STC
الاتصالات السعودية

Annual Report 2010

بسم الله الرحمن الرحيم

King Abdul Aziz Al Saud
Founder of the Kingdom of Saudi Arabia

King Abdullah Bin Abdul Aziz Al Saud
Custodian of the Two Holy Mosques

Prince Sultan Bin Abdul Aziz Al Saud
The Crown Prince, Deputy Premier
Minister of Defence and Aviation and Inspector General

Prince Naif Bin Abdul Aziz Al Saud
The Second Deputy Premier and Minister of Interior

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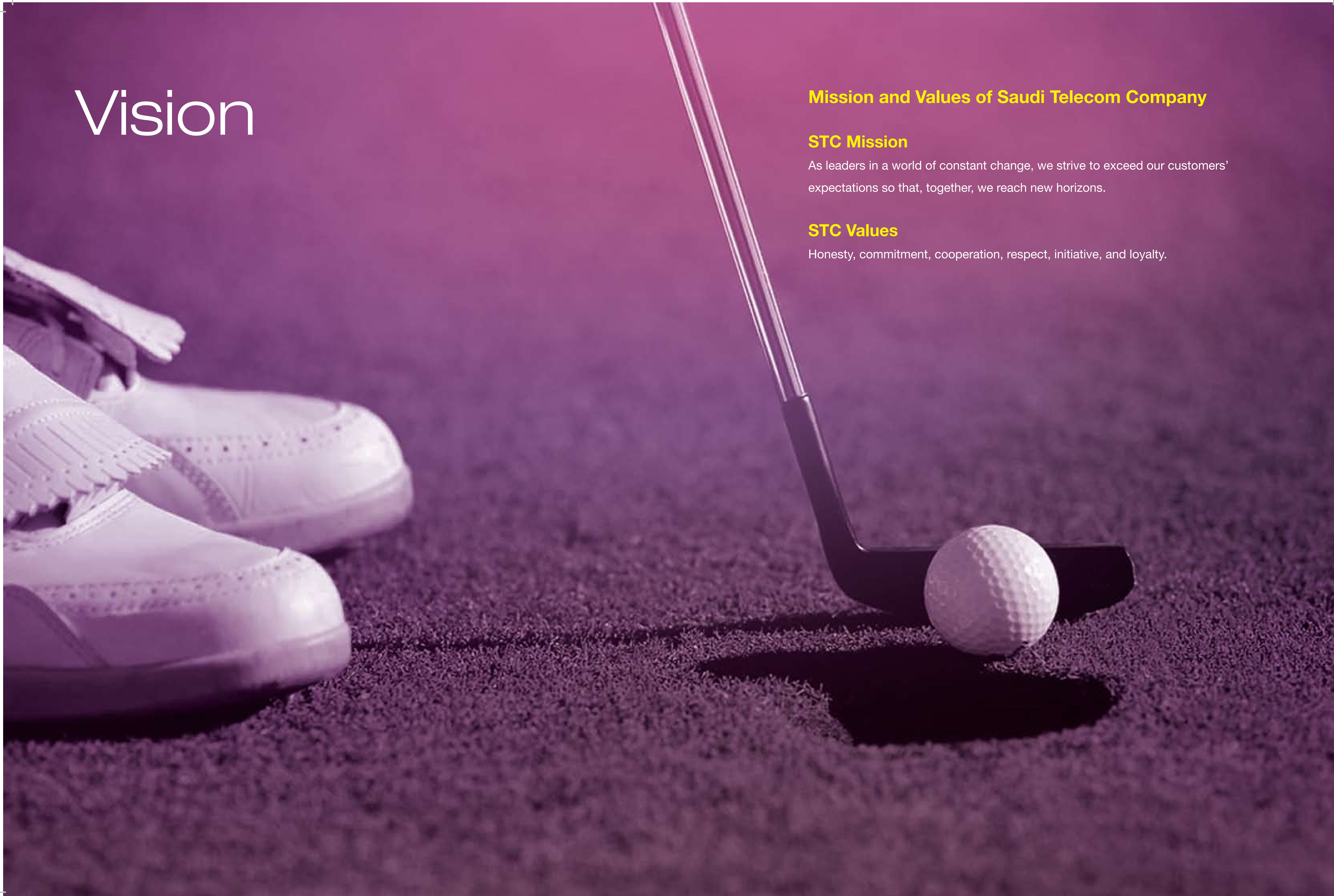

Vision

Mission and Values of Saudi Telecom Company

STC Mission

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

STC Values

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

H.E STC Chairman's Statement

Dr. Muhammad Bin Suliman Al-Jasser

The speech of His Highness the Chairman of the Board of STC

In the name of Allah, prayers and peace be upon the noblest of Prophets and Messengers.
Dear Shareholders of Saudi Telecom Company
Peace, mercy and blessings of Allah be upon you
First and foremost, it is a pleasure to welcome you and present this report, which outlines the financial and operating performance of your company, STC, for the year 2010. I would like to stress that STC is still the leader in the local market and that, during the year, it also increased its presence in the international arena, both of which were positively reflected in shareholders' equity. By the end of 2010, STC's operating revenues reached SR 51,787 million, compared to SR 50,780 million during the same period last year, reflecting an increase of 2%. This increase supported the solid financial position of the Company and maintained stability by achieving profits and maximizing shareholders' revenues.
Your company has changed from being a local operator, providing integrated services within our beloved Kingdom, to one of the largest communication companies throughout the world. The Company achieved a remarkable presence and penetration by widening the area of its coverage to many high-density countries and developing markets. Accordingly, STC's customers in both the local and international spheres increased to 139 million. STC continued in developing and accelerating its services in order to fulfill all of its customers' needs, by providing multi-purpose, high-performance, high quality, advanced and interactive services. The Company provided its customers with sophisticated applications in technical and video communications, by using the most recent communication networks, such as fibre optics and advanced electronic cabins, throughout the Kingdom's cities.
Furthermore, STC achieved significant growth by providing Broadband through DSL and FTTH services, which are exclusively supplied by the Company, and a result of which, the Kingdom of Saudi Arabia was ranked top of the region for the second consecutive year. STC also occupied an advanced position in the list of worldwide countries having the highest Internet speed, especially after it managed to provide Broadband speeds reaching 100 Mbps, through its FTTH technology. Again, STC demonstrated its continuing endeavors to provide the best Broadband services in the Kingdom, in order to add quality to Saudi society and by assisting everyone, with a fast and efficient service.
In addition, your company made optimal use of the increasing opportunities in the business sector. In this regard, it launched a number of outstanding initiatives in the fields of economics, education and industry. It also managed to support both the public and private sectors which contributed, directly and indirectly, towards the Saudi Arabian economy, achieving greater development and prosperity. Such support would not have been provided except through the standards adopted by the company, which constitute its foundation for success. The most important of these criteria are honesty in fulfilling its mission, commitment to creativity, innovation of service content, and cooperation with various sectors in the Saudi Arabian market, to identify their needs and the nature of their business in order to provide suitable solutions. In addition, STC meets the requirements of customers, including government institutions, small and large-scale companies and individuals, in order to assist them achieve sustainable development. By applying this policy, your company has managed to support the new operational model of developing customers' experiences, increasing the skills and abilities of human capital, unifying corporate identity and attaining more solidarity with the community. This policy will also promote confidence and loyalty with its customers.
As for its global operations, the Company continued its partial or full management of operations in the various companies. The Company achieved major at success its Indian operations, where it succeeded in obtaining a 3G license through Aircel. In addition, it managed to increase its market share via operations in both Kuwaiti Telecom Company and STC Bahrain. The Company is also attempting to find new investment opportunities, especially in promising emerging markets, where there is secure economic development and growth. In this regard, the company concentrates on seizing opportunities, where possible, in the Middle East and North Africa.
Furthermore, the Company did not overlook the current competition within the telecom sector. As a result of which, it worked towards cutting costs, raising operational efficiency by supporting the concept of shared services, realizing economies of scale and introducing change in all fields in a manner commensurate with the Company's policies. This allowed STC to achieve sustained excellence in customer service, at all levels, as witnessed in the fourth quarter of 2010.
Your company also recognised its effective role in serving the community. It provided a variety of social programs as the embodiment of the principle of social responsibility adopted by the company, as a gesture of loyalty to the country. This included the fields of health, education, social responsibility, religion and culture. In its capacity as a responsible company, STC acknowledged its role in contributing towards the all-comprehensive development within our society.

Peace, mercy and the blessings of Allah be upon you

Dr. Muhammad Bin Suliman Al-Jasser
STC Chairman

Engineer Saud Bin Majed Al Daweesh

The CEO's Statement

The speech of the CEO

In the name of Allah, prayers and peace be upon the noblest of Prophets and Messengers
Dear Shareholders of Saudi Telecom Company
Peace, mercy and the blessings of Allah be upon you

In the first instance, I would like to refer to the 2009 global financial crisis which has had its repercussions on 2010 and which led to a recession in most parts of the world.

Although the telecoms sector demonstrated both flexibility and a remarkable ability in coping with the world crises, changes were introduced to the strategies of most telecom operators, all over the world, such as reducing prices, rationalizing capital and operating costs and being cautious with regard to global expansion.

In light of these circumstances, and by the end of 2010, STC, thanks to Allah, realized its strategic objectives and corroborated its pioneering position in the local and international market. During this period the Company took the initiative by developing new and innovative offers and services to its customers. This was made possible by building sophisticated networks and using advanced technologies in order to provide its services at a quality which satisfied all its customers and who are the centre of its interests. In addition, it provided its versatile services to all its customers whatever their demands and interests. As a result of these initiatives, STC is still, without doubt, the leader of the telecommunications market in KSA. Among the distinguished services introduced during 2010 are:

- Used a mobile network, at speeds of up to 42 Mbps, to launch the first broadband service in the Kingdom, in addition to the exclusive launch of the Windows 7 phone and Samsung Galaxy, running under the Android operating system.
- Commenced the introduction of the first broadband service in the Kingdom, by using fibre optics at a speed of 100 Mbps. Currently, STC is increasing the presence of its network to enable the largest number of customers to enjoy this speed. In parallel, STC launched one of the best e-learning portals in the region 'Vitamin'. It allows students all over the Kingdom, to browse academic materials in order to prepare for exams. In addition, STC contributed to developing a wide suite of additional applications which satisfies the advanced requirements of its customers.
- Launching innovative mobile packages, which allow customers to design their services through a set of saving keys, which provides flexibility in selecting discounts as per the customer's use, whether for local or international calls, data or sports content.
- Introducing the first Multimedia Triple-Play Bundle package in the Kingdom, with the name 'InVISION'. InVISION includes voice services, broadband and television and will ensure that STC is a pioneer in providing multimedia services in the Kingdom and soon, in the whole region. It also includes several sports, documentary, news and religious content television channels which are appropriate for the differing tastes of Saudi Arabian society. Today, customers may enjoy television sports games and hundreds of videos on demand (VOD), in addition to interactivity and control options, saving programs, parental control and many other features within the service.
- Launching the first broadband service package in the Kingdom which includes web surfing via Hatif and Jawal networks 'M3ak'. The service includes voice calls and unlimited Internet via the Hatif network and the Internet via the Jawal network in one complete package. It allows the customer flexibility in communicating from home, business headquarters or even during roaming. The service is provided at substantially reduced fees in the region, with discounts reaching more than 50% compared to the tariff of each respective service. Our main goal is to provide a service to our customers, wherever they may be, and make the best use of the infrastructure of both fixed and mobile networks.
- New services have been added to the content packages and STC sports portals have been launched. Sports fans can interact and participate in exclusive competitions with their favourite football clubs such as Manchester United, Real Madrid as well as Saudi Arabian clubs.
- Introducing one of the most modern billing systems in the world, which issues more transparent and accurate statements whilst enabling customers to keep track of expenditure through various electronic means.

In respect of international expansion, STC continued to implement its strategy using a measured approach. In this regard, it launched its commercial services in Bahrain and achieved tremendous success and likewise, in other countries where it has operations, realized a similar level of accomplishment. STC is committed towards attaining the financial and operating targets set within the company's plan, during 2010. As a result of which, revenues rose to SR 51,787 million, net profit SR 9,436 million and customers, in 10 countries, reached 139 million, representing a 10% increase compared to the previous year. Customers communicate through more than 1,200 international roaming agreements and more than 500 operators worldwide.

Taking full advantage of customers' confidence in the Company's ability to lead major economic enterprises, the Company provided communication services and built advanced networks, for several high-profile projects in the Kingdom. These include King Abdullah's Financial Centre in Riyadh, Mecca Metro, King Abdullah University of Science and Technology, Ulaya Towers, and the preliminary phase of King Abdullah's Economic City as well as other vital and significant projects. In addition, STC played a leading role in providing high penetration broadband services throughout both the Kingdom and the region, to more than 3.5 million customers. This reflects the remarkable development introduced by STC in supporting its customers by providing several Internet services to all segments of society. Indeed, the Company has built a solid infrastructure by using the best fibre optic networks, invested in the expansion of NGN and launched LTE, in order to demonstrate its commitment towards the local market. Currently, the Company has the largest land, marine and satellite network in the region and, with the support of Allah, the Company will achieve enhanced growth in both local and global markets, in order to maximize revenues and profits in the long term.

STC also achieved notable success, and added value, in its international operations where the Company managed to enhance integration, which was of benefit to all companies. Furthermore, by seizing suitable investment opportunities in the most progressive countries within the region, STC consolidated its economic and strategic position in new markets.

With regard to your company's effective participation in the success of the Hajj season, users of STC's network reached 2.3 million customers during the 1431 Hajj. Throughout this time not only were pilgrims afforded a service of the highest quality and reliability, but also your company managed to successfully handle, a substantial increase in both local and international traffic. Additionally, STC provided services covering the fields of religion, culture and health awareness, as an embodiment of its premier role in the field of social responsibility.

To conclude, I would like to express my sincere thanks to the Creator, Sublime be He, and then to our wise leadership for both supporting and sponsoring the Company. In addition, I would also like to express my gratitude to their Highnesses, the Chairman of the Board and the Board of Directors for supporting the company's management. Finally, I would like to say a special word of thanks to our customers for their trust and support, our esteemed shareholders, and to the Company's employees whose hard work has led to our continued success.

Peace, mercy and blessings of Allah be upon you

Engineer Saud Bin Majed Al Daweesh
CEO of STC

Goal

Board of Directors

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 Abdulla Al-Kharashi
Dr. Mohammed bin Sulaiman Al-Jasser (Chairman)
Dr. Hamed bin Sulaiman Al-Qassumi
Mr. Mohammed bin Saleh Al-Daham
Mr. Ibrahim bin Ali Al-Hassen

Company Executive Management

From Right to Left:

1. Ameen bin Fahad Al-Shiddi	VP of Finance
2. Ziad bin Thamer Al-Otaibi	VP of Network
3. Saad bin Dhafer Al-Qahtani	VP of Home
4. Saad bin Ahmed Dimyati	VP of Wholesale
5. Omar Ibn Abdullah An-Nuamani	VP of IT
6. Ghassan Hasbani	CEO international Operations
7. Saud Bin Majed Al-Daweesh	CEO of Saudi Telecom
8. Khaled bin Abdulrahman Al-Jasser	VP of Corporate Strategy
9. Hamood bin Mohammed Al-Kussayer	VP of Regulatory Affairs
10. Jamil bin Abdullah Al-Mulhim	VP of Personal
11. Sameer bin As'ad Matboli	VP of Enterprise
12. Salah bin Mohammed Al-Zamil	VP of Human Capital
13. Omar bin Mohammed Al-Turky	VP for Shared Services

In the name of Allah, the All Merciful, the Most Compassionate

Dear Shareholders of Saudi Telecom Company

Peace, mercy and the blessings of Allah be upon you

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). 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 Division' 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 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 1423 H (September 9th, 2002), the Government then 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 and it has various investments in associates, subsidiaries and joint ventures, collectively known as the 'Group'. The details of these investments are as follows:

Company	% Ownership
Arabian Internet and Communications Services LLC. (Awal Net), KSA	100%
Telecom Investment Company Ltd., KSA	100%
STC Bahrain (VIVA) – (BSCC), Kingdom of Bahrain	100%
Gulf Digital Media Holding (BSCC), Kingdom of Bahrain	51%
Kuwait Telecom Company (VIVA) (KSCC), Kuwait	26%
NTS (AXIS), Indonesia	51%
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 Centre Company, KSA	50%

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

The BoD are pleased to present to the respected stakeholders, the Annual Report of the Company's performance and activities for the fiscal year 2010, which reflects sustained progress in performance across its various areas of activity. The role played by STC is visible in developing the telecommunications sector, in a manner that serves Saudi Arabian society and efficiently contributes towards boosting the national economy, and the payment of dividends to shareholders.

Below is a brief overview of the financial and operating performance, as well as STC's activities throughout 2010.

First: The Company's activities and performance during the fiscal year 2010

A- Operating performance

1- Saudi Telecom Company

- Personal Business Unit

The Personal Business Unit (PBU) reiterated its attention to customer care and providing satisfactory solutions, by concentrating on fulfilling customer needs and desires. Furthermore, in its capacity as the first operator of mobile phone services within KSA, and the largest operator of integrated telecom services in the region, STC enhanced its infrastructure to cope with the tremendous increase in the volume of traffic and the size of the services provided. The 2nd and 3rd generation network covers 99% of geographically populated areas and it operates on more of the frequency spectrum to ensure smoother movement, in order to overcome bottlenecks during peak periods. In addition, STC supports the highest speed of data transmission through its advanced 3G network and is the first operator, in the region, to launch a speed reaching 42 Mbps, which is now available in more than 15 cities throughout the Kingdom. At present, it is working hard to cover all regions of KSA with these speeds. Furthermore all mobile and fixed phone networks are connected with advanced Soft Switches which, from a technical perspective, have the highest capacity. This stems from the modern strategy adopted by the Company, through NGN, which will enable STC to provide integrated services, which could not be provided other than by an integrated operator.

> Coverage of 99% of the geographically populated areas

> The first operator to launch a speed reaching 42 Mbps in the region, in more than 15 cities

Due to these endeavours, the number of mobile phone customers increased by 14% compared to the previous year. In addition, STC continued to implement and develop its customer retention programs, which aim at both satisfying and retaining customers. In order to introduce a radical change in the price structure, several new packages and offers/services, have been introduced, such as reducing the fees of post-paid mobile phones by launching new post-paid packages, for example, Easy, Easy Plus, Zero and Zero Plus, as well as saving keys such as SMS, Friends, International and Your Club Keys. There is also a special key offer which allows customers who do not currently subscribe to the saving keys, to try the service, free of charge, for a month.

For Sawa prepaid customers, they were paid the utmost complement in order to make communication with relatives and friends all over the world, cheaper and easier. The Company provided several innovative services and offers as well as valuable discounts, during the year, as a means of promoting its competitive services, such as the provision of 'Sawa 25' new 3G chip along with free credit. Customers are also provided with a re-charging service, through phone banking, in order to support and diversify the available re-charge channels via the easiest means and a variety of options. Through the international credit transfer service, Sawa prepaid customers are allowed to transfer previously identified amounts from the credit of their mobile phones to the mobile phones of their families and friends in other countries, through several international operators outside of KSA. The international credit transfer service is exclusively provided by STC, which currently cooperates with operators in eight countries: the Philippines, Indonesia, Sierra Lanka, Pakistan, India, Jordan, Egypt and Bangladesh and is the first service of its kind within the Middle East. New and innovative sale points for Sawa and Quick Net cards have been introduced in large stores and the costs of manufacturing and distributing cards has been reduced whilst STC's efforts in environmental preservation have received momentum.

> The largest communication network with a capacity of one and a half billion SMS within 24 hours

In addition, STC's international roaming charges are the least and the best in the region when compared to other operators and a uniform and reduced price structure has been applied for outgoing calls, including SMS and Internet services, during roaming. STC provided post-paid mobile phone customers with the free service of receiving calls, during roaming, in more than 90 countries worldwide. At the same time, the fees for receiving calls during international roaming have been reduced and standardized, to 55 Halalahs per minute, in 40 countries on all networks, for the benefit of Sawa prepaid customers. Furthermore, STC has completed the uniform and comprehensive international roaming network and provided, exclusively, the best rates for dialled and received calls, when roaming internationally.

It is also worth noting that STC has the largest SMS network, with a capacity reaching 17 thousand SMS messages per second, which allows one and a half billion messages to be sent during a 24-hour period and that there are more than 100 high-capacity value added services provided by the company.

The first operator of mobile phone services in KSA and the largest operator of integrated telecom services in the region"

With respect to international roaming agreements, STC is the largest company throughout the Middle East, and has to date successfully concluded more than 1200 agreements with international companies. These agreements relate to post-paid roaming cards, Sawa prepaid roaming services, 3G roaming services, international video calls, Jawal net roaming services and the MMS service.

STC is the largest company all over the Middle East in terms of concluding more than 1200 international roaming agreements

For the first time in KSA, STC customers have been able to send MMS at sizes reaching 600 Kb. These messages are supported by some modern mobile phones and they are charged at the same rate as existing messages, without any additional fees. Additionally, STC was a pioneer in making SMS smarter by launching the Smart Messages Service, which allows customers full control of the content of the SMS free. Also, the 'Messages without limits' offer was provided to prepaid segment customers and it enables them to send unlimited SMS's through STC's network, on a daily basis.

For the first time in KSA, STC allowed its customers to send MMS with sizes reaching 600 Kb.

In order to allow customers to, conveniently, surf the web, browse emails, send and receive SMS and easily upload files, the Quick Net package was launched to Jawal customers. This package has achieved tremendous success is provided at unparalleled prices and allows Sawa prepaid customers to subscribe to the open Quick Net package for an hour a day.

The Company also provides the multi-purpose new version of the Quick Wi-Fi Router, which allows more than 30 Internet users to, simultaneously, connect to the Internet, by using the same Internet chip. The introducing of the Quick Wi-Fi Router cames as a natural response to the increasing demand for the Internet is easily configured to provide a wireless Intranet at home or in the workplace, and also allows the exchanging of files and printing of documents.

As for additional services, STC keeps in tune with the continuous development of technology, especially with regard to the various social networking platforms. Here, STC is the sole operator, within KSA, to provides the unique interactive Facebook Zero service, in cooperation with the most famous web site in the world. The Facebook SMS service was launched on mobile phones to represent an important breakthrough provided by STC, not only in terms of the level of technology and quality of service provided to customers, but also in terms of the immediate effect on social networking which has more than two million users in KSA. The personal representative software, ME2, which is one of the most modern programs in the world, was also launched.

In addition, the Twitter Messages service was also launched for the first time in KSA which allows customers to send messages and receive incoming notices from Twitter via SMS. A free Nokia Messaging service was also introduced at unlimited data capacity, for four months. STC also launched the Sada website, which includes the contents of the Sada library so that customers can select their favourite tones and set their timings. As a result of this, the number of Sada subscribers has reached four million customers. Furthermore, an agreement was concluded with the leading company in the field of providing content management solutions, KasperSky, to provide mobile security services to smart phone users in KSA.

In addition, an agreement was concluded with Apple Inc. regarding iPhone devices. and appropriate settings have been prepared to launch several innovative packages with the G4 iPhone 4. Also, the most modern and smallest Blackberry Pearl 3G was exclusively introduced in KSA, at an unparalleled price, whilst the new Blackberry Torch 9800 was also launched in order to provide the most advanced services at the best prices. Smart phones such as HTC-HD7 have been exclusively provided, operates using Microsoft Windows 7 and Samsung's most advanced device, the Galaxy Tab, was also introduced. The company's pioneering position in automatic services content continued, and the number of customers has now reached five million, which has ensured that STC is now one of the largest content service providers in the region and worldwide.

- Home Business Unit

STC succeeded in moving forward to a new horizon, where multiple and integrated services are provided in the field of Hatif and broadband. In this regard, the Company topped the list of Internet Service Providers in the region and enhanced KSA's position as one of the most progressive countries in the field of Internet services. During 2010, STC experienced unparalleled development in terms of growth in the number of broadband customers and the volume of data exchanged by the company's customers, using both wired and wireless services. The quantity of data exchanged, by the end of 2010, increased by 89% to reach more than 1.150 terabytes per day compared to 610 terabytes at the end of 2009. The number of 'wired and wireless' broadband customers reached 3.5 million, with Wi-Fi services being provided by more than 1000 sites.

Launching the first home Internet package in the Kingdom at a speed of 100 Mbps

In addition, STC has taken the lead by launching the first Internet package in KSA via the FTTH service. It provides its customers with the highest Internet speed of 100 Mbps per second, at home, by connecting the customer's house via a high-speed fibre optic network, which provides Internet services at high quality and efficiency, in its capacity as the best broadband service in the world.

Furthermore, InVISION, has been launched by using IP technology which allows customers to watch video content, TV satellite channels, sports and cultural programs and the most recent movies. Customers can enjoy this service, on TV, in an interactive manner and at the highest density and resolution. In addition, the package features open free calls from Hatif and unlimited Internet at a speed reaching up to 20 Mbps. STC also introduced Broadband Jood and Jood Plus which feature voice and broadband services for a fixed monthly subscription. There is also the Broadband M3ak service, which allows the customer to use broadband services via Hatif and its counterpart Jawal Net, through a unified package to provide services both inside and outside the house. In this context, the XBand Jood package was well received and customers expressed their satisfaction at the intoduction of the service. It provides a high-speed Internet service, open, unlimited local calls and discounted international calls to the subscribers favorite countries, together with a discount of 25% on the rates charged to two Jawal numbers.

The largest fibre optic network all over the region with a total length of 85,000 kilometres

All of these steps highlight the continuous development, on all levels, of both the Hatif and Internet services provided within the Kingdom. By employing the remarkable potential of the company's integrated fibre optic networks, which is the largest throughout the region with a total length of 85,000 kilometers, STC's customers can enjoy a high-quality service at competitive prices.

- Enterprise Business Unit

In implementing the strategy of customer centricity, where high profile government, economic and investment corporations are targeted, STC introduced the 'Enterprise Net' service. This new facility is designed to provide an integrated and quick Internet service which connects the various branches of a company in addition, it also hosts web sites, emails and provides technical support with speeds reaching 20 Mbps. The service was introduced as a result of STC's initiative to support 'enterprise' corporations, with the latest communication services and high-quality technical solutions. There is the facility to register a corporate site in the Saudi Arabian, or global domain, thus creating emails for public and private business usages such as sending and receiving and communications. As a result, STC is providing high quality and high-tech communication services and solutions, which increase efficiency and productivity within the enterprise sector, and which will also help to increase development and growth.

The Company also introduced a qualitative breakthrough in communication services and broadband technologies provided to its enterprise customers, by connecting MPLS and GSM. This has facilitated the launch of several bundled services such as Mobile ATM, Mobile IPVPN, Business AVL and Corporate APN, as well as other services which represent real solutions to customers. By connecting both networks, STC aims at utilizing its substantial technical ability to provide the highest level of service to its customers and at the same time, offer several communication services which increase a customers' ability to drive forward the business cycle in their respective corporations. Consequently, customers will be able to maintain effective communications at the highest level utilizing the latest that technology has to offer. In addition, STC has introduced the 'Flex' mobile phone for business use, with a new pricing structure for the enterprise sector.

Flex allows corporate staff to communicate whilst achieving the highest rate of discount, compared to other pricing structures. Furthermore, they can also make local and international calls and send SMS and MMS, together with other features.
STC has also channelled its efforts towards supporting its large corporate customers which work towards driving and developing the national economy. In this regard, STC has provided communication services and built advanced networks for many new large ventures, such as King Abdullah's Financial Centre in Riyadh, Mecca Metro, King Abdullah University of Science and Technology, Ulaya Towers, and the preliminary phase of King Abdullah's Economic City, as well as other vital projects.

- Wholesale Business Unit

For the past twentyfive years, STC has been a regional leader in providing international networking by 'marine cables', in order to provide the best and latest creative services, exclusively offered by the Company, at the highest international standard of quality and performance. Marine cables, especially those utilising fibre optic technologies, provide the most important communications backbone and are essential as a means of transmitting service movement and international communications, especially those requiring large capacities, such as the Internet and data exchange.
STC has been using marine cables since 1985, when it launched the continental marine cable SEA ME WE 1. Since then, and with its pioneering sense, the Company has recognized the importance of marine cables and the significant role that they will play in the future of telecommunications. The continental marine cable '1' was the first project in the region to works with axial copper technology. In 1994, the continental marine cable '2' was introduced and was regarded as a major breakthrough in the communication field, as it was the first cable to work with fibre optic and digital technology, with a preliminary capacity of 1.1 Gbps. Subsequent to this, the largest and longest marine cable in the world was established when the continental marine cable '3' started service in 1999. With a length of more than thirty nine thousand kilometres, extending from Australia in the east to Britain in the west, and passing more than 23 countries, involving the participation of 92 government authorities and telecoms companies, its preliminary capacity was 20 Gbps, almost 20 times greater than the continental cable '2'. STC also participated in the first marine cable project to be financed and executed by the private sector, and Jeddah terminal was one of the stations of the FLAG marine cable, which was brought into service during 1999.
In 2005, STC took the lead, together with other operators, and formed an international alliance to introduce the continental marine cable '4'. This is the largest, most successful and high-tech international marine cable, which conveys more than ninety percent of the Internet traffic between Europe, North Africa and the Arabian and Indian Peninsulas. It was launched with a capacity of 1,280 Gbps, seventy times that of the continental marine cable '2' and this capacity has been increased by using quicker transmission terminals.

> The continental marine cable '4' is the largest and most successful high-tech international marine cable as it transfers more than 90% of the Internet traffic between KSA, Europe, North Africa, the Arabian & Indian Peninsulas.

Simultaneously, STC participated in activating the direct cable link between KSA and Sudan, called SAS '1', in order to serve both countries, and to include East Africa as well. In addition, STC – in partnership with major operators in neighbouring countries – owns joint borderland cables with Bahrain, Kuwait, Qatar, UAE, Jordon and Yemen, which provide necessary protection in case of cable malfunctions.
Within the framework of the strategic plan, developed by STC to cope with the incremental growth of broadband and high-speed Internet services, the Company, when implementing its internal and international network projects, relied on integrated plans to accommodate such growth. In order to achieve this, it set targets to increase and diversify international capacities in order to raise the performance of its services and to avoid disruptions and malfunctions in the cables, which take time to repair. Notable malfunctions occurred in 2003, 2005 and 2008.

Within the context of its regional leadership and in the light of the increasing demand in international capacities, STC has presented a number of initiatives and projects for the construction of global marine cables in the region. Recently, JADI land cable was launched and it connects Jeddah, Amman, Damascus and Istanbul, where it then extends to include Europe and North America through a network of both land and marine cables. In addition, STC currently participates in several new marine cables, many of which are joint ventures or partnerships between global telecoms operators, as this model helps to minimize the risks involved. Examples include marine cables such as 'IMEWE', between India and Europe, via the Middle East, and 'EIG' between India and Britain, in addition to privately funded 'MENA' (Middle East and North Africa) cables. There is also the GBI cable which is called the global bridge for connecting the Gulf region with the Indian Peninsula and Western Europe.
The Company is also keen to acquire the latest communication technologies so as to be among the largest global companies, in providing leading and innovative communication services. STC's continuous leading role, for a quarter of a century, in the marine and land cable industry is an outstanding achievement, and one which has made Saudi Arabia a pioneer in this field. It has also allowed the Company to provide broadband, Internet, Jawal and Hatif voice services, interactive TV and content, in accordance with globally expected quality and performance specifications. All these services are provided through fixed phone, Jawal, and service networks which are managed to provide service to all customers, inside and outside the KSA, including personal, home and eEnterprise business units, as well as ISPs and local and international wholesale business units.

2- Local subsidiaries

• Arabian Internet and Communications Services LLC. (Awal Net), KSA

Arabian Internet and Communications Services LLC, was established in April 2002 and it undertakes the activities of Internet service provider, telecom projects and data transfer and processing operator. STC owns 100% of Arabian Internet and Communications Services LLC, totalling SR 10 million.

• Telecom Investment Company Ltd., KSA

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

3- International subsidiaries

• STC Bahrain (VIVA) – (BSCC), Kingdom of Bahrain

STC Bahrain (VIVA), a Bahraini Joint Stock Closed Company, was established in February 2009 in the Kingdom of Bahrain is a wholly owned subsidiary of STC with a capital of BD 75 million, equivalent to approximately SR 750 million. This company works in all fields of mobile communication services, international communications, broadband and other services related to the Bahraini market. VIVA Bahrain exceeded STC's initial expectations by acquiring substantial market share within nine months from the commencement of commercial operations, in March 2010, despite the Bahraini market being saturated by other operators.
In parallel with launching VIVA Bahrain and in implementing the principle of integration between STC's affiliate companies, in order to serve its subscribers in both countries, an offer was introduced to allow the users of VIVA Bahrain to call STC's customers at the cost of a local call. In addition, the 'International Charge' offer was introduced and it enables STC roamers, who use Sawa pre-paid Jawal on VIVA Bahrain, to use the re-charge cards of VIVA Bahrain to increase their balance, as if they had been in Saudi Arabia.

• Gulf Digital Media Holding (BSCC), Kingdom of Bahrain

This company was established in June 2009 an it is a holding company owning shares in operations in the field of content services and digital media, within the Gulf region. STC owns 51% of its capital of BD 20 million, equivalent to approximately SR 200 million.

Gulf Digital Media Holding develops digital media content which enriches consumers' life styles. During the last two years, it successfully launched more than 400 content and interactive TV services, together with facilities related to web surfing via mobile phones.

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

In December 2007, STC acquired 26% of VIVA – Kuwaiti Telecom Company K.L.L, totalling KD 50 million, equivalent to approximately SR 650 million. VIVA provides mobile telecom services in Kuwait and it commenced commercial operations on December 4th, 2008. The Company achieved excellent results in terms of both the volume of business generated, and financially, when considering the time span of launching its operations. In spite of the high penetration rate of mobile phone services and competition with other operators, VIVA Kuwait acquired an 18% market share within less than two years. Its network covers more than 99% of residential areas and geographically populated regions whilst more than 420 international roaming agreements have been signed. It also became a pioneer in providing broadband services due to the quality of its network, use of the most recent 3G and 4G technologies and its coverage of Kuwait.

Implementing the principle of integration between STC affiliate companies, in a manner which serves the subscribers of companies, in both countries, the 'International Charge' offer was introduced which enables STC roamers, who use Sawa pre-paid Jawal on VIVA Kuwait, to use the re-charge cards of VIVA Kuwait to increase their balance, as if they were in Saudi Arabia.

4- Joint ventures

- NTS (AXIS), Indonesia

NTS obtained a license to operate a 3G mobile phone network in Indonesia, and commenced commercial activity during the first quarter of 2008. STC acquired 51% of NTS in September 2007, for 3.2 trillion Indonesian Rupees equivalent to approximately SR 1.3 billion. In 2010, the Company started competing in the Indonesian telecom market, which is one of the largest markets in the region. The Company completed local coverage by a variety of means, including providing its own network coverage, leasing towers and local roaming agreements. These steps supported its presence and increased its revenue, compared to its first year of operation.

- Oger Telecom Ltd., UAE

Oger Telecom Ltd is a holding company registered in Dubai, UAE, with investments in companies operating in the field of communications. On April 2008, STC acquired 35% of Oger Telecom Ltd for USD3.5 billion equivalent to approximately SR 13.2 billion.

Oger Telecoms investment portfolio provides opportunities to penetrate large emerging markets within both Africa and Eastern Europe and is already present in Turkey and South Africa. The Company developed a dual strategy for the MENA region (Middle East & North Africa) and Sub-Saharan markets. Within MENA, Oger Telecom aims at achieving the highest penetration in the market so as to be the dominant player, which allows STC to play prominent role in the Middle East. Whilst in Eastern Europe it has the chance to play pioneering role as well as achieving a significant position within the region.

- Binariang GSM Holding Group, Malaysia

The Malaysian Binariang is an investment holding company owning 100% of the Malaysian Holding Company, Maxis, which operates in the mobile communication sector in Malaysia. It was not listed in the Malaysian stock exchange in November 2009, 30% of Maxis' shares were offered for public subscription and subsequently the Company was listed on the Malaysian Stock Exchange. As a result, Binariang ownership of Maxis was reduced to 70%.

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

In September 2007, STC acquired 25% of the Binariang Group's capital for 20 billion Malaysian Ringgits equivalent to approximately SR 22 billion. The purpose of this acquisition was to obtain a presence in highly populated countries which are similar to the local market in Saudi Arabia. In addition, this enabled STC to penetrate high-profile South Asian economic markets where the GDP reaches two trillion US Dollars.

The above-mentioned subsidiary companies or joint ventures do not have any debt instruments issued in the form of Sukuk, except for Binariang GSM Holding Group. As at December 31st, 2010, the Group's share was SR 3.001 million in the sukuk, which was utilized to finance the acquisition of the Malaysian holding group Maxis.

Later on, 30% of its shares have been issued for public placement and enlisted in The Malaysian stock market.

Maturity of the Sukuk is ten years with a commission margin of Kuala Lumpur Interbank Offered Rate (KLIBOR) +0.45 %.

5- Investments accounted for under equity method (associate companies)

- Arab Submarine Cables Company Ltd., KSA

The Arab Submarine Cables Company Ltd. was established on September 2002 to provide, rent, manage and operate a marine cable connecting Saudi Arabia and the Republic of Sudan in order to allow communications between them and other countries. 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 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 Centre Company- KSA

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

B- The Group's financial performance

Net income in 2010 reached SR 9,436 million compared to SR 10,863 in 2009, a decrease of 13% Earnings per share in 2010 amounted to SR 4.72 against SR 5.43 in 2009. Gross profit in 2010 amounted to SR 30.323 million compared to SR 31,001 in 2009, a decrease of 2%, whereas. Operating income reached SR 10,979 million compared to SR 12,814 in 2009, a decrease of 14%. Earnings Before Interest, Tax, Depreciation and Amortization "EBITDA" in 2010, reached SR 19,621 million compared to SR 20,613 in 2009, a reduction of 5%. The most important indicators of financial performance in 2010 were the growth of cash flows from operating activities, at 19%, in parallel with the growth in revenues of 2%. Total assets increased to SR 110,781 million at the end of 2010 compared to SR 106,824 million in 2009, an increase of 4%, after amending the comparative figures. In addition, liabilities reached SR 57,317 million compared to SR 55,991 million at the end of 2009 an increase of 2%, also after amending the comparative figures. The Group has a solid financial position, reflected in shareholders' equity, which increased by the end of 2010 at 7%, to reach SR 44,996 million, compared to SR 42,035 million at the end of 2009.

Growth of cash flow from operating activities at 19% was in parallel with the growth of revenues at 2%

Total assets increased to SR 110,781 million at the end of 2010 compared to SR 106,824 million in 2009, an increase of 4%

The Group has a solid financial position, cash flows and high profits which are positively reflected in shareholders' equity which increased, at the end of 2010, by 7% to reach SR 44,996 million compared to SR 42,035 million at the end of 2009.

- The financial impact on the main activities at the Group level

STC provides telecom services throughout KSA and has various investments in subsidiaries, associates and joint ventures, collectively known as the 'Group'. The main activities of the Group comprise the provisioning of a variety of telecommunications services which include mobile (second and third generations), 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 comprise:

GSM, where the main services include: mobile, third generation services, prepaid cards, international roaming and messaging.
PSTN, where the main services are: fixed line, card telephones, local and international calls.
DATA, where the main services include, leased data transmission circuits, DSL and the Internet.
Un-allocated, containing items which could not be linked with the main operating segments of the Group.

The following table outlines the financial effect of the main activities throughout the Group during 2010:

Description (in SR millions)	GSM	PSTN	DATA	Un-allocated	Total
Revenue from services	34,160	10,156	7,141	330	**51,787**
Depreciation and amortization	4,070	3,789	578	205	**8,642**
Net income	8,018	666	808	(56)	**9,436**
Total assets	39,253	37,846	6,797	26,885	**110,781**
Total liabilities	17,070	12,779	2,206	25,262	**57,317**

Table of the assets, liabilities and result of operations of the Group across the previous 5 fiscal years:

Description (in SR millions)	2006 Uncon-solidated Audited	2007 Consoli-dated Audited	2008 Consoli-dated Audited	2009 Consoli-dated Audited	2010 Consoli-dated Audited
Income statement					
Operating revenues	32,394	34,458	47,469	50,780	51,787
Operating expenses	(19,745)	(21,840)	(32,134)	(37,967)	(40,809)
Operating income	12,648	12,618	15,335	12,814	10,978
Other income and expenses, net	493	(172)	(3,293)	(683)	(1)
Zakat, taxes and Non controlling interest	(343)	(424)	(1,005)	(1,267)	(1,541)
Net income	12,799	12,022	11,038	10,863	9,436
Balance sheet					
(a) Current assets	13,362	13,977	18,946	22,663	18,704
(b) Current liabilities	9,523	17,220	22,899	29,341	26,618
(a - b) Working capital	3,839	(3,242)	(3,952)	(6,678)	(7,914)
Current assets	13,362	13,977	18,946	22,663	18,704
Other non-current assets	1,899	6,609	4,739	4,966	5,112
Fixed and intangible assets	30,860	48,225	76,077	81,959	86,966
Total assets	46,122	68,811	99,762	109,588	110,781
Current liabilities	9,523	17,220	22,899	29,341	26,618
Long-term loans	-	13,019	28,081	22,711	21,741
Other liabilities	2,444	2,680	6,220	6,703	8,957
Total liabilities	11,967	32,919	57,200	58,755	57,317
Paid-up capital	20,000	20,000	20,000	20,000	20,000
Reserves and retained earnings	14,154	15,876	17,638	22,035	24,996
Equity	34,154	35,876	37,638	42,035	44,996
Non controlling interest	-	16	4,924	8,798	8,468
Shareholder's equity	34,154	35,892	42,562	50,833	53,464
Total liabilities and shareholder's equity	46,122	68,811	99,762	109,588	110,781
Cash flow statement					
Net operating cash flows	15,873	18,541	21,149	15,956	18,989
Net investing cash flows	(5,326)	(16,919)	(35,469)	(13,542)	(12,365)
Net financing cash flows	(11,643)	3,087	14,763	(2,765)	(8,283)
Net cash flow	(1,096)	4,709	443	(351)	(1,659)
Cash and cash equivalents at the beginning of the year	4,005	2,909	7,618	8,061	7,710
Cash and cash equivalents at the end of the year	2,909	7,618	8,061	7,710	6,051

- **Geographic analysis of the consolidted service revenues at the Group level:**

During 2010, the Group achieved revenues reaching SR 51,787 million where foreign investments, at the Group level, contributed 32%. The following table outlines the geographic analysis of these revenues according to the Group's strategic investments:

Local revenues (in SR millions)	International revenues (in SR millions)			Total
STC, Arabian Internet and Communications Services LLC. (Awal Net), Telecom Investment Company Ltd.	Binariang GSM Holding Group and NTS (AXIS)	Oger Telecom Ltd.	Kuwaiti Telecom Company, STC Bahrain and Gulf Digital Media Holding	
35,252	3,999	11,138	1,398	**51,787**

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

The most important operating performance, at the Group level, in 2010 compared to 2009 are:

Description (in SR millions)	2010 Consolidated	2009 Consolidated	Change	%
Income statement: (*)				
Revenue from services	51,787	50,780	1,007	2%
Cost of service	(21,464)	(19,779)	(1,685)	9%
Gross profit	30,323	31,001	(678)	-2%
Operating expenses	(19,344)	(18,187)	(1,157)	6%
Operting income	10,979	12,814	(1,835)	-14%
Other income, expenses, Zakat, taxes and non controlling interes	(1,543)	(1,951)	408	-21%
Net income	**9,436**	**10,863**	**(1,427)**	**-13%**

(*) certain comparaive figures in 2009 have been reclassified to confrom with the presentation of 2010.

The most important reasons for the 13% decrease in the net income in 2010, compared to 2009, are as follows:

- Cost of service increased at a rate of 9% due to the increase of access charges.
- Operating expenses increased by 6% due to higher depreciation and amortization expenses resulting from more capital investment by the Group to modernize and expand the capacity of it networks and to raise their operational efficiency with the purpose of providing services to the Group customers at the highest quality at all levels and contributing at decreasing operating expenses in the future.

• Group's Borrowings

They are composed of:

Description (in SR millions)	2010 Consolidated
Short term	8,447
Long term	21,741
	30,188

- Oger Telecom Ltd.

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

- Binariang GSM Holding Group

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

- Saudi Telecom Company

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

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

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

During the third quarter 2010, the Company obtained financing facilities in the forms of Murabaha deals from several local banks based on the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.50%. Amounted to SR 1,000 million, the amounts are not utilized as of December 31st, 2010.

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

A list of settled and due regulatory payments, along with a brief description and reasons:

Item	(in SR millions)	Description	Reason
Zakat	118	What is paid or incurred during the year in accordance with Zakat rules and principles in the Kingdom.	A regular requirement
Withholding tax	15	What is paid during the year in accordance with income tax rules in the Kingdom which are applicable to the company's non-resident contractors.	A regular requirement
Social insurance	284	What is paid or incurred during the year in accordance with the labor law in the Kingdom.	A regular requirement
Government charges	4,424	What is 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, issuing license and the frequency spectrum.	A regular requirement
Profit dividends	5,016	What is 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
Other payments	68	What is paid or incurred during the period as fees to SADAD system, permits, visas and driving licenses as per the applicable regulations.	A regular requirement
Total amounts due/paid to governmental and semi-governmental bodies	9,925		

• Penalties, sanctions and reserve limits

There have been some fines imposed by the Communications and Information Technology Commission, but these have not, as yet, been paid 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 2010, and contradicting the above, some disciplinary penalties of SR 150 thousand have been imposed on the company by the Capital Market Authority because the company has not adhered to the registration, enlistment and corporate governance rules a follows:

Authority	2010	Reason	Description
Capital Market Authority	100,000	BoD report of 2009 did not contain any description of any interest, option rights or shareholders' equity owned by the company's BoD members and senior executives.	A regular requirement
Capital Market Authority	50,000	BoD report enclosed with the annual financial statements of the fiscal year 2009 did not contain the penalty imposed by the Authority on 28/6/2009.	A regular requirement
Total fines imposed by the Capital Market Authority	150,000		

• Potential Risks

- Operating risks

No economic sector is free from potential risks. Undoubtedly, some risks may be as a result of the developments in the Saudi telecom sector, which is witnessing rapid changes. Major risks lie in the advent of new competitors, fiercer competition, 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 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 and thus maintains its primary status in the market.

- Financial Risks

Fair Value Risks:

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. Management does not believe that the fair values of the Group financial assets and liabilities differ materially from their book values set forth in the Consolidated Financial Statements enclosed with this report.

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, at 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 periodically ensuring its availability in amounts sufficient to meet any future commitments. The Group does not consider itself exposed to significant risks in relation to liquidity.

• The Company Dividend Distribution Policy

Article 46 of STC Articles of Incorporation 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 and we hereby notify your esteemed general meeting to obtain your approval to ratify the freezing of such appropriation.

2- The annual general meeting may, upon the proposal of the BoD, appropriate a percent of the net profits to form a fortuitous reserve and allocate it for a specific purpose (s).

3- After such appropriation and out of the outstanding amounts, 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 outstanding amounts not exceeding 0.5% (half a percent) shall be allocated as remuneration for the BoD as identified by the annual general meeting after making the above-mentioned deductions. The outstanding amounts shall 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, 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 telecom 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 2010 amounts to SR99 billion, in the form of fees paid and the Governments share in annual profits.

C- Strategic orientations

STC is looking forward to the future with enthusiasm and optimism. It works towards meeting it having considered the results of thorough planning, based on studying and analyzing the variables of the internal and foreign environments, following up the developments and tendencies of the world telecom industry, updates in the local and international market as well as the organizational environment. Thus, the company's future strategies, for the next three years, are focused on six main axes known as the 'LEAD' strategy, which can be explained as follows:

- Leadership in providing the new generation services for the 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

Saudi Telecoms objective is to raise the efficiency of personnel, improve workforce performance and to develop the internal work environment, in this regard; the Company is focused on the following programs:

- Human resources training and development program

About one thousand training courses have been held and more than ten thousand members of company staff have benefited from attending 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 800 employees have benefitted from the program, at a cost of SR 606 million.

- Staff Loans Program

The Housing Loans Program is also still being offered and during 2010, 211 employees benefited from it by borrowing an amount of SR 264 million. In addition, during 2010, 39 employees benefited from the Vehicle Loans Program at a cost of SR 9 million.

- The Social Solidarity Fund Program

The company continued to adopt the Social Solidarity Fund which aims to develop the bonds of brotherhood, cooperation and solidarity among the company's staff. The Fund contributes towards overcoming the difficulties of life experienced by their 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 first year of establishing the Fund, and has provided annual support of SR 2 million.

E- Social responsibility

As part of STC's pursuit to share in aspects of the country's social and human environment, and in its capacity as an integral part of this dear homeland, STC has been keen on the continuous implementation of many social programs of interest to members of the community, under the name 'Loyalty Programs'. Accordingly, it provided many distinct social initiatives which distinguish it from other national companies and as a result f this approach, STC won a Leadership Award in recognition of its contribution to this field in the Middle East.

Many activities and programs were executed such as caring for the talented, paying attention to people with special needs, supporting the health aspect in Saudi Arabia, caring for pilgrims, rehabilitating young people in many current scientific, technical and cultural areas, caring for orphans and caring and adopting many cultural, health, religious and awareness forums, and conferences.

These activities and programs are focused in providing for the talented, paying attention to people with special needs, supporting the health aspect in Saudi Arabia, caring for pilgrims, rehabilitating young people in many different scientific, technical and cultural areas, caring for orphans and caring and adopting many cultural, health, religious and awareness forums, and conferences.

The Health Loyalty Program and its activities have contributed in sponsoring many events and conferences in the field of health. In this regard the Company contributed to the construction and furnishing of many primary health care centres in needy areas and remote villages. STC also sponsored many health education campaigns as well as international programs and conferences such as the Conference on Ophthalmology, Caring for Patients with Disabilities, Caring for Kidney Patients, Education on the Harmful Effects of Drugs and the Problem of Hyperactivity and Attention Deficit. There were also campaigns to donate blood for wounded soldiers in the armed forces on the southern borders of our beloved kingdom and the provision of food baskets to citizens affected by these events.

In addition, Religious programs are an important culmination for the Loyalty Programs. Among the most important programs which receive the Company's support is the continuous sponsorship of the 'Ar-Rahman's Banquets' campaign for providing breakfast to fasting Muslims. STC also adopted a number of religious events and forums such as 'The Best Nation Forum' which is one of the most important religious gatherings in the Kingdom of Saudi Arabia. In addition, it paid attention to its staff in the area of religious awareness by hosting many scholars and preachers.

The Company also launched the social, cultural, educational 'program' Follow My Example through launching its web site www.Qudwaty.com. This is a social, interactive program based on the values of the Holy Prophet (peace be upon him). Saudi Telecom also sponsored a symposium entitled 'Compensation of rights and obligations and its contemporary applications' organized by the Islamic Fiqh Site in cooperation with the Islamic International Foundation for Economics and Finance.

In the context of social responsibility, came the educational programs which included several educational events and activities; most notably the sponsorship of the Talented Students Program in Baha Region. Saudi Telecom has also launched the 'Vitamin' service which facilitates studying and learning in an interactive and attractive technology based environment by 'three-dimensional' means, equipped with educational, audio and visual materials including graphics and animations.

Saudi Telecom also officially sponsored the activities of the Training and Employment Unit in the Faculty of Business Administration for Girls, King Saud University. The unit aims to equip female students and graduates by providing them with the necessary skills to find job opportunities.

In support of the educational movement and charitable organizations, STC has developed a series of training and qualification programs for Saudi youth, in professional areas, so that they will be ready to work in private sector enterprises. STC has sponsored many educational activities including the Distance Learning Fair in Qassim, Chair of Scientific Research to support researchers in significant scientific fields that serve the community, in a number of Saudi universities, and the Fourth Meeting of Graduate Students organized by the Deanship of Graduate Studies at King Fahd University of Petroleum and Minerals. STC also sponsored the 'Research Day' launched by the University of Prince Sultan. It also sponsored the ceremony organized by Jood Women's Charity Association to honor outstanding and gifted orphans and children of the families of the Association in the academic year 1431H.

In the area of cultural programs to educate members of the community, expand the perceptions of young people and push forward their level of knowledge, Saudi Telecom has implemented a variety of cultural activities such as the sponsorship of the Mathematics Olympiad Competition in Saudi Arabia. It also implemented the program of developing the methods and strategies of learning and teaching science and mathematics for teachers and supervisors in Saudi Arabia. The Company also adopted the Second National Competition Program for preparing small project business plans. It also sponsor the forum of 'Enable Women Entrepreneurs in the Financial and Banking Sector' in addition to sponsoring a number of meaningful satellite TV programs such as 'Positive People' which aims to build a positive personality in life and 'An Hour for them' which is exclusively directed to people with special needs.

'Social Loyalty' programs also fall within the framework of STC's positive role in the field of social responsibility. This is evident in many important events such as the Rabwah Forum in Riyadh which included more than one thousand activities and programs. In addition, a large number of lectures and seminars were held and attended by prominent scientists and academics. There is also the Women Creativity Forum 6 held under the title 'Strategic Steps to Build a Leading Woman'. STC also participated in several collective marriage ceremonies, including the second collective marriage for people with special needs and the 'physically disabled'. It sponsored the celebration of World Day for Disability and Thirty-fifth Festival of the Arab Week for the Deaf. STC supported the orphans' integration program for the children 'of unknown parentage' in society. It also supported the Charitable Society for Orphans in Riyadh 'Insan' through the special numbers auction to raise funds for the benefit of the society and it effectively sponsored the Buraidah Dates Festival.

In the area of sports loyalty, STC sponsored a number of Saudi league football clubs, many national sports activities such as the sponsorship of the Saudi Arabian Basketball Union and the sponsorship of the Hail Rally as a gesture of paying attention to young people. In its entire humanitarian or service works, the Company considers the citizen as the centre of its interest to meet his needs and gain his confidence.

F- Offering services to the pilgrims of the Holy Mosque

During the Hajj season of 1431H, as in previous years, the Company succeeded, accommodating the surge in traffic volumes for all of its services, STC provided its human and technical energies to continue its leadership in providing services during this great religious ritual. It connected pilgrims in the holy sites, Mecca and Medina, with their families through the provision of highly efficient communication services. STC expanded and restored some work to accommodate the ongoing changes in the Haram and Sacred Rituals areas and to cope with the expansion works of the Haram, Jamarat Storeys and Mecca Metro. These changes required the continuous redesign and expansion of the network, and the same issue applies to the central area of Madinah.

Loyalty

During 6 days of the Hajj season of 1431H, interior mobile calls amounted to more than 2.4 billion while international calls reached more than 602 million. The number of SMS sent by the Company's customers during the Hajj period reached more than 960 million SMS and 45 million MMS. The size of transmitted data during the Hajj season amounted to 6.2 thousand terabytes.

The capacity of the Haram and Rituals network reached more than 7.8 million customers during this year.

In the peak period of the Hajj season, statistics reveal that record volumes of communication traffic were made compared to previous years. During the 6 days of the Hajj season of 1431H, interior mobile calls amounted to more than 2.4 billion while international calls reached more than 602 million. The number of SMS's sent by the company's customers during the Hajj period reached more than 960 million with 45 million MMS and the size of date transmitted amounted to 6.2 thousand terabytes. The total number of customers in the central area of Mecca Haram and the holy sites reached more than 2.3 million, where as the capacity of the Haram and Rituals network reached more than 7.8 million customers during this year.
Through the largest integrated management, operation and maintenance centre in the region, at the company's complex in Riyadh, STC contributed to the success of the Hajj season. The centre comprises, in place, an excellent business environment in terms of surveillance, monitoring, analysis, and support through the giant mural screens within the centre, as well as the surveillance systems, control, and immediate analysis of direct performance indicators. The centre is supported by state-of-the-art logistics to provide system operation and maintenance and analysis of performance, at all levels, in one place, on a continuous basis. This ability was manifest in the smooth business flow during emergencies, speed to provide support at the highest levels when needed, and the quality of service despite the increase of traffic.
Such facilities had a positive role in forecasting the weather conditions during Hajj and thus ensuring that climatic changes had no effect on the services provided. The centre makes direct contact with customer care centres, coordinates with them, and automatically and immediately follows up customers' notices in order to immediately and proactively check and determine the level of customer satisfaction, with regard to the performance of the Company's services. Saudi Telecom also actively participates in the Hajj season each year through the humanitarian services and positive initiatives in favour of pilgrims, as well as their religious, health and cultural awareness. Add to this the charitable work offered as an embodiment of the principle of social responsibility in all its forms in this blessed season, including the distribution of more than one million, two hundred thousand gifts to pilgrims, in addition to the dissemination of booklets, in different languages and the introduction of the various services provided by the Company to pilgrims.

Second: The Board of Directors (BoD)

- Structure of the BoD and categories of members

Article 17 of the STC Articles of Association defines the number of BoD 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 has been elected for the fourth session which shall end on 2012 AD. The following table lists names of BoD members, their categories and membership in the BoD's of Saudi joint stock companies:

Serial No.	Name	Membership in other board of directors	Membership categor			
			Executive	Non-executive	Independent	Non-independent
1	H.E. Dr. Muhammad Bin Suliman Al-Jasser Chairman and Head of the Executive Committee	None		√		√
2	H.E. Mohammed Bin Abdullah Al-Kharashi Vice Chairman, Head of the Nomination and Compensations Committee and member of the Executive Committee	• Saudi Research and Marketing Group • Saudi Industrial Investment Group (SIIG) • Saudi Arabian Mining Company (Maaden)		√	√	
3	H.E. Dr. Hamad Bin Sulayman Al-Qassumi, member of the Nomination and Compensations Committee	None		√		√
4	H.E. Muhammad Bin Saleh Ad-Dahham, member of the Executive Committee and the Investment Committee	• Saudi Railway Company (SAR) • 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 • 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 • 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. • SyriaTel Mobile Telecom Company • VTEL Holding Company		√	√	
9	H.E. Khalid Bin Abdulrahman Al-Rajhi, Head of the Audit Committee, and Member of the Investment Committee	• Al Bilad Bank • Saudi Cement Company • Walaa Insurance		√	√	

• BoD Committees:

According to the Corporate Governance Regulations approved in February 2005, the BoD 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 BoD member and the remuneration of members and executives. There should be a minimum limit of independent members in the committees stemming from the BoD. When setting up committees, their responsibilities and business procedures shall be identified by the BoD in writing. Related decision shall be issued and relevant stakeholders shall be notified in an apropriate manner.

The BoD committees for the fourth session have been set up as follows:

The Executive Committee		
1	H.E. Dr. Muhammad Bin Suliman Al-Jasser	Head
2	H.E. Mohammed Bin Abdullah Al-Kharashi	Member
3	H.E. Muhammad Bin Saleh Ad-Dahham	Member
4	H.E. Ibrahim Bin Ali Al-Hassan	Member
5	H.E. Mohammed Bin Omran Al-Omran	Member

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 authorities vested in them by the BoD. The committee held four meetings throughout 2010.

The Nominations and Compensations Committee		
1	H.E. Mohammed Bin Abdullah Al-Kharashi	Head
2	H.E. Dr. Hamad Bin Sulayman Al-Qassumi	Member
3	H.E. Abdulaziz Bin Habdan Al-Habdan	Member
4	H.E. Abdulrahman Bin Abdulaziz Mazi	Member

The Committee is charged with formulating, approving and endorsing an operating mechanism, structuring salaries in accordance with market criteria and ensuring fair implementation thereof in a manner that motivates management and employees to do their jobs. The Committee is also entitled to review the structure of the Board of Directors, refer recommendations with respect to required changes, review and approve the compensation and rewarding policy as a preliminary step before referring it to the BoD. The Committee held seven meetings throughout 2010.

The 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

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 throughout 2010.

The Investment Committee		
1	H.E. Engineer 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

The Committee is charged with reviewing the Company's strategic investments as per the Company's strategies. The Committee also reviews and studies the strategic investment opportunities and makes recommendations the suitable ones. The Committee held nine meetings throughout 2010.

• Members' participation in BoD and Committees meetings

The following table shows the number of BoD as well as subcommittees meetings in the fourth round, and members' attendance throughout 2010:

No. of meetings / Name	BOD (14)	Executive Committee (4)	Nomination and Compensations Committee (7)	Audit Committee (12)	Investment Committee (9)
H.E. Dr. Muhammad Bin Suliman Al-Jasser	12	4			
H.E. Mohammed Bin Abdullah Al-Kharashi	14	4	7		
H.E. Muhammad Bin Saleh Ad-Dahham	14	4			7
H.E. Ibrahim Bin Ali Al-Hassan	12	4			
H.E. Dr. Hamad Bin Sulayman Al-Qassumi	13		7		
H.E. Abdulaziz Bin Habdan Al-Habdan	14		7	12	
H.E. Mohammed Bin Omran Al-Omran	11	3			9
H.E. Abdulrahman Bin Abdulaziz Mazi	14		6		8
H.E. Khalid Bin Abdulrahman Al-Rajhi	14			11	8

Some members were unable to attend some of the BoD and Committees meetings on account of their being outside KSA, or because of personal circumstances.

• BoD member's interests

STC has not entered into any businesses or contracts involving substantial interests to BoD members, the CEO, vice president for financial affairs or any person related to them.
Ownership of natural BoD members, their wives and minor children

Name	Ownership at the beginning of the year	Ownership at the end of the year	Percent of change during the year
H.E. Dr. Muhammad Bin Suliman Al-Jasser	330.140	330.140	0
H.E. Mohammed Bin Abdullah Al-Kharashi	None	None	0
H.E. Muhammad Bin Saleh Ad-Dahham	None	None	0
H.E. Ibrahim Bin Ali Al-Hassan	3.000	None	(100%)
H.E. Dr. Hamad Bin Sulayman Al-Qassumi	546	546	0
H.E. Abdulaziz Bin Habdan Al-Habdan	1.000	1.000	0
H.E. Mohammed Bin Omran Al-Omran	713.666	713.666	0
H.E. Abdulrahman Bin Abdulaziz Mazi	50.000	51.000	2%
H.E. Khalid Bin Abdulrahman Al-Rajhi	11.399.998	6.620.485	(42%)

Ownership of top executives, their wives and minor children

Name	Title	Ownership at the beginning of the year 2010	Ownership at the end of the year 2010	Percent of change during the year 2010
Saud Bin Majed Al Daweesh	CEO	None	None	0
Omar Ibn Muhammad At-Turki	Vice President for Shared Services Sector	8.000	8.000	0
Omar Ibn Abdullah An-Nuamani	Vice President for IT Sector	7.201	8.501	18%
Jamil Ibn Abdullah Al-Melhem	Vice President for Personal Business Sector	None	None	0
Saad Ibn Ahmad Demiati	Vice President for Wholesale Sector	1.000	1.000	0
Khaled Ibn Abdur-Rahman Al-Jasser	Vice President for Corporate Strategy	1.273	1.273	0
Ziad Ibn Thamer Al-Iteibi	Vice President for Network Sector	11.333	11.333	0
Amin Ibn Fahd Ash-Sheddi	Vice President for Financial Sector	None	None	0
Salah Ibn Muhammad Az-Zamil	Vice President for Human Capital	3.000	3.300	10%
Matbuli Samir Ibn Aasaad	Vice President for Enterprise Sector Services	None	None	0
Humud Ibn Muhammad Al-Qassir	Vice President for Regulatory Affairs Sector	2.933	2.933	0
Saad bin Dhafer Al-Qahtani	Vice President for Home Business Sector	None	None	0
Ghassan Hasbani	Executive Manager of Global Operations	None	None	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 2006-212-1, dated 21/10/1427H, corresponding to 12/11/2006, 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:

No.	Article number in Corporate Governance Regulations	Compliances	Partial compliances	Non-compliances	Details
1	Third: Stakeholders 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		*		Has been implemented except the article of cumulative voting, as normal voting is adopted at this phase in the view of the Company.
5	Seventh: Stakeholders equities in assets' profits	*			
6	Eighth: Disclosure-related policies and procedures	*			
7	Ninth: Disclosure in the BOD 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 BoD hereby acknowledges that account ledgers have been compiled correctly, and hence the BoD has no doubts regarding the ability of STC to continue its activities. The BoD 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 BoD, oversees the internal audit of the Company, which regularly checks the adequacy and efficiency of the internal control systems. This is part of the BoD 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 several meetings which discussed many topics related to the Committee's work. 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 the company operations. An internal audit assists an organization in achieving its objectives through providing a regular input on the process of assessing and improving the efficiency of risk management, control as well as 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, effectives and profitability of the Company operations. It included – for example – auditing policies and procedures related 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 taken. The role of internal audit in the Group has been approved in order to cope with the organizational structure of the Group.

Third: Appropriation of profits and bonuses and the recommendations of the Board of Directors

•The Proposed Distribution of Dividends in 2010

The BoD proposed distributing dividends throughout the first three quarters of 2010, on the basis of SR 2.25 per share. It also recommends the distribution of dividends totalling SR 1,500 million in the fourth quarter of 2010, or SR 0.75 per share. Therefore, total dividends distributed in 2010 reached SR 3 per share, representing 30% of the shares nominal value.

The recommended and approved distributions for 2010 were as follows:

Description	Total dividend (in SR millions)	Share dividend (in Riyal)	Date of announcement	Maturity date	Date of distribution
Cash dividends on the first quarter of 2010 AD	1.500	0.75	April 19th, 2010	April 28th, 2010	May 10, 2010
Cash dividends on the second quarter of 2010 AD	1.500	0.75	July 20th, 2010	July 28th, 2010	August 11th, 2010
Cash dividends on the third quarter of 2010 AD	1.500	0.75	October 19th, 2010	October 27th, 2010	November 24th, 2010
Cash dividends on the fourth quarter of 2010 AD	1.500	0.75	January 19th, 2011	March 28th, 2011	To be determined later
Total dividends	6.000	3			

• BoD members and senior executives' bonuses and remunerations

Bonuses and remunerations paid to members of the BoD for their attendance of Board meetings and its committees, in addition to the five most senior Board members, including the President and the financial manager, for the fiscal year ending on 2010 are recorded in the table below. The BoD recommends that SR 200,000 shall be issued to each member as an annual bonus for 2010 as Article 46 of STC Articles of Incorporation.

Description	Executive Board members	Non-executive / independent Board members	The five most senior executives in the Company including the CEO and vice president for financial affairs
Salaries and allowances	-	897,000	9,112,083
Periodical and annual bonuses	-	3,240,000	4,813,928
Total	-	4,137,000	13,926,011

• BoD declarations

STC BoD hereby acknowledges that:

- Account ledgers have been compiled correctly
- BoD 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.
- Consolidated Financial Statements for 2010 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 natural or artificial person who owns 5% or more of the Company's issued shares, during 2010 AD.
- There are no debt instruments convertible to shares, option rights, application right notes or similar rights issued or granted by the Company during 2010.
- There is no redemption, purchase or cancellation made by the company during 2010 with regard to any redeemable instrument debts.
- There are no arrangements or assignment agreement under which one of the BoD members or senior executives shall waive any salary or compensation.
- There are no arrangements or assignment agreement under which one of the Company shareholders shall waive any rights in dividends.
- STC has not entered into any businesses or contracts involving substantial interests to BoD members, the CEO, financial manager or any person related to them.
- The Company has not granted a cash loan to any BoD 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 BoD 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 2010.

• Recommendations

STC BoD recommends to the General Assembly the following:

1- Approval of the BoD report for the fiscal year ending on 31/12/2010.
2- Approval of the consolidated Financial Statements of the company and the auditor's report for the fiscal year ending on 31/12/2010.
3- Approval of the BoD proposal to distribute dividends for the fourth quarter of the fiscal year 2010, on a basis of SR 0.75 per share, in addition to what has been distributed for the first three quarters in 2010, amounting to SR 2.25 per share. Total dividends distributed for the fiscal year 2010 are thus equal to SR 3 per share.
4- Approval of the selection of the company Auditors from among candidates by the Audit Committee to audit and review the annual and quarterly financial statements for the fiscal year 2011 and determine their fees.
5- Approval to cease appropriation of the statuary reserve at the level of SR 10 billion according to the first paragraph of Article 46 of STC articles of association issued pursuant to Royal Decree No. M/35 dated 24 Dhul Hijja 1418 H which stipulates that '10% of the net profits shall be appropriated as a statuary reserve. The ordinary general meeting may cease such appropriation whenever the said reserve reaches half of the capital.'
6- Approval of the rules of selecting the Nomination and Compensations Committee, term of membership and how the Committee works.
7- Acquitting the BoD members with regard to the fiscal year ending on 31/12/2010.

Transparency

• Conclusion

The BoD praises Allah for His help, and expresses gratitude to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdul Aziz Al-Saud, his Trustworthy Crown Prince Sultan Bin Abdul Aziz Al Saud and the Second Deputy Prime Minister Naif Bin Abdul Aziz Al Saud as well as rightly-guided government in appreciation of the support, care and encouragement they generously granted STC in its quest to develop, perform and improve services. The Board is also grateful to STC's customers and stakeholders for their confidence and to the entire staff of the Company for their dedication and devotion in the performance of their work. The Board reaffirms the Company's endeavours to develop its business in order to meet its customers' needs, realize stakeholders' aspirations, serve social objectives, and underlines the Company's leading position in the telecom sector in the Kingdom.

Fourth: Consolidated Financial Statements for the year ended December 31st, 2010

Deloitte & Touche
Bakr Abulkhair & Co.
Deloitte.

BDO Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

AUDITORS' REPORT

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

Scope of Audit

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

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

Unqualified Opinion

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

Deloitte & Touche
Bakr Abulkhair & Co.

Bakr A. Abulkhair
License No. 101

Dr. M. Al-Amri & Co.

Gihad Al-Amri
License No. 362

Rabi Al Awal 18, 1432H
February 21, 2011

Consolidated Balance Sheet as of December 31st, 2010

(Saudi Riyals in thousands)

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

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

Consolidated Statement of Income for the Year Ended December 31st, 2010

(Saudi Riyals in thousands)

	Notes	2010	2009
Revenue from services	18	51,786,828	50,780,087
Cost of services	19	(21,464,230)	(19,779,392)
Gross Profit		30,322,598	31,000,695
Operating Expenses			
Selling and marketing expenses	20	(7,083,100)	(6,866,339)
General and administrative expenses	21	(3,618,983)	(3,522,030)
Depreciation and amortization	22	(8,642,204)	(7,798,739)
Total Operating Expenses		(19,344,287)	(18,187,108)
Operating Income		10,978,311	12,813,587
Other Income and Expenses			
Cost of early retirement program		(605,559)	(810,914)
Finance cost	23	(1,780,670)	(1,385,300)
Commissions and interest		308,727	361,957
Other, net	24	2,076,253	1,151,038
Other income and expenses, net		(1,249)	(683,219)
Net Income before Zakat, Tax and Non-controlling interests		10,977,062	12,130,368
Provision for Zakat	25	(118,208)	(334,513)
Provision for Tax	26	(820,171)	(642,042)
Net Income before Non-controlling interests		10,038,683	11,153,813
Share of non-controlling interests		(602,361)	(290,457)
Net Income		9,436,322	10,863,356
Basic earnings per share on Operating Income (in Saudi Riyals)		5,.49	6.41
Loss per share on Other Operations (Other income and expenses in Saudi Riyals)		(0.00)	(0.34)
Basic earnings per share on Net Income (in Saudi Riyals)		4,.72	5.43

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

Consolidated Statement of Cash Flows for the Year Ended December 31st, 2010

(Saudi Riyals in thousands)

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

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

Consolidated Statement of Changes in Equity for the Year Ended December 31st, 2010

(Saudi Riyals in thousands)

	Share Capital	Statutory Reserve	Retained Earnings	Other Reserves	Financial Statements` Translation Differences	Minority Interest	Total Equity
Balance at December 31, 2008	**20,000,000**	**8,233,141**	**9,783,301**		**(378,464)**	**4,923,899**	**42,561,877**
Net income	-	-	10,863,356	-	-	-	10,863,356
Dividends	-	-	(6,036,939)	-	-	-	(6,036,939)
Transferred to statutory reserve (Refer to Note 16)	-	1,065,582	(1,065,582)	-	-	-	-
Financial statements` translation differences	-	-	-	-	(437,801)	-	(437,801)
Non-controlling interests	-	-	-	-	-	3,874,224	3,874,224
Other	-	-	8,231	-	-	-	8,231
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 16)	-	701,277	(701,277)	-	-	-	-
Other reserves (Refer to Note 17)	-	-	-	(1,269,415)	-		(1,269,415)
Financial statements` translation differences	-	-	-	-	794,194	-	794,194
Non-controlling interests	-	-	-	-	-	(329,704)	(329,704)
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**

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

Coverage

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

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

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

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

STC Bahrain (VIVA) (BSCC) – Bahrain

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

Gulf Digital Media Holding (BSCC) – Bahrain

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

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

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

PT Natrindo Telepon Seluler "NTS" (AXIS) - Indonesia

NTS obtained the license to operate a third generation mobile network in Indonesia and it started the commercial provisioning of this service in the first quarter 2008. The Company acquired 51% of its IDR 3.2 trillion share capital, equivalent to approximately SR 1.3 billion in September 2007.

Oger Telecom Ltd. - U.A.E.

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

Binariang GSM SDN BHD "Binariang" – Malaysia

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

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

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

Arab Submarine Cables Company Ltd. – The Kingdom

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

Arab Satellite Communications Organization "Arabsat" – The Kingdom

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

Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. The Company owns 36.66% of its USD 500 million share capital, equivalent to approximately SR 1,875 million.

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

2- SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with accounting standards generally accepted in the Kingdom. The financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the year ended December 31, 2010.

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

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

The significant accounting policies are summarized below:

2-1 Period of the consolidated financial statements

The Group's financial year begins on January 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 the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying approved rates.

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

2-3 Cash and cash equivalents

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

2-4 Accounts receivable

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

2-5 Offsetting of accounts

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

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 international and local valuation experts. The principal bases used for valuation are as follows:

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

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

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

5- Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6- Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-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 non-current assets fair values must be reduced except for non-current investments in securities by such difference. The adjustment to the non-current assets is done proportionately according to their net book values
• Goodwill is recorded at cost and is reduced by impairment losses (if any).

Spectrum rights and Second/Third Generation licenses

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

2-11 Impairment of non-current assets

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

2-12 Investments

Subsidiaries

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

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of all the parties sharing control.
Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities.
In the consolidated financial statements, the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements.
Goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill.

Investments accounted for under the equity method (Associates)

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

2-13 Zakat

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

2-14 Taxes

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

Deferred tax assets

Deferred tax assets of foreign entities are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences of the foreign entities can be utilized. This involves judgement regarding the future financial performance of the particular entity in which the deferred tax asset has been recognised.

2-15 End of service benefits

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

2-16 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the consolidated balance sheet date.
Gains and losses arising on the settlement of foreign currency transactions, and unrealized gains and losses resulting from the translation to Saudi Riyals of foreign currency denominated monetary balances are recorded in the consolidated statement of income.

Entities of the Group (translation of financial statements)

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

2-17 Contingent liabilities
A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the consolidated financial statements.

2-18 Cost of services
Represents all costs incurred by the Group on rendering of services, which are directly related to revenues generated from the use of the network, and are recognized in the periods of relevant calls, including:-
• Government charges are the costs incurred by the Group for the right to provide the telecommunications services in the Kingdom and the investees, including use of the frequency spectrum.
• Access charges represent the costs to connect to foreign and domestic carriers' networks related to telecommunications services for the Group's clients.

2-19 Selling and marketing expenses
Represent all costs incurred by the Group, which are directly related to the marketing, distribution and sale of services. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-20 General and administrative expenses
Represent all the operating expenses incurred by the Group that cannot be directly linked to the costs of services or selling and marketing expenses. They are expensed as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-21 Earnings per share
Earnings per share are calculated by dividing operating income and other operations (other income and expenses) before eliminating Non-controlling interest, and net income for the financial period, by the weighted average number of shares outstanding during the period.

2-22 Financial derivatives
The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward currency contracts and interest rate swaps. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of income depends on the nature of the hedge relationship.
The Group designates certain derivatives as either hedges of the fair value of recognized assets and liability or an unrecognized commitment except for foreign currency risk (fair value hedge), hedges of variability in cash flows that are either attributable to a particular risk associated with a designated asset or liability or the foreign currency risk in an unrecognized firm commitment (cash flow hedge).
Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized in the consolidated statement of income, together with any changes in the fair value of the hedged assets or liability. In the case of cash flow hedges, the effective portion of changes in fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to ineffective portion is recognized immediately in the consolidated statement of income.
Hedge accounting is discontinued when the Group either revokes the hedge relationship, the hedging instrument is sold, terminated, or exercised, or it no longer meets the requirements of hedge accounting. Any gain/loss accumulated in the equity at the time remains in equity and is recognized when forecast transaction is ultimately recognized in the consolidated statement of income. When the forecasted transaction is no longer expected to occur; the gain or loss is recognized immediately in the consolidated statement of income.

2-23 Related parties
During the ordinary course of business, the Group deals with related parties, all transactions of relative importance with related parties are disclosed regardless of the presence or absence of balances for these transactions by the end of the financial year. Transactions of the same nature are grouped onto a single disclosure, with exception to separate disclosures for transactions, which are necessary to understand the impact of the related party transactions on the financial data of the Company.

3- CASH AND CASH EQUIVALENTS
The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on these deals during the year 2010 was 0.53% (2009: 0.96%). Total commission earned on these deals during the year 2010 was SR 7.3 million (2009: SR 35.5 million).
The Group's share in commissions earned by subsidiaries and joint ventures on short-term deposits was SR 242 million (2009: SR 324 million).

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

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

4- ACCOUNTS RECEIVABLE, NET
(a) Accounts receivable on December 31st consisted of the following:

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

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

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

(b) Since inception, the Company recognizes revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected revenues from such customers for the year 2010 amounted to SR 111 million (2009: SR 101 million), with an annual average of SR 192 million for the eleven years preceding 2010.

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

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

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

5- PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

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

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

6- INVESTMENTS IN EQUITY AND OTHER

These investments consist of the following:

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

Investments in Sukuk

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

Investment in Sabic's Sukuk

Sukuk were acquired from Saudi Basic Industries Corporation "Sabic" in July 2006 in the amount of SR 150 million, with maturity of 5 years up to July 2011, and a commission rate equal to the Saudi Inter-Bank Offered Rate ("SIBOR") plus 0.40%. Commission earned from these Sukuk during the year 2010 amounted to SR 1.7 million (2009: SR 2.4 million). Because the period of maturity is less than one year, Sabic's Sukuk have been re-classified as current assets as at December 31st, 2010.

7- PROPERTY, PLANT AND EQUIPMENT, NET

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

(a) Land and buildings above include land of SR 2,238 million as of December 31st, 2010 (December 31st, 2009: SR 2,260 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 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 1,924 million as of December 31st, 2010. The transfer of the ownership of the remaining land parcels with a value of SR 217 million is still in progress.

(c) Property, plant and equipment Include fixed assets subject to concession agreements belonging to one of the investees, the Group's share in concession agreements amounted to SR 2,890 million, the ownership of these assets will construe at the end of the agreements to the government.

8- INTANGIBLE ASSETS, NET

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

Intangible assets consist of the following:

Expansion

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

9- OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

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

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

10- ACCOUNTS PAYABLE

Accounts payable consist of the following:

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

11- OTHER CREDIT BALANCES - CURRENT

Other credit balances - current consist of the following:

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

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

- OTHER CREDIT BALANCES-NON-CURRENT

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

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

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

12- ACCRUED EXPENSES

Accrued expenses consist of the following:

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

13- BORROWINGS

They are composed of:

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

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

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

- Binariang GSM SDN BHD "Binariang" – Malaysia

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

- The Company

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

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

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

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

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

14- EMPLOYEES' END OF SERVICE BENEFITS

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

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

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.

15- SHARE CAPITAL

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

16- STATUTORY RESERVE

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

17- OTHER RESERVES

Other reserves consist of the following:

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

18- REVENUE FROM SERVICES

Revenue from services consists of the following:

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

19- COST OF SERVICES

Cost of services consists of the following:

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

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

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

(Thousands of Saudi Riyals)	2010	2009
Commercial service provisioning	4,734,944	4,744,136
License fees	383,092	372,021
Frequency spectrum	605,137	548,242
	5,723,173	5,664,399

20- SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

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

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

21- GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

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

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

22- DEPRECIATION AND AMORTIZATION

(Thousands of Saudi Riyals)	2010	2009
Depreciation	7,421,506	6,879,169
Amortization	1,220,698	919,570
	8,642,204	7,798,739

23- FINANCE COST

Composed of:

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

24- OTHER INCOME AND EXPENSES - OTHER, NET

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

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

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

25- ZAKAT

(a) Zakat base for the Company

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

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

(b) Zakat provision

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

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

(c) Subsidiaries and joint ventures

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

26- TAX PROVISION

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

27- RELATED PARTY TRANSACTIONS

Government entities in Kingdom

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

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

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

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

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

28 - COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,498 million on December 31st, 2010 (December 31st, 2009: SR 3,347 million).

(b) Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the year 2010, total rent expense under operating leases amounted to SR 633 million (2009: SR 598 million).

Contingencies

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

29- FINANCIAL INSTRUMENTS

Fair value

It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, the carrying amounts for all financial instruments do not differ materially from their fair values as at 31st December 2010 and 2009 which is as follows:

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

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

Commission rate risk

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

Currency risk

It is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and entering into hedging agreements for the need to reduce the currency risk, the official currency of the Group is Saudi Riyal, the base currency dealing by the group and its price is currently fixed with a minor margin against the US Dollar.

Credit risk

It is the risk that other parties will fail to discharge their obligations and cause the Group to incur a financial loss. Financial instruments that subject the Group to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Group deposits its cash balances with a number of major high credit-rated financial institutions and has a policy of limiting its balances deposited with each institution. The Group does not believe that there is a significant risk of non-performance by these financial institutions. The Group does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base (residential, professional, large business and public entities) operating in various industries and located in many regions.

Liquidity risk

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

30- FINANCIAL DERIVATIVES

The Group entered into interest rate swap agreements to hedge its interest rate risk of expected future cash outflows in relation to its floating rate debt. The notional principal amount and fair value of these hedges as of December 31st, 2010 is 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.

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

Cooperation

31- SEGMENT INFORMATION

According to the main activities of the group

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

The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, third generation services, prepaid cards, international roaming and messages.
- PSTN, for which the main services are: fixed line, card telephones, interconnect and international calls.
- DATA, for which the main services are: leased data transmission circuits, DSL and internet.
- Un-allocated, containing items which could not be linked with the main operating segments of the Group.

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

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated	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

The segmental information for the year ended December 31st, 2009 was as follows:

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

32- SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Wednesday 15th Safar 1432H (January 19th, 2010), proposed interim dividends for the fourth quarter 2010 amounting to SR 1,500 million, at the rate of SR 0.75 per share, resulting in a total dividend for 2010 of SR 3 per share (2009: SR 3 per share).

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

33- PRESENTATION IN THE CONSOLIDATED STATEMENT OF INCOME AND RECLASSIFICATION OF COMPARATIVES

The Group has reclassified operating expenses to present cost of services, selling and marketing expenses, and general and administrative expenses independently. Accordingly, certain comparatives figures for the year ended December 31st, 2009 have been reclassified to conform to the classifications used for the year ended December 31st, 2010. Also certain comparative figures have been reclassified to conform to the current period presentation.


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