a Saudi Joint Stock Company

Interim Consolidated Financial Statements for the First Quarter 2011

Interim Consolidated Financial Statements for the Three-Month Period Ended March 31, 2011 (Unaudited)

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three-Month Period Ended March 31, 2011 (Unaudited)

Deloitte & Touche
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AUDITORS' REVIEW REPORT

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

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) (the "Company") as of March 31, 2011 and the related interim consolidated statements of income and cash flows for the three-month period then ended and the related notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared and presented to us with all the information and explanations which we requested.

We conducted our limited review in accordance with the interim financial statements review standard issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. Such limited review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review Result

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia.

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Jumada Al-Awal 15, 1432
April 19, 2011

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of March 31, 2011 (Unaudited)
(Saudi Riyals in thousands)

	Notes	2011	2010
ASSETS			
Current assets:			
Cash and cash equivalents		10,061,657	7,256,974
Accounts receivable, net		9,100,306	8,768,829
Prepayments and other current assets		4,428,043	4,904,711
Total current assets		23,590,006	20,930,514
Non-current assets:			
Investments in equity and other		2,572,535	2,580,062
Property, plant and equipment, net		55,242,403	52,419,841
Intangible assets, net	3	31,937,509	29,515,125
Other non-current assets		3,153,697	2,426,076
Total non-current assets		92,906,144	86,941,104
Total assets		**116,496,150**	**107,871,618**
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		7,933,337	6,415,088
Other credit balances - current		5,200,586	6,425,913
Accrued expenses		6,279,166	4,511,341
Deferred revenues – current portion		1,956,060	2,327,951
Murabaha deals and borrowings – current portion	4	8,435,894	5,889,396
Total current liabilities		29,805,043	25,569,689
Non-current liabilities:			
Murabaha deals and borrowings– non-current portion	4	23,532,208	23,939,139
Provisions for end of service benefits		3,028,783	2,916,700
Other credit balances- non-current		6,264,823	4,044,065
Total non-current liabilities		32,825,814	30,899,904
Total liabilities		62,630,857	56,469,593
Equity			
Shareholders' equity:			
Authorized, issued and outstanding shares:			
2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		10,000,000	9,523,537
Retained earnings		16,361,398	13,426,411
Other reserves		(1,227,868)	-
Financial statements' translation differences		93,915	(446,544)
Total shareholders' equity		45,227,445	42,503,404
Non-controlling interests		8,637,848	8,898,621
Total Equity		53,865,293	51,402,025
Total liabilities and equity		**116,496,150**	**107,871,618**

The accompanying notes from 1 to 15 form an integral part of these interim consolidated financial statements.

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Saudi Telecom Company

(a Saudi Joint Stock Company)

Interim Consolidated Statement of Income for the Three-Month Period Ended March 31, 2011 (Unaudited)

(Saudi Riyals in thousands)

	Notes	2011	2010
Revenue from services		13,076,300	12,519,631
Cost of services	5	(5,587,873)	(5,359,765)
Gross Profit		7,488,427	7,159,866
Operating Expenses			
Selling and marketing expenses	6	(1,813,536)	(1,868,830)
General and Administrative expenses	7	(860,496)	(831,191)
Depreciation and amortization	8	(2,145,649)	(2,106,566)
Total Operating Expenses		(4,819,681)	(4,806,587)
Operating Income		2,668,746	2,353,279
Other Income and Expenses			
Cost of early retirement program		(135,274)	-
Finance cost		(435,144)	(426,787)
Commissions and interest		366,406	49,428
Other, net	9	(474,237)	169,199
Other income and expenses, net		(678,249)	(208,160)
Net Income before Zakat, Tax and Non-controlling interest		1,990,497	2,145,119
Provision for Zakat		(30,400)	(42,870)
Provision for Tax		(204,165)	(201,211)
Net Income before Non-controlling interest		1,755,932	1,901,038
Non-controlling interest		(182,808)	(129,013)
Net Income		**1,573,124**	**1,772,025**
Basic earnings per share on Operating Income (in Saudi Riyals)		**1.33**	**1.18**
Basic losses per share on Other Operations (in Saudi Riyals)		**(0.34)**	**(0.10)**
Basic earnings per share on Net Income (in Saudi Riyals)		**0.79**	**0.89**

The accompanying notes from 1 to 15 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Three-Month Period Ended March 31, 2011 (Unaudited)
(Saudi Riyals in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	1,573,124	1,772,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,145,649	2,106,566
Doubtful debts expense	325,313	467,265
Earnings from investments accounted for under the equity method	(28,829)	(22,407)
(Gains) / Losses on sale/disposal of property, plant and equipment	(172,870)	10,072
Changes in:		
Accounts receivable	(718,261)	(538,377)
Prepayments and other current assets	(481,866)	(1,412,853)
Other non-current assets	(582,031)	6,654
Accounts payable	746,923	1,414,133
Other credit balances	515,087	335,795
Accrued expenses	221,164	(1,586,014)
Deferred revenues	367,928	246,689
End of service benefits	33,412	72,831
Net cash provided by operating activities	3,944,743	2,872,379
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,995,530)	(1,556,188)
Intangible assets, net	(117,220)	(358,629)
Investments in equity and other	3,212	(24,729)
Proceeds from sale of property, plant and equipment	226,577	18,426
Net cash used in investing activities	(1,882,961)	(1,921,120)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(277)	(43,314)
Murabaha deals and borrowings, net	1,780,046	(1,461,547)
Non-controlling interest	169,429	100,498
Net cash provided by / (used in) financing activities	1,949,198	(1,404,363)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	4,010,980	(453,104)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,050,677	7,710,078
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**10,061,657**	**7,256,974**
Non-cash item:		
Financial statements' translation differences	115,986	369,721

The accompanying notes from 1 to 15 form an integral part of these interim consolidated financial statements.

1 GENERAL

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

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

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

Company Name	Ownership	Accounting Treatment
Arabian Internet and Communications Services Co. (Awal) - The Kingdom	100%	Full Consolidation
Telecom Investment Company Ltd – The Kingdom	100%	Full Consolidation
STC Bahrain (BSCC) – Bahrain	100%	Full Consolidation
Gulf Digital Media Holding (BSCC) – Bahrain	51%	Full Consolidation
Kuwait Telecom Company Ltd. - Kuwait	26%	Full Consolidation
PT Natrindo Telepon Seluler ("NTS") (Axis) - Indonesia	51%	Proportionate Consolidation
Oger Telecom Ltd. - U.A.E.	35%	Proportionate Consolidation
Binariang GSM SDN BHD ("Binariang") - Malaysia	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - The Kingdom	50%	Equity Method
Arab Satellite Communications Organization ("Arabsat") - The Kingdom	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 and internet services.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim 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 period ended March 31, 2011.

The significant accounting policies used for the preparation of the interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2010.

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

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

The significant accounting policies are summarized below:

2-1 Period of the financial statements

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

2-2 Interim results

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

The interim consolidated financial statements are prepared on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period.

2-3 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.

2-4 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.

2-5 Accounts receivable

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

2-6 Offsetting of accounts

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

2-7 Allowance for doubtful debts

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

2-8 Inventories

Inventories, which 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.

2-9 <u>Property, plant and equipment and depreciation</u>

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

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

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

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

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. Gains and losses resulting from the disposal/ sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-of / sold assets, and the gains or losses are included in the 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 or the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability under the 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.

2-10 Software costs

1) Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.
2) Internally developed operating systems, software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.
3) Internally developed application software costs are recognized as expense when incurred. Where the costs of operating systems software cannot be identified separately from the associated hardware costs, the operating systems software costs are recorded as part of the hardware.
4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
5) Software training and data-conversion costs are expensed as incurred.

2-11 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's 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 are 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 on a straight line basis over their useful lives or statutory durations, whichever is shorter.

2-12 Impairment of non-current assets

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

2-13 Investments

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 interim 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 interim 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 interim consolidated statement of income in the period in which the declines occur.

2-14 Zakat

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

2-15 Taxes

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

Deferred tax

Deferred taxes 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 has been recognised.

2-16 End of service benefits

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

2-17 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus interim net income for the year as per the translated interim 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 interim consolidated statement of income as part of the gains or losses on sale.

2-18 Contingent liabilities

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

2-19 Cost of services

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

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

2-20 Selling and marketing expenses

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

2-21 General and administrative expenses

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

2-22 Earnings per share

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

2-23 Financial derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward currency contracts and interest rate swaps. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in the consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the interim consolidated statement of income depends on the nature of the hedge relationship.

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

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recognized in the 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 the ineffective portion is recognized immediately in the interim consolidated statement of income.

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

2-24 Related parties

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

3 INTANGIBLE ASSETS, NET

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

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

Binariang GSM 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.

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.

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 commenced commercial operations in December 2008.

STC Bahrain (VIVA) (BSCC) – Bahrain

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

Net intangible assets consist of the following:

(Thousands of Saudi Riyals)	2011	2010
Licenses	15,707,056	15,538,387
Goodwill arising on the consolidation of financial statements	5,602,673	5,197,736
Trade marks and contractual relations	3,727,156	4,227,819
Spectrum usage rights	2,597,676	396,921
Goodwill arising on the acquisition of 25% in Binariang	1,753,114	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Ltd.	826,395	826,395
Goodwill arising on the acquisition of 51% in NTS	713,191	713,191
Other	1,010,248	861,562
	31,937,509	29,515,125

4 MURABAHA DEALS AND BORROWINGS

Murabaha deals and borrowings consist of:

(Thousands of Saudi Riyals)	2011	2010
Current portion	8,435,894	5,889,396
Non-current portion	23,532,208	23,939,139
	31,968,102	29,828,535

As of March 31, 2011, the Group's share in the investees' murabaha deals and borrowings amounted to SR 21,980 million.

5 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
Access charges	1,947,770	1,903,556
Government charges (*)	1,581,763	1,427,753
Repairs and maintenance	612,942	845,487
Employee costs	721,246	756,409
Rent of equipment, property and motor vehicles	272,939	168,276
Utilities	152,232	43,364
Other	298,981	214,920
	5,587,873	5,359,765

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

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

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
The Company	1,081,209	1,081,977
Other Group's companies	500,554	345,776
	1,581,763	1,427,753

6 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
Advertising and publicity	629,997	606,649
Employee costs	490,963	482,756
Doubtful debts expense	325,313	467,265
Printing of telephone cards and stationery	121,379	105,432
Repairs and maintenance	23,366	27,840
Other	222,518	178,888
	1,813,536	1,868,830

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

7 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
Employee costs	451,656	435,917
Repairs and maintenance	93,410	85,009
Rent of equipment, property and vehicles	60,964	64,866
Consultancy & legal and professional fees	62,785	99,138
Utilities	43,461	27,525
Other	148,220	118,736
	860,496	831,191

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

8 DEPRECIATION AND AMORTIZATION

Depreciation and Amortization consist of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
Depreciation	1,826,863	1,844,722
Amortization	318,786	261,844
	2,145,649	2,106,566

9 OTHER INCOME AND EXPENSES, NET

This item consists of the following:

(Thousands of Saudi Riyals)	Three Months ended March 31, 2011	2010
Miscellaneous revenue	335,624	310,054
(Losses) /Gains on foreign currency exchange fluctuations	(355,433)	108,687
Miscellaneous expenses	(454,428)	(249,542)
	(474,237)	169,199

10 COMMITMENTS AND CONTINGENCIES

Commitments

(a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 1,375 million on March 31, 2011 (March 31, 2010: SR 3,066 million).

(b) Certain land and buildings for use in the Group's operations are leased under operating lease commitments expiring at various future dates. During the First quarter 2011, total rent expense under operating leases amounted to SR 187 million (First quarter 2010: SR 177 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 interim consolidated financial statements.

11 FINANCIAL INSTRUMENTS

Fair value

It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31 March 2011 and 2010 which are 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 their short term nature.
- Fair values of shares in active markets rely on fair market values.
- Fair value of government bonds and loans rely on discounted cash flows.

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

Commission rate risk

This comprises various risks related to the effect of changes in commission rates on the Group's financial position and cash flows. The Group manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the 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 enters into hedging agreements for the need to reduce the currency risk; the official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

Credit risk

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.

12 FINANCIAL DERIVATIVES

The Group enters into interest rate swap agreements to hedge its interest rate risk of expected future cash outflows in relation to its floating rate debt. The notional principal amount and fair value of these hedges as of March 31, 2011 was SR 6,165 million and SR 508 million respectively. The fair value of the effective impact of these hedges is included in other reserves in the interim consolidated balance sheet.
The impact of these financial derivatives has been recorded in the interim consolidated financial statements as at March 31, 2011, with no comparative effect due to immateriality.

13 SEGMENT INFORMATION

- According to the main activities of the group

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

The main operating segments of the Group comprise:

- GSM, for which the main services are: mobile, 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 segmental information for the period ended March 31, 2010 was as follows:

(Thousands of Saudi Riyals)	GSM	PSTN	DATA	Un-allocated	TOTAL
Revenue from services	8,370,424	2,321,449	1,754,337	73,421	12,519,631
Interconnect revenues	541,081	1,594,873	201,441	-	2,337,395
Interconnect expenses	(1,583,607)	(401,944)	(351,844)	-	(2,337,395)
Net revenue from services	7,327,898	3,514,378	1,603,934	73,421	12,519,631
Depreciation and amortization	987,928	930,614	143,079	44,945	2,106,566
Net income	1,189,818	242,552	334,809	4,846	1,772,025
Total assets	40,120,478	37,542,135	5,766,254	24,442,751	107,871,618
Total liabilities	14,999,070	15,161,003	997,919	25,311,601	56,469,593

The following table shows the segmental information for the period ended March 31, 2011:

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

- According to group operations

The Group has divided its operations to domestic and international operations

The following table shows the segmental information according to group operations:

First Quarter 2010

	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	NTS	OTL	Binariang
Operating revenues	8,652,190	15,629	35,330	191,657	23,904	2,704,430	896,491
Total assets (*)	72,700,336	1,657,045	347,761	1,270,320	2,326,051	23,535,244	19,710,010

The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (13,675,150) thousand

First Quarter 2011

	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	NTS	OTL	Binariang
Operating revenues	8,597,917	154,105	77,584	257,693	70,702	2,864,843	1,053,456
Total assets (*)	74,604,598	2,060,720	378,245	1,607,051	2,256,272	26,062,948	23,409,871

The financial statements consolidation adjustments relating to intangible assets and related parties transactions amounted to SR (13,883,555) thousand

14 SUBSEQUENT EVENTS

- Based on the consent of the Company's General Assembly, in its meeting held on March 28, 2011 to distribute dividends for the fourth quarter 2011 at the rate of SR 0.75 per share and amounting to SR 1,500 million, the dividends owed to the shareholders of the Company on the day of the General Assembly meeting were distributed on April 13, 2011.

- On March 9, 2011, the Company signed an agreement with Maxis Communications Berhad (MCB) one of the wholly owned subsidiary of Binariang Group to restructure the terms of their joint investment in PT Natrindo Telepon Seluler (NTS) which operates in Indonesia under the Axis brand name, giving the Company full management control in the management of PT Natrindo Telepon Seluler (NTS) effective from the implementation date of all provisions of this Agreement.
  The agreement was approved by the appropriate regulatory authorities in Indonesia and the conditions necessary for the completion of the agreement were fulfilled on April 6, 2011. This resulted in the following:
  - Maxis company to provide a loan amounting to USD 69 million, equivalent to approximately SR 259 million to NTS.
  - Loan waiver by Maxis company of its rights to receive its loan repayment due from NTS amounting to USD 412 million, equivalent to approximately SR 1,545.
  - Maxis company waiver of 1,864,489,495 shares of its stock owned in NTS to the Company, thus resulting in increasing the Company's direct stake in NTS from 51% to 80.1% and reducing Maxis company's stake in NTS from 44% to 14.9%, with the survival of the local partner'sshareof 5%.
  - The Company is committed to provide another loan amounting to USD 371 million, equivalent to approximately SR 1,391 million to be paid according to NTS's operational needs.
  - The Company is committed to provide a letter of support in order to obtain the necessary bank financing for NTS according to the needs of the expansion plan of action for the next five years

As this process was completed in April 6, 2011, the proof of its impact will appear in the consolidated financial statements for the second quarter 2011. The financial impact has not been disclosed since the initial accounting treatment resulting from the change of ownership percentages and occurrence of control and measurement of a decline in investment and the Loan waiver, with Maxis that related to financial statements consolidation until the date of issuance of these interim consolidated financial statements.

- The Board of Directors, in its meeting held on Wednesday 15 Jumada I 1432 H (April 19, 2011), approved the interim consolidated financial statements for the First quarter 2011 and adopted interim dividends for the first quarter 2011 amounting to SR 1,000 million, at the rate of SR 0.50 per share.

15 RECLASSIFICATION

Certain comparatives of the period ended March 31, 2010 have been reclassified to conform to the classifications used for the period ended March 31, 2011.