then prevailing. This company operates in the field of mobile services, international telecommunications, broad band and other related services in the Bahraini market, and has commenced commercial operations in March 3rd, 2010.

**Gulf Digital Media Holding (Integral) (BSCC) - Bahrain**

This company was formed in June 2009 in the Kingdom of Bahrain. It is a holding company which owns stakes in companies operating in the field of content services and digital media in gulf countries. The Company owns 51% of its BHD 28 million share capital which is equivalent to approximately SR 280 million. In December 13th, 2011, ownership percentage was increased to 71%.

**Sale For Distribution & Communication Co. Ltd. (Sale Co.) - KSA**

Sale For Distribution & Communication Co. Ltd. was established in the Kingdom of Saudi Arabia in January 2008 conducting wholesale and retail business in prepaid calling cards, telecommunication and computer services devices, selling and reselling mobile and fixed communication services and maintaining and operating commercial compounds. Sale Co. operates in the Saudi market. Company owns 60% of its SR 10 million share capital.

**Kuwait Telecom Company (VIVA) (KSCC) - Kuwait**

In December 2007, the Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 650 million at the exchange rate then prevailing.

STC, which control financial and operating policies of Kuwait Telecom Company (VIVA), manages and account for its investments in it according to consolidation method due to the Company's majority on the Board of Directors of Kuwait Telecom Company.

This company operates in the field of mobile services in the Kuwaiti market, and has commenced commercial operations on December 4th, 2008.

**PT AXIS Telecom Indonesia - Indonesia - (previously NTS)**

PT AXIS obtained the license to operate a third-generation mobile network in Indonesia and it started the commercial provisioning of this service in the first quarter 2008. The Company acquired 51% of its IDR 3.2 trillion share capital, equivalent to approximately SR 1.3 billion in September 2007. On April 6th, 2011, the Company increased its share to 80.10%. Accordingly, this investment was reclassified as Investments in Associates instead of Investment in Joint Ventures.

**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.

**Binariang GSM Holding - Malaysia**

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

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



In September 2007, the Company acquired 25% of its MYR 20 billion share capital, equivalent to approximately SR 22 billion. Competent authorities in India are now collecting and reviewing information about what was raised in media about Aircel, a Binariang GSM Holding company. In the light of available data, the Management doesn't expect this to have an effect on the Group's results as at December 31st, 2011.

**Arab Submarine Cables Company Ltd. - KSA**

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

**Arab Satellite Communications Organization "Arabsat" - KSA**

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

Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis.

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

**Call Center Company- KSA**

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

**2- Significant Accounting Policies**

The accompanying consolidated financial statements are prepared in accordance with accounting standards generally accepted in Saudi Arabia. The financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the year ended December 31st, 2011.

Significant accounting policies used in preparation of these consolidated financial statements are consistent with accounting policies stated in audited consolidated financial statements for the year ended December 31st, 2010.

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

The preparation of the consolidated financial statements in conformity with accounting standards generally accepted in 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 consolidated financial statements and the amounts of revenue and expenses during the consolidated financial period.

The significant accounting policies are summarized below:

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

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

**2-2 Revenue recognition**

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

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

**2-3 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and all highly liquid investments with maturity of 90 days or less from the acquisition date, else it is classified under short-term investments.

**2-4 Accounts receivable**

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

**2-5 Offsetting of accounts**



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

**2-6 Allowance for doubtful debts**

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

**2-7 Inventories**

Inventories, which are principally cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares which cannot be removed from the exchange, are recorded within property, plant and equipment. Inventory items held by contractors responsible for upgrading and expanding the network are recorded within 'capital work-in-progress'.

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

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

1- Prior to May 2nd, 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 2nd, 1998 has been recorded based on a valuation performed by the Company with the assistance of independent local and international valuation experts. The principal bases used for valuation are as follows:

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

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

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

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

| | Years |
|---|---|
| Buildings | 20-50 |
| Telecommunications plant and equipment | 3-25 |
| Other Assets | 2-8 |

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

6- Gains and losses resulting from the disposal/sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-off/sold assets, and the gains or losses are included in the consolidated statement of income.

7- Leases of property, plant and equipment where the Group assumes substantially all benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value and the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability under the finance lease.

8- Assets leased under finance 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.

**2-9 Software costs**

(1) Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.

(2) Internally developed operating systems, software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.

(3) Internally developed application software costs are recognized as expense when incurred. Where the costs of operating systems software cannot be identified separately from the associated hardware costs, the operating systems software costs are recorded as part of the hardware.

(4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.

(5) Software training and data-conversion costs are expensed as incurred.

**2-10 Intangible assets**

**Goodwill**

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

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

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

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

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

### 2-12 Basis of Consolidation

#### Subsidiaries

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

**Investments in joint ventures**

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

Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities. In the consolidated financial statements, the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.

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

### 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 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 consolidated statement of income.

#### Other investments

Available-for-sale marketable securities that do not lead to the control or significant influence are carried at fair value, which is based on market value when available. However, if fair value cannot be determined, due to non-availability of an active exchange market or other indexes through which market value can reasonably be determined, cost will be considered as the alternative fair value. Unrealized gains and losses are shown as a separate component within equity in the consolidated balance sheet. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the declines occur.

Gains and losses resulting from sales of available-for-sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed.

Investments held to maturity are recorded at cost and adjusted for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the declines occur.

### 2-14 Zakat

The Group calculates and reports the Zakat provision based on Zakat base in its consolidated financial statements in accordance with Zakat rules and principles in the Kingdom. Adjustments arising from final Zakat assessments are recorded in the period in which such assessments are approved by the Department of Zakat and Income tax.

### 2-15 Taxes

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

#### Deferred tax assets

Deferred tax assets of foreign entities are 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 particular entity in which the deferred tax asset has been recognized.

**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 and the countries invested in.

**2-17 Foreign currency transactions**

**Functional and presentation currency**

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

These consolidated financial statements are presented in Saudi Riyals.

**Transactions and balances**

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

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

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

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

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus net income for the year as per the translated income statement less declared dividends translated at the rate prevailing on the date of declaration.
- Income statement items are translated using the weighted average rate for the period. Material gains and losses are translated at the rate prevailing on the date of their occurrence.
- All resulting exchange differences, if material, are recognized as a separate component of shareholders' equity. When those entities are partially sold or disposed of, exchange differences that were recorded in shareholders' equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

**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 consolidated financial statements.

**2-19 Cost of services**

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

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

**2-20 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.

**2-21 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.

**2-22 Earnings per share**

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

### 2-23 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 for currency swaps. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship.

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

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

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

### 2-24 Related parties

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

### 3- Cash and cash equivalents

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on these deals during the year 2011 was 0.63% (2010: 0.53%). Total commission earned on these deals during the year 2011 was SR 18 million (2010: SR 7.3 million).

The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 19 million (2010: SR 242 million).

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

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Collection accounts | 568,081 | 230,137 |
| Short-term Murabha deals | 2,235,109 | 990,040 |
| Short-term deposits | 2,919,212 | 4,064,358 |
| Disbursement accounts | 866,152 | 766,142 |
| | 6,588,554 | 6,050,677 |

### 4- Short-term investments

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 91 days or more with several local banks. The average rate of commission on these deals during the year 2011 was 1.21% (2010: 0.93%). Total commission earned on these deals during the year 2011 was SR 3 million (2010: SR 2 million). The Group's share in commissions earned by subsidiaries and joint ventures on deposits was SR 137 million (2010: SR 67 million).

## 5- ACCOUNTS RECEIVABLE, NET

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

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Billed receivables | 9,150,985 | 9,360,558 |
| Unbilled receivables | 1,290,477 | 1,291,600 |
| | 10,441,462 | 10,652,158 |
| Allowance for doubtful debts | (1,685,982) | (1,944,800) |
| | 8,755,480 | 8,707,358 |

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

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Balance at January 1st | 1,944,800 | 2,189,747 |
| Additions (Note 21) | 1,346,221 | 1,586,519 |
| | 3,291,021 | 3,776,266 |
| Bad debt written-off | (1,605,039) | (1,831,466) |
| Balance at December 31st | 1,685,982 | 1,944,800 |

(b) Since inception, the Company has recognized revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected revenues from such customers for the year 2011 amounted to SR 89 million (2010: SR 111 million), with an annual average of SR 184 million for the twelve years preceding 2011.

(c) The Group has agreements with outside network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31st, 2011 and 2010 the net amounts included in accounts receivable and accounts payable were as follows:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Accounts receivable, net | 2,250,659 | 1,383,985 |
| Accounts payable, net | 1,923,551 | 1,473,240 |

(d) In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), the Company settles the amounts due to the Government as government charges against accumulated receivable balances due from Government for usage of the Company's telecom services (refer to Note 28).

## 6- Prepayments and other current assets

Prepayments and other current assets consisted of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Inventories | 831,560 | 759,573 |
| Advances to suppliers | 342,062 | 328,632 |
| Prepaid rent | 412,110 | 653,408 |
| Prepaid tax | 418,408 | 214,099 |
| Accrued commissions and receivables | 337,662 | 319,266 |
| Deferred expenses | 457,901 | 374,939 |
| Non-trade receivables | 284,044 | 13,928 |
| Employees housing loans – current | 109,171 | 37,944 |
| Other | 984,321 | 859,246 |
| | 4,177,239 | 3,561,035 |

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

### 7- Investments in equity and other

These investments consist of the following:

| **(Saudi Riyals in thousands)** | Ownership | 2011 | Ownership | 2010 |
|---|---|---|---|---|
| Investments accounted for under the equity method: | | | | |
| Arab Satellite Communications Organization (Arabsat) - KSA | 36.66% | 1,304,831 | 36.66% | 1,204,803 |
| Arab Submarine Cables Company Ltd. - KSA | 50% | 50,416 | 50% | 52,207 |
| Call Center Company - KSA | 50% | 960 | 50% | 2,250 |
| | | 1,356,207 | | 1,259,260 |
| Investment in Sukuk and other | | 1,326,234 | | 1,281,234 |
| Total investments in equity and other | | 2,682,441 | | 2,540,494 |

### Investments in Sukuk

Represents the Group's share in Sukuk investments, undertaken by one of the Group's entities in December 2007. Maturing in 10 years, amounting to SR 1,266 million, commission margin is equal to Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. This financing is a part of related party transactions within the Group (refer to Note 28).

"Other" includes STC's investments in venture capital specialized in investing in newly established, and small and medium telecommunications and IT companies operating in the Saudi market and other international markets. STC initially invested a self-financed USD 50 million of which USD 12.5 million is paid. Initially, the Group will be the sole investor of this fund.

### 8- Property, plant and equipment, net

| (Saudi Riyals in thousands) | Land and Buildings | Telecommunication plant and equipment | Other Assets | Capital work in progress | Total 2011 | Total 2010 |
|---|---|---|---|---|---|---|
| Gross book value | | | | | | |
| At January 1st | 14,309,658 | 85,914,897 | 7,151,769 | 4,571,299 | 111,947,623 | 101,763,891 |
| Additions | 607 | 29,894 | 10,534 | 5,728,572 | 5,769,607 | 5,375,520 |
| Transfers | 405,675 | 3,955,389 | 244,391 | (4,605,455) | — | — |
| Group share in total PPE costs of the investee | (113,841) | 1,887,349 | (895,450) | 156,850 | 1,034,908 | 5,690,092 |
| Disposals | (6,035) | (2,130,355) | (56,181) | — | (2,192,571) | (881,880) |
| At December 31st | 14,596,064 | 89,657,174 | 6,455,063 | 5,851,266 | 116,559,567 | 111,947,623 |
| Accumulated depreciation | | | | | | |
| At January 1st | (6,305,147) | (46,280,740) | (4,234,293) | — | (56,820,180) | (49,027,018) |
| Depreciation | (505,665) | (6,549,347) | (502,336) | — | (7,557,348) | (7,421,506) |
| Group's share in movement of acc. depreciation of investees | 94,974 | 721,579 | 270,292 | — | 1,086,845 | (454,667) |
| Disposals | 2,692 | 1,766,428 | 47,180 | — | 1,816,300 | 83,011 |
| At December 31st | (6,713,146) | (50,342,080) | (4,419,157) | — | (61,474,383) | (56,820,180) |
| Net book value at December 31st | 7,882,918 | 39,315,094 | 2,035,906 | 5,851,266 | 55,085,184 | 55,127,443 |

(a) Land and buildings above include land of SR 2,288 million as of December 31st, 2011 (December 31st, 2010: SR 2,238 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 2nd, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,928 million as of December 31st, 2011. The transfer of the ownership of the remaining land parcels with a value of SR 213 million is still in progress.

(c) Property, plant and equipment include fixed assets subject to concession agreements belonging to one of the investees, the Group's share in concession agreements amounted to SR 2,206 million, the ownership of these assets will be vested to the government at the end of the agreements.

(d) Group's share in the movement of total PPE costs and accumulated depreciation of the investees appears on the opposite side, due to the change in foreign exchange rate of some foreign currencies used in translating the financial statements of some investees.

**9- Intangible assets, net**

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

Intangible assets consist of the following

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Licenses | 15,288,793 | 15,641,615 |
| Goodwill arising on the consolidation of financial statements | 4,892,743 | 5,610,971 |
| Trademarks and contractual relations | 2,946,114 | 3,812,645 |
| Spectrum usage rights | 2,260,264 | 2,482,891 |
| Goodwill arising on the acquisition of 25% in Binariang | 1,753,114 | 1,753,114 |
| Goodwill arising on the acquisition of 35% in Oger Telecom Ltd. | 826,396 | 826,396 |
| Goodwill arising on the acquisition of 80.10% in PT AXIS | 405,208 | 713,191 |
| Other | 945,159 | 996,281 |
| | 29,317,791 | 31,837,104 |

**10- Other non-current assets**

Other non-current assets consist of the following:

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Employee housing loans | 885,939 | 849,344 |
| Deferred taxes | 568,106 | 584,746 |
| Deferred expenses | 224,163 | 283,245 |
| Investment property | 277,882 | 363,746 |
| Other | 393,239 | 490,585 |
| | 2,349,329 | 2,571,666 |

"Other" comprises different items, the main ones being: Advanced commissions and fees.

**11- Accounts payable**

Accounts payable consist of the following:

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Outside network operators' settlements | 1,987,742 | 1,584,991 |
| Trade | 2,227,472 | 3,600,925 |
| Government charges | 340,243 | 836,865 |
| Capital expenditures | 634,546 | 1,013,633 |
| | 5,190,003 | 7,036,414 |

### 12- Other payables

Other payables – current, consist of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Provision for Zakat and Tax (Refer to Notes 26 & 27) | 1,150,634 | 1,164,976 |
| Suppliers' retentions | 377,526 | 393,274 |
| Withholding tax provision | 557,819 | 548,201 |
| Customers' refundable deposits | 144,373 | 101,121 |
| Settlement of seconded employees' entitlements | 134,748 | — |
| Payables to in-progress projects contracts | 181,060 | — |
| Sports club sponsorship | 172,500 | 151,875 |
| Other | 948,168 | 1,149,053 |
| | 3,666,828 | 3,508,500 |

"Other" comprises various items, primarily: Social insurance and non-trade payables.

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

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Deferred tax | 1,280,284 | 1,655,625 |
| Deferred revenues - non-current portion | 832,233 | 943,330 |
| Derivative financial instruments | 905,152 | 645,509 |
| Trade – non-current | 773,149 | 617,678 |
| Obligations under finance lease | 236,459 | 347,141 |
| Obligations under put option | 387,900 | 446,465 |
| Other | 619,476 | 1,305,992 |
| | 5,034,653 | 5,961,740 |

"Other" comprises variety items, primarily: Long-term prepayments, deposits and collaterals from clients.

### 13- Accrued expenses

Accrued expenses consist of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Capital expenditures | 3,352,799 | 2,292,853 |
| Trade | 3,776,469 | 2,342,431 |
| Employee accruals | 704,079 | 701,045 |
| Other | 743,109 | 721,673 |
| | 8,576,456 | 6,058,002 |

### 14- Murabaha and loans

These are composed of:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Current portion | 5,971,814 | 8,446,926 |
| Non-current portion | 23,959,617 | 21,741,130 |
| | 29,931,431 | 30,188,056 |

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

As of December 31st, 2011, the Group's share in Oger Telecom Ltd. borrowings and bank facilities amounted to SR 9,670 million.

**- Binariang GSM Holding Group – Malaysia**

As of December 31st, 2011, the Group's share was SR 2,910 million in the Sukuk, and SR 5,360 million in the bank facilities and finance lease contracts. The Sukuk were utilized in financing the acquisition of Maxis, the Malaysian holding group, which subsequently put 30% of them to the public and was listed on the Malaysian financial market.

**- PT Axis Telekom Indonesia (formerly NTS), Republic of Indonesia**

As of December 31st, 2011, the Group's share in bank facilities and loans granted for PT Axis Telekom Indonesia was SR 1,340 million.

**- Kuwait Telecom Company (VIVA) (KCC) - Kuwait**

As of December 31st, 2011, the Group's share in Kuwait Telecom Company (VIVA) borrowings and bank facilities amounted to SR 337 million.

**- STC Bahrain (VIVA) ( BSCC) - Bahrain**

As of December 31st, 2011, the Group's share in STC Bahrain (VIVA) borrowings and bank facilities amounted to SR 555 million.

**- The Company**

During the third quarter 2007, the Company obtained financing facilities in the form of Murabaha deals from several local banks. Maturity is 60 months, the amounts utilized of the facilities as of December 31st, 2011 amounted to SR 6,000 million.

During the fourth quarter 2007, financing facilities have been obtained in the form of Murabaha deals from a branch of local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. Maturity is 120 months, the amounts utilized of the facilities as of December 31st, 2011 amounted to SR 1,688 million.

During April 2008, financing facilities have been obtained in the form of Murabaha from several local banks. Maturity is 120 months, and amounts utilized of the facilities as of December 31st, 2011 amounted to SR 9,500 million.

During the third quarter 2010, financing facilities of SR 1,000 million have been obtained in the form of Murabaha deals from several local banks. Maturity is 12 months, and amounts are not utilized as of December 31st, 2011.

During the third quarter 2011, financing facilities of SR 2,250 million have been obtained in the form of Murabaha deals from several local banks. Maturity is 120 months, and amounts are not utilized as of December 31st, 2011.

During the fourth quarter 2008, the Company started repayment of due instalments of the financing facilities. Amounts settled as of December 31st, 2011 amounted to SR 7,429 million, of which SR 2,555 million was settled during the year ended December 31st, 2011.

**15- Employees' end-of-service benefits**

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

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Balance at January 1st | 2,995,371 | 2,843,869 |
| Charges during the year | 381,676 | 401,147 |
| Settlements during the year | (314,950) | (249,645) |
| Balance at December 31st | 3,062,097 | 2,995,371 |

The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the balance sheet date, using the employees' latest salaries and allowances and years of service. The Group's companies use benefits programs which comply with the laws applicable in their countries.

**16- Share Capital**

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As of December 31st, 2011 and 2010, the Government owned 70% of the Company's shares.

**17- Statutory reserve**

As per the Company's Articles of Association, 10% of annual net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. According to the resolution of the Ordinary General Assembly of shareholders held on 23rd Rabi Akhir 1432H (March 28th, 2011), appropriation was stopped on reaching the statutory limit.

**18- Other reserves**

Other reserves consist of the following:

| **(Saudi Riyals in thousands)** | 2011 | 2010 |
|---|---|---|
| Hedging reserve (refer to note 31) | 559,288 | 760,803 |
| Step acquisition reserve | 546,081 | 461,079 |
| Other reserves | 27,967 | 47,533 |
| | 1,133,336 | 1,269,415 |

**19- Revenues from service**

Revenue from services consists of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Usage charges | 37,794,779 | 34,773,232 |
| Subscription fees | 15,070,526 | 15,008,968 |
| Set-up fees | 469,320 | 337,223 |
| Other | 2,327,454 | 1,667,405 |
| | 55,662,079 | 51,786,828 |

**20- Cost of services**

Cost of services consists of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Access charges | 9,345,651 | 8,059,503 |
| Government charges (*) | 6,270,576 | 5,723,173 |
| Repairs and maintenance | 2,451,908 | 2,350,700 |
| Employee costs | 2,868,803 | 2,922,611 |
| Other | 3,396,889 | 2,408,243 |
| | 24,333,827 | 21,464,230 |

"Other" comprises various items, primarily: rent of equipment, property and vehicles, utility expenses, printing of telephone cards, stationery and consultancy fees.



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

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Commercial service provisioning | 5,138,310 | 4,734,944 |
| License fees | 438,927 | 383,092 |
| Frequency spectrum | 693,339 | 605,137 |
| | 6,270,576 | 5,723,173 |

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| The Company | 4,507,566 | 4,423,728 |
| Other Group companies | 1,763,010 | 1,299,445 |
| | 6,270,576 | 5,723,173 |

**21- Selling and marketing expenses**

Selling and marketing expenses consist of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Advertising and publicity | 2,704,920 | 2,360,389 |
| Employee costs | 1,984,966 | 1,909,389 |
| Doubtful debts expense | 1,346,221 | 1,586,519 |
| Printing of telephone cards and stationery | 227,856 | 413,295 |
| Repairs and maintenance | 186,613 | 123,768 |
| Other | 973,872 | 689,740 |
| | 7,424,448 | 7,083,100 |

"Other" comprises various items, primarily: rent of equipment, property and vehicles, and telecom, postage, courier, security and safety expenses and consultancy fees.

### 22- General and administrative expenses

General and administrative expenses consist of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Employee costs | 1,829,526 | 1,692,439 |
| Repairs and maintenance | 365,747 | 367,581 |
| Rent of equipment, property and vehicles | 245,069 | 264,003 |
| Consultancy and legal and professional fees | 332,859 | 361,300 |
| Utilities expenses | 183,352 | 167,683 |
| Other | 922,387 | 765,977 |
| | 3,878,940 | 3,618,983 |

"Other" comprises various items, primarily: insurance premiums, stationery, freight, handling, postage and courier expenses.

### 23- Depreciation and amortization

Depreciation and amortization expenses consist of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Depreciation | 7,557,348 | 7,421,506 |
| Amortization | 1,296,496 | 1,220,698 |
| | 8,853,844 | 8,642,204 |

### 24- Finance costs

Finance costs are composed of:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| The Company | 89,199 | 118,719 |
| Other Group companies | 2,148,659 | 1,661,951 |
| | 2,237,858 | 1,780,670 |



### 25- Other income and expenses - other, net

Other income and expenses - other, net, consists of the following:

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Miscellaneous revenues | 1,564,790 | 1,398,666 |
| (Losses)/Gains on foreign currency exchange fluctuations | (1,105,323) | 359,318 |
| Gains on sale/disposal of property, plant and equipment | 97,968 | 941,096 |
| Miscellaneous expenses | (1,038,619) | (622,827) |
| | (481,184) | 2,076,253 |

The increase in losses on foreign currency exchange fluctuations during 2011 is attributed to the foreign currency exchange loss incurred by Oger Telecom Ltd. arising from fluctuations in exchange rate of Turkish Lira and South African Rand against American Dollar. Miscellaneous revenues include gains of SR 554 million of which SR 286 million resulted from restructuring PT AXIS Telecom Indonesia (refer to note 33) and SR 268 million resulted from the acquisition of a stake in Sale For Distribution & Communication Co. Ltd. (refer to note 35). Miscellaneous revenues for the year 2010 included the amount of SR 728 million which represents gains on sale of fixed assets (towers) by one of Binariang Holding Group's subsidiaries. Miscellaneous expenses for the year 2011 include SR 375 million representing a two-month bonus paid to Company's employees and settlement of seconded employees' entitlements of SR 135 million.

### 26- Zakat

#### (a) Zakat base of the Company

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Share capital – beginning of the year | 20,000,000 | 20,000,000 |
| Additions: | | |
| Retained earnings, statutory reserve and provisions – beginning of the year | 28,445,347 | 25,617,777 |
| Borrowings and payables | 10,317,495 | 12,874,014 |
| Adjusted net income | 13,115,886 | 11,163,172 |

Deductions:

| | | |
|---|---|---|
| Net property, plant and equipment and investments | (62,772,412) | (59,067,022) |
| Dividends paid | (4,500,000) | (6,000,000) |
| Non-current deferred costs | (149,355) | (284,566) |

Zakat is calculated as 2.5% of the Zakat base. During the year, the company amended the Zakat provision calculation to be on the basis of the Zakat base (instead of on the higher of the Zakat base or the profit for Zakat purposes) and management believes that the Company will not incur any additional Zakat obligations that may arise as a result of the adoption of the policy set out above.

**(b) Zakat provision**

| (Saudi Riyals in thousands) | 2011 | 2010 |
|---|---|---|
| Balance at January 1st | 793,115 | 785,340 |
| Charge for the year | 118,002 | 118,208 |
| Amounts paid during the year | (61,754) | (110,433) |
| Balance at December 31st | 849,363 | 793,115 |

Final Zakat assessments have been approved for the years since inception through 2003. The final Zakat assessments for 2004 through 2009 have not yet been finalized, pending decisions on the Company's objections to certain items. Zakat declaration for 2010 has been submitted, but final Zakat assessments on them have not yet been issued. The Company has received a restricted Zakat certificate with validity up to 9/6/1433H (30/4/2012).

**(c) Subsidiaries**

Effective from the year 2009, the Ministerial Decree No. 1005 dated 28/4/1428H to mandate the submission of one Zakat declaration for the Company and its directly or indirectly fully owned subsidiaries, whether within or outside the Kingdom, has been applied.

**27- Tax provision**

The amount shown in the income statement represents the Group's share of taxes chargeable on subsidiaries and joint ventures in accordance with tax laws applicable in their countries. The balance of the provision on December 31st, 2011 amounted to SR 274 million (2010: SR 372 million).

**28- Related party transactions**

**Government entities in KSA**

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

Revenues and expenses related to Government entities in 2011 (including Government charges discussed in Note 19 above) amounted to SR 2,011 million and SR 4,632 million, respectively (2010: SR 1,459 million and SR 5,009 million, respectively).

Amounts receivable from and payable to Government entities at December 31st, 2011 totaled SR 200 million and SR 80 million, respectively (2010: SR 327 million and SR 332 million, respectively).

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

Transactions with Investments accounted for under the equity method, in subsidiaries' joint ventures during the year, were not material, with the exception of the investment in Sukuk amounting to SR 1,266 million (refer to Note 7).

**29 - Commitments and contingencies**

**Commitments**

(a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,723 million on December 31st, 2011 (2010: SR 3,498 million).

(b) Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the year ended December 31st, 2011, total rent expenses under operating leases amounted to SR 1,055 million (2010: SR 633 million).

**Contingencies**

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

**30- Financial instruments**

**Fair value**

This is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31st December 2011 and 2010 which is as follows:

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

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

**Commission rate risk**

This comprises various risks related to the effect of changes in commission rates on the Company's financial position and cash flows. The Company manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the Company's commission income through holding balances in short-term and long-term bank deposits, but the related commission rate risk is not considered to be significant.

**Currency risk**

This 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 believes that the Company is not exposed materially to currency risk because the official currency of the Company is the Saudi Riyal, the base currency for Company dealings, and its price is currently fixed with a minor margin against the US Dollar.

**Credit risk**

This is the risk that other parties will fail to discharge their obligations and cause the Company to incur financial losses. Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Company 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 Company does not believe that there is a significant risk of non-performance by these financial institutions. The Company 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), its operations in various industries and its location in many regions.

**Liquidity risk**

This is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by ensuring, periodically, its availability in amounts sufficient to meet any future commitments. The Company does not consider itself exposed to significant risks in relation to liquidity.

**31- Financial derivatives**

The Group entered into interest rate swap agreements to hedge the interest rate risk of its expected future cash outflows in relation to its floating rate debt. The notional principal amount and fair value of these hedges as of December 31st, 2011 is SR 10,938 million and SR 559 million respectively (2010: SR 7,387 million and SR 761 million respectively). The fair value of the effective impact of these hedges is included in other reserves in the consolidated balance sheet.

**32- Segment information**

**According to the main activities of the Group**

The Group has identified its operating segments by the type of service provided, 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 are:

- GSM, in which the main services are: mobile, prepaid cards, international roaming and messaging.
- PSTN, in which the main services are: fixed line, card telephones, interconnect and international calls.

- DATA, in which the main services are: leased data transmission circuits, DSL and internet.
- Unallocated, comprising items not included in the main operating segments of the Group.

The following table shows segmental information for the year ended December 31st, 2011:

| (Saudi Riyals in thousands) | Mobile | Landline | DATA | Unallocated | Total |
|---|---|---|---|---|---|
| Revenue from services | 37,909,106 | 8,309,321 | 9,387,522 | 56,130 | 55,662,079 |
| Interconnect revenues | 3,075,765 | 8,143,313 | 1,283,803 | (64,620) | 12,438,261 |
| Interconnect expenses | (6,100,587) | (2,654,089) | (3,617,913) | (65,672) | (12,438,261) |
| Net revenues from services | 34,884,284 | 13,798,545 | 7,053,412 | (74,162) | 55,662,079 |
| Depreciation and amortization | 4,361,547 | 3,650,397 | 643,936 | 197,964 | 8,853,844 |
| Net income | 7,619,985 | (1,006,339) | 1,428,666 | (313,660) | 7,728,652 |
| Total assets | 41,476,734 | 35,537,866 | 8,180,993 | 26,206,187 | 111,401,780 |
| Total liabilities | 20,673,847 | 12,717,194 | 2,083,268 | 21,845,153 | 57,319,462 |

The segmental information for the year ended December 31st, 2010 was as follows:

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

According to the Group's operations:

The Group split its principal operating activities into local and international. The following table shows information by the Group's operation during the year ended December 31st, 2011

| (Saudi Riyals in thousands) | KSA | STC Bahrain | Gulf Digital Media Holding | Kuwait Telecom Company | PT AXIS Telecom | Oger Telecom Ltd. | Binariang GSM Holding Group |
|---|---|---|---|---|---|---|---|
| Operating revenues | 37,479,106 | 782,941 | 476,296 | 1,267,245 | 567,241 | 11,152,699 | 3,936,551 |
| Total assets(*) | 78,668,577 | 1,938,990 | 504,195 | 1,698,915 | 3,636,811 | 21,351,945 | 19,957,631 |

* Settlements arising from consolidation of financial statements in relation to intangible assets and transactions with related parties amounted to SR 16,355,284 thousand.

| (Saudi Riyals in thousands) | KSA | STC Bahrain | Gulf Digital Media Holding | 2010 Kuwait Telecom Company | PT AXIS Telecom | Oger Telecom Ltd. | Binariang GSM Holding Group |
|---|---|---|---|---|---|---|---|
| Operating revenues | 35,251,854 | 372,111 | 220,180 | 805,791 | 172,432 | 11,137,790 | 3,826,670 |
| Total assets(*) | 72,356,210 | 1,541,447 | 366,698 | 1,339,026 | 2,224,925 | 24,949,134 | 22,310,152 |

* Settlements arising from consolidation of financial statements in relation to intangible assets and transactions with related parties amounted to SR 14,306,673 thousand.

**33- Increasing the Group's stake in PT AXIS Telecom - Indonesia (previously NTS)**

On April 6th, 2011, the Group acquired an additional 29.1% stake in PT AXIS Telecom - Indonesia, which is known by its trade mark (AXIS), based on PT AXIS Restructuring Agreement made on March 9th, 2011 between STC and Maxis Company (MCB), a company wholly owned by Binariang Group. On April 6th, 2011, this Agreement was approved by the Indonesian competent regulatory authorities, and all its obligatory terms were fulfilled, which gave rise to the following:

- Maxis extended a loan of USD 69 million, equivalent to SR 259 million, to PT AXIS.
- Maxis then released PT AXIS from all due loans, which amounted to USD 412 million, equivalent to SR 1,545 million.
- Maxis assigned 1,864,489,495 of its shares in PT AXIS to PTC, which increased the direct ownership stake of PTC in PT AXIS from 51% to 80.1%, and decreased Maxis stake from 44% to 14.9%, while the local partner's stake stayed fixed at 5%.
- STC is under obligation to extend another loan of about USD 371 million, equivalent to SR 1,391 million, to be released according to the operational needs of PT AXIS without any financing costs. During 2011, PTC has already paid USD 241 million, equivalent to SR 904 million, of the finance amount to PT AXIS.
- PTC undertook to submit a letter of comfort regarding the bank finance due to PT AXIS in accordance with the approved finance scheme covering the next five years.

Therefore, the Group's net gains resulting from the restructuring of PT AXIS amounted to SR 286 million at the exchange rate then prevailing. The goodwill resulting from the Company's acquisition of an additional 29.1% stake in PT AXIS Telecom - Indonesia, was calculated based on the net fair value of assets as at April 6th, 2011, as reported in the assessment report concluded in the fourth quarter of 2011. Accordingly, the previously recorded goodwill value was reallocated as follows: goodwill SR 405 million, licenses SR 229 million, trademarks and contractual relations SR 27 million.

The Group used to account for its investments in PT AXIS (the joint venture) according to proportionate consolidation method; however, due to the restructuring of PT AXIS and the resulting increase in PTC's ownership stake from 51% to 80.1%, Saudi Telecom Group adopted consolidation methods in accounting for its investments in PT AXIS (the subsidiary) starting from the second quarter of 2011.

**34- Increasing the Group's ownership stake in Gulf Digital Media Holding**

In 18th Muharram 1433H (December 13th, 2011), the Company acquired an additional 20% stake in Gulf Digital Media Holding - Bahrain, which is known by its trademark (Intigral), for SR 90 million, to reach an ownership stake of 71%.

**35- Group's acquisition of a stake in Sale For Distribution & Communication Co. Ltd.**

In 2nd Safar 1433H (December 26th, 2011), the Company acquired a controlling 60% stake in Sale For Distribution & Communication Co. Ltd. for SR 208 million. This resulted in gains of SR 268 million to the Group. Therefore, the Group adopted consolidation method in accounting for its investments in Sale For Distribution & Communication Co. Ltd. (the subsidiary).

**36- Subsequent events**

The Board of Directors, in its meeting held on Wednesday 24th Safar 1433H (January 18th, 2012), proposed interim dividends of SR 1,000 million for the fourth quarter 2011 at the rate of SR 0.50 per share, resulting in a total dividend for 2011 of SR 2 per share (2010: SR 3 per share).

The Board also approved in its meeting held on Monday, 28th Rabi Awal 1433H (February 20th, 2012) the consolidated financial statements for 2011.

**37- Reclassification**

Some comparative figures for 2010 have been reclassified to conform to the classification used in the past year ended December 31st, 2011.

## Conclusion

After offering sincere thanks to the Almighty Allah for this success, the Board of Directors would like to extend his grateful thanks to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz Al Saud, and to His Royal Highness Prince Naif Bin Abdulaziz Al Saud, as well as to our discerning government, and to praise their support, care and encouragement to the Company in its strive to improve its performance and services. The Board would also like to thank the Company's honorable clients and shareholders for their valuable trust, its employees for their commitment to work, and all of its stakeholders. The Board stresses its strive towards developing the Company's business to meet clients needs, realize shareholders' aspirations, fulfill social objectives and ascertain the Company's leadership in the Saudi telecom sector.