**a Saudi Joint Stock Company**

# Consolidated Financial Statements for the Year Ended December 31, 2013

**Saudi Telecom Company**
**(a Saudi Joint Stock Company)**
**Index to the Consolidated Financial Statements for the Year Ended December 31, 2013**

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# 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") and its subsidiaries (collectively referred to as "the Group") as of December 31, 2013, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the accompanying notes 1 to 37 which form an integral part of these consolidated financial statements as prepared by the Group 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 Group'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 Group as of December 31, 2013, 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.

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# Saudi Telecom Company
## (a Saudi Joint Stock Company)
## Consolidated Balance Sheet as at December 31, 2013
## (Saudi Riyals in thousands)

| | Note | 2013 | 2012 (Restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | 3 | **960,074** | 1,614,361 |
| Short-term investments | 4 | **16,828,933** | 8,670,447 |
| Accounts receivable, net | 5 | **7,679,909** | 7,705,006 |
| Prepaid expenses and other current assets | 6 | **3,151,488** | 3,442,661 |
| | | **28,620,404** | 21,432,475 |
| Assets held for sale | 33 | **3,540,292** | - |
| **Total current assets** | | **32,160,696** | 21,432,475 |
| **Non-current assets:** | | | |
| Investments accounted for under equity method and others | 7 | **9,591,925** | 13,394,050 |
| Investments in sukuk | 8 | **1,687,500** | 1,687,500 |
| Property, plant and equipment, net | 9 | **38,402,069** | 39,873,248 |
| Intangible assets, net | 10 | **4,607,753** | 5,053,784 |
| Other non-current assets | 11 | **909,852** | 1,063,943 |
| **Total non-current assets** | | **55,199,099** | 61,072,525 |
| **Total assets** | | **87,359,795** | 82,505,000 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Accounts payable | 12 | **2,761,428** | 4,283,553 |
| Other credit balances – current | 13 | **2,959,389** | 2,950,735 |
| Accrued expenses | 14 | **7,067,781** | 6,360,712 |
| Deferred revenues – current portion | | **1,227,370** | 1,780,651 |
| Murabahas – current portion | 15 | **1,560,571** | 1,411,491 |
| | | **15,576,539** | 16,787,142 |
| Liabilities related to assets held for sale | 33 | **4,073,763** | - |
| **Total current liabilities** | | **19,650,302** | 16,787,142 |
| **Non-current liabilities:** | | | |
| Murabahas – non-current portion | 15 | **6,976,494** | 9,953,061 |
| Provisions for end of service benefits | 16 | **3,395,451** | 2,891,380 |
| Other credit balances - non-current | 13 | **1,174,855** | 1,688,196 |
| **Total non-current liabilities** | | **11,546,800** | 14,532,637 |
| **Total liabilities** | | **31,197,102** | 31,319,779 |
| **Equity** | | | |
| **Shareholders' equity:** | | | |
| Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share | 17 | **20,000,000** | 20,000,000 |
| Statutory reserve | 18 | **10,000,000** | 10,000,000 |
| Retained earnings | | **28,689,090** | 22,792,023 |
| Other reserves | 19 | **(1,031,887)** | (606,881) |
| Financial statements' translation differences | | **(1,800,422)** | (848,014) |
| | | **55,856,781** | 51,337,128 |
| Reserves relating to assets held for sale | 33 | **372,846** | - |
| **Total shareholders' equity** | | **56,229,627** | 51,337,128 |
| Non-controlling interests | | **494,603** | (151,907) |
| Non-controlling interests recognized and relating to assets held for sale | 33 | **(561,537)** | - |
| **Total equity** | | **56,162,693** | 51,185,221 |
| **Total liabilities and equity** | | **87,359,795** | 82,505,000 |

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

## Saudi Telecom Company
### (a Saudi Joint Stock Company)
### Consolidated Statement of Income for the Year Ended December 31, 2013
### (Saudi Riyals in thousands)

| | Note | 2013 | 2012 (Restated) |
|---|---|---|---|
| Revenues from services | 20 | **45,604,629** | 44,745,076 |
| Cost of services | 21 | **(18,191,385)** | (19,483,373) |
| **Gross Profit** | | **27,413,244** | 25,261,703 |
| **Operating Expenses** | | | |
| Selling and marketing expenses | 22 | **(6,018,859)** | (6,095,286) |
| General and administrative expenses | 23 | **(2,923,841)** | (2,893,160) |
| Depreciation and amortization | 24 | **(6,378,284)** | (6,336,702) |
| Impairment losses relating to investments | 25 | **(1,103,608)** | (190,869) |
| **Total Operating Expenses** | | **(16,424,592)** | (15,516,017) |
| **Operating Income** | | **10,988,652** | 9,745,686 |
| **Other Income and Expenses** | | | |
| Losses from investments accounted for under equity method | 7 | **(939,823)** | (2,002,774) |
| Finance costs | 26 | **(143,252)** | (677,714) |
| Commissions and interest | | **190,184** | 114,037 |
| Losses resulted from assets held for sale | 33 | **(597,867)** | - |
| Others, net | 27 | **950,398** | 198,608 |
| **Other income and expenses, net** | | **(540,360)** | (2,367,843) |
| **Net Income before Zakat, Taxes and Non-controlling interests** | | **10,448,292** | 7,377,843 |
| Provision for Zakat and Taxes | 28 | **(230,431)** | (214,982) |
| **Net Income before Non-controlling interests** | | **10,217,861** | 7,162,861 |
| Non-controlling interests | | **(320,794)** | 113,098 |
| **Net Income** | | **9,897,067** | 7,275,959 |
| **Basic earnings per share on operating income (in Saudi Riyals)** | | **5.49** | 4.87 |
| **Basic losses per share on income from other operations (Other income and expenses) (in Saudi Riyals)** | | **(0.27)** | (1.18) |
| **Basic earnings per share on net income (in Saudi Riyals)** | | **4.95** | 3.64 |

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

## Saudi Telecom Company
### (a Saudi Joint Stock Company)
### Consolidated Statement of Cash Flows for the Year Ended December 31, 2013
### (Saudi Riyals in thousands)

| | 2013 | 2012 (Restated) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income before zakat, taxes and non-controlling interests | **10,448,292** | 7,377,843 |
| **Adjustments to reconcile net income to net cash provided from operating activities:** | | |
| Depreciation and amortization | **6,378,284** | 6,336,702 |
| Impairment losses related to investments | **1,103,608** | 190,869 |
| Allowance for doubtful debts | **1,374,102** | 1,480,969 |
| Losses from investments accounted for under the equity method | **939,823** | 2,002,774 |
| Commissions and interest | **(190,184)** | (114,037) |
| Finance costs | **143,252** | 677,714 |
| Losses on foreign currency exchange fluctuations | **5,034** | 152,539 |
| End of service benefits | **550,335** | 375,153 |
| Losses on sale/disposal of property, plant and equipment | **530,992** | 41,327 |
| Change in: | | |
| Accounts receivable | **(1,379,808)** | (2,338,929) |
| Prepaid expenses and other current assets | **(215,970)** | (1,124,484) |
| Other non-current assets | **26,282** | 158,293 |
| Accounts payable | **(1,077,641)** | 1,638,052 |
| Other credit balances | **267,796** | 280,108 |
| Accrued expenses | **1,469,973** | (1,429,387) |
| Deferred revenues | **(487,998)** | 242,604 |
| Zakat and taxes paid | **(221,823)** | (80,730) |
| End of service benefits paid | **(28,831)** | (144,563) |
| **Net cash provided by operating activities** | **19,635,518** | 15,722,817 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | **(7,427,907)** | (6,141,731) |
| Intangible assets, net | **(181,881)** | (490,264) |
| Investments in equity and other | **(90,626)** | (46,875) |
| Short-term investments | **(8,158,486)** | (6,226,487) |
| Proceeds from commissions and interest | **190,184** | 94,910 |
| Proceeds from sale of property, plant and equipment | **6,594** | 7,979 |
| **Net cash used in investing activities** | **(15,662,122)** | (12,802,468) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | **(3,997,843)** | (4,002,413) |
| Murabahas, net | **(367,774)** | (779,682) |
| Finance costs paid | **(146,725)** | (224,154) |
| Non-controlling interests | **84,973** | 17,582 |
| **Net cash used in financing activities** | **(4,427,369)** | (4,988,667) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(453,973)** | (2,068,318) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **1,614,361** | 3,682,679 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR – ASSETS HELD FOR SALE (refer to Note 33) | **(200,314)** | - |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **960,074** | 1,614,361 |
| **Non-cash items:** | | |
| Financial statements' translation differences | **(952,408)** | 626,409 |
| Other reserves | **(425,006)** | 526,455 |

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

## Saudi Telecom Company
### (a Saudi Joint Stock Company)
### Consolidated Statement of Changes in Equity for the Year Ended December 31, 2013
### (Saudi Riyals in thousands)

| | Share Capital | Statutory Reserve | Retained Earnings | Other Reserves | Financial Statements Translation Differences | Reserves relating to Assets Held for Sale | Total Shareholder's Equity | Non-Controlling Interests (Restated) | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2011** | **20,000,000** | **10,000,000** | **19,516,064** | **(1,133,336)** | **(1,474,423)** | **-** | **46,908,305** | **(169,489)** | **46,738,816** |
| Net income | - | - | 7,275,959 | - | - | - | 7,275,959 | - | 7,275,959 |
| Dividends | - | - | (4,000,000) | - | - | - | (4,000,000) | - | (4,000,000) |
| Other reserves (refer to Note 19) | - | - | - | 526,455 | - | - | 526,455 | - | 526,455 |
| Financial statements translation differences | - | - | - | - | 626,409 | - | 626,409 | - | 626,409 |
| Non-controlling interests | - | - | - | - | - | - | - | 17,582 | 17,582 |
| **Balance at December 31, 2012** | **20,000,000** | **10,000,000** | **22,792,023** | **(606,881)** | **(848,014)** | **-** | **51,337,128** | **(151,907)** | **51,185,221** |
| Net income | - | - | 9,897,067 | - | - | - | 9,897,067 | - | 9,897,067 |
| Dividends | - | - | (4,000,000) | - | - | - | (4,000,000) | - | (4,000,000) |
| Other reserves (refer to Note 19) | - | - | - | (425,006) | - | - | (425,006) | - | (425,006) |
| Reserves relating to assets held for sale | - | - | - | - | - | 372,846 | 372,846 | - | 372,846 |
| Financial statements translation differences | - | - | - | - | (952,408) | - | (952,408) | - | (952,408) |
| Non-controlling interests | - | - | - | - | - | - | - | 84,973 | 84,973 |
| **Balance at December 31, 2013** | **20,000,000** | **10,000,000** | **28,689,090** | **(1,031,887)** | **(1,800,422)** | **372,846** | **56,229,627** | **(66,934)** | **56,162,693** |

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

## 1 GENERAL

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

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

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

| Company's Name | Ownership % | Treatment |
|---|---|---|
| Arabian Internet and Communications Services Co. Ltd. (Awal) - Kingdom of Saudi Arabia | 100% | Full Consolidation |
| Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia | 100% | Full Consolidation |
| STC Bahrain Company (VIVA) (BSCC) – Kingdom of Bahrain | 100% | Full Consolidation |
| Aqalat Limited Company – Kingdom of Saudi Arabia | 100% | Full Consolidation |
| Intigral Holding Company (BSCC) – Kingdom of Bahrain (Previously: Gulf Digital Media Holding Company) | 71% | Full Consolidation |
| Sale for Distribution and Communication Co. Ltd. – (Sale Co.) Kingdom of Saudi Arabia | 60% | Full Consolidation |
| Kuwait Telecom Company (VIVA) - Kuwait | 26% | Full Consolidation |
| PT Axis Telekom Indonesia - Indonesia Republic | 80.10% | Assets held for sale ** |
| Oger Telecom Ltd. - U.A.E. | 35% | Equity Method * |
| Binariang GSM Holding - Malaysia | 25% | Equity Method * |
| Arab Submarine Cables Company Ltd. - Kingdom of Saudi Arabia | 50% | Equity Method |
| Arab Satellite Communications Organization ("Arabsat") - Kingdom of Saudi Arabia | 36.66% | Equity Method |
| Call Centers Company – Kingdom of Saudi Arabia | 50% | Equity Method |

*Starting from year 2013, these investments are accounted for using the equity method (refer to notes 2-13 and 7)

**Starting from second quarter of year 2013, this investment is accounted for as assets held for sale (refer to notes 2-12 and 33).

The main activities of the Group comprise the provision and introduction of a variety of

telecommunications, information and media services which include, among other things:
a- Establish, manage, operate and maintain fixed and mobile telecommunication network and systems.
b- Deliver, provide, manage and maintain diverse telecom services to customers.
c- Prepare the required plans and studies to develop, execute and provide telecommunication services from all technical, financial and managerial aspects. In addition, to prepare and execute training plans in the telecom field, provide or obtain consulting services which are directly or indirectly related to its business and activities.
d- Expand and develop telecom network and systems by utilizing the updated modern machinery and equipment in telecom technology, especially in the field of providing and managing services.
e- Provide information and technologies and systems that depend on customers' information including preparing, printing and delivering phone and commercial directories, brochures, information, data and providing the required communication methods to transfer internet services which do not conflict with the Council of Ministers' Resolution No. 163 dated 23/10/1418 H, the general computer services, and any telecom activities or services the Company provides for media, trade, advertising or any other purposes the Company considers appropriate.
f- Wholesale, retail, import, export, purchase, own, lease, manufacture, marketing, selling, develop, design, setup and maintain devices, equipment, and components of different telecommunication networks including fixed, moving and special networks, and computer programs and the other intellectual properties, in addition to providing services and construction works that are related to the different telecom networks.
g- Invest the Company's real estate properties and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.

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

**Arabian Internet and Communications Services Co. (Awal) – The Kingdom of Saudi Arabia**

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

**Telecom Commercial Investment Company– The Kingdom of Saudi Arabia**

Telecom Commercial Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia on October 2007 for the purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of systems, communications software and information technology. The Company is operating in the Saudi market and Saudi Telecom Company owns 100% of its SR 1 million share capital.

**STC Bahrain (VIVA) (BSCC) – The Kingdom of Bahrain**

STC Bahrain (VIVA) (BSC Closed) was established in the Kingdom of Bahrain on February 2009, and the Saudi Telecom Company owns 100% of its BHD 75 million share capital which is equivalent to approximately SR 746 million at the exchange rate as at that date. This company operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on March 3, 2010.

**Aqalat Limited Company – The Kingdom of Saudi Arabia**

Aqalat Limited Company was established in the Kingdom of Saudi Arabia on March 2013. Saudi Telecom Company owns 100% of its SR 10 million share capital. Aqalat operates in the field of establishing, owning, investing, managing of real estate and contracting, and providing consulting services, and importing and exporting services to the benefit of the Saudi Telecom Company. The commercial operations for the company have not yet commenced.

**Intigral Holding Company (BSCC) – Kingdom of Bahrain (Previously: Gulf Digital Media Holding Company)**

This company was formed in the Kingdom of Bahrain on June 2009. It is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. Saudi Telecom Company owns 71% of its BHD 28 million share capital which is equivalent to approximately SR 281 million at the exchange rate as at that date.

**Sale for Distiribution and Communication Co. Ltd (SaleCo.) – The Kingdom of Saudi Arabia**

Sale for Distribution and Communication Company Limited was established in the Kingdom of Saudi Arabia on January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centers' maintenance and operation. The company operates in the Saudi Market with branches in Bahrain and Oman, and Saudi Telecom Company owns 60% of its SR 100 million share capital.

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

On December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 687 million at the exchange rate as at that date, this company operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on December 4, 2008.

Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies. Group representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

**PT Axis Telecom Indonesia Company – Indonesia – (formerly known as NTS)**

PT Axis Telecom obtained the license to operate a third generation mobile network in Indonesia and it started the commercial provisioning of this service in the first quarter of year 2008 in the Indonesian market. Saudi Telecom Company acquired 51% of its IDR 7.8 trillion share capital of PT Axis, equivalent to approximately SR 3.2 billion on September 2007 at the exchange rate as at that date. On April 6, 2011, the Company increased its share for 29.10% to reach 80.10%, and therefore the investment in PT Axis Telecom was re-classed from a joint venture investment to investment in subsidiaries and the fair value of the net assets on April 6, 2011 were used for the calculation of goodwill arising from the Company's acquisition of an additional 29.10% of PT Axis Telecom shares based on the fair value reports completed in the end of the fourth quarter of year 2011. As a result, the amounts recorded as goodwill were accordingly reallocated. Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as at June 30, 2013. (refer to Note 33)

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

Oger Telecom Ltd. is a Holding company registered in Dubai, the United Arab Emirates, having investments in companies operating primarily in the telecommunications sector in Turkey and South Africa. The Company acquired 35% of its USD 3.6 billion share capital of Oger Telecom Company, equivalent to approximately SR 13.5 billion on April 2008 at the exchange rate as at that date.

**Binariang GSM Holding Group – Malaysia**

Binariang is a Malaysian investment holding company registered in Malaysia, and which owns 100% of Maxis (Malaysia Holding Group), an un-listed group operating in the telecommunications sector in Malaysia. On November 2009, 30% of Maxis' shares were offered for public subscription and the company was subsequently listed on the Malaysian stock market. Also, another share of 5% was sold in the month of July 2012. The percentage ownership of Binariang Holding in Maxis accordingly was reduced to 65%.
Binariang Holding has other investments in telecommunications companies which operate in India (Aircel company) and Indonesia (PT Axis Telecom). (refer to Notes 7 and 33)

On September 2007, Saudi Telecom Company acquired 25% of its MYR 20.7 billion share capital of Binariang Group, equivalent to approximately SR 23 billion at the exchange rate as at that date.

**Arab Submarine Cables Company Ltd. – The Kingdom of Saudi Arabia**

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

**Arab Satellite Communications Organization "Arabsat" – The Kingdom of Saudi Arabia**

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

Saudi Telecom Company owns 36.66% of its USD 500 million share capital, equivalent to approximately SR 1,875 million at the exchange rate as of that date.

**Call Centers Company– The Kingdom of Saudi Arabia**

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the year ended December 31, 2013.

The significant accounting policies used for the preparation of the 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, 2012, except for the accounting policy relating to the investments in joint ventures which is effective from January 1, 2013 (refer to 2-13). In addition, new accounting policy relating to non-current assets held for sale was applied (refer to 2-12).

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

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

**The significant accounting policies are summarized below:**

**2-1 <u>Consolidation Basis</u>**

**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.

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

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

**2-3 <u>Cash and cash equivalents</u>**

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

**2-4 <u>Accounts receivable</u>**

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

**2-5 <u>Offsetting of accounts</u>**

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

**2-6 <u>Allowance for doubtful debts</u>**

The Group reviews its accounts receivable for the purpose of creating the required allowances against doubtful debts. When creating the allowance, consideration is given to the type of service rendered (mobile, landlines, 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 <u>Inventories</u>**

Inventories, which principally comprise cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares which cannot be removed from the switches, 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 separately. 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 reduction in their value.

**2-8 <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 to the Company on May 2, 1998 was recorded based on a valuation performed by the Company with the assistance of independent local and international valuation experts. The principal bases used for valuation are as follows:

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

2. Except for 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 estimated operating useful lives of assets which are as follows:

| | 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 the benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is allocated between the finance charge which is expensed in the current period income and the reduction in the liability under the capital lease.
8. Assets leased under capital leases are depreciated over their estimated useful lives.
9. Assets under concession agreements are depreciated over their estimated useful lives or the contract duration whichever is the shorter.

**2-9 <u>Software costs</u>**

1) Costs of operating systems and application software purchased from vendors are capitalized if they meet the capitalization criterion, which includes 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 criterion, which includes 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 expenses when incurred. Where the costs of operating systems software cannot be identified separately from the associated

computer 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 which is related to computer software and data-conversion costs are expensed as incurred.

**2-10 <u>Intangible assets</u>**

**Goodwill**

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

**Spectrum rights and 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.

**2-11 <u>Impairment of non-current assets</u>**

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

**2-12 <u>Assets held for sale</u>**

Assets and disposal groups classified as held for sale are measured by the carrying amount and fair value less costs to sell, whichever is less. Assets and disposal groups are classified as held for sale if it was possible to recover its carrying value through a sale transaction rather than through continuing use. This case is suitable only when considering high possibility of selling; and disposal group is available for immediate sale in its present condition. Management must commit to sell, which is expected to be considered a final selling within one year from the date of classification.

When the Group is committed to a plan of sale involving loss of control of a subsidiary, all assets and liabilities of this subsidiary must be classified as held for sale assets when meeting the standards listed above, regardless of whether the Group will retain a non-controlling interest share in its previous subsidiary after the sale.

Assets (and disposal groups) classified as held for sale are measured at the lower of its previous carrying value or fair value less costs of sale.

## 2-13 Investments

### Investments accounted for under the equity method

#### a- 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.

Goodwill arising on the acquisition of the Group's interest in a jointly controlled venture is accounted for as a portion of that investment under the equity method.

The Group used to account for and consolidate its investments in joint ventures in the consolidated financial statements using the proportionate consolidation method according to IAS 31, which is not covered under the standards issued by the Saudi Organization for Certified Public Accountants.
The International Accounting Standards Board issued IFRS 11 on May 12, 2011 as a replacement of IAS 31, which cancelled the application of the proportionate consolidation method and replaced it with the equity method of accounting instead starting from January 1, 2013, Accordingly, the Group, starting from year 2013, has accounted for investments in joints ventures by using the equity method, retroactively, as per the accounting standard No. 16 (accounting for investment under equity method) issued by the Saudi Organization for Certified Public Accountants.

#### b- Investments in 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 policies of the associates but not the power to exercise control over those policies.

The Group accounts for investments in entities in which it has a significant influence under the equity method. Under the equity method, the Group records the investment on acquisition at cost, which is adjusted subsequently by the Group's share in the net income (loss) of the investees, the investees' distributed dividends and any changes in the investee's equity, to reflect the Group's share in the investee's net assets. These investments are reflected in the interim consolidated balance sheet as non-current assets, and the Group's share in the net income (loss) of the investees is presented in the interim consolidated statement of income.

### Other investments

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

Gains and losses resulting from sale of available for sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed in the interim consolidated statement of income.

Investment in financial securities held to maturity are recorded at cost and adjusted for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent decline in fair value below costs are recorded in the interim consolidated statement of income in the period in which the decline occurs.

**2-14 Zakat**

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

**2-15 Taxes**

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

**Deferred taxes**

Deferred tax for 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 Provision for End of service benefits**

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

**2-17 Foreign currency transactions**

**Functional and presentation currency**

Items included in the 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 positions of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Assets and liabilities are translated at the rate prevailing on the balance sheet date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus net income for the period as per the translated income statement less declared dividends within the period translated at the rate prevailing on the date of declaration.

- Consolidated income statement items are translated using the weighted average rate for the period. Significant 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.

**2-18 Contingent liabilities**

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

**2-19 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 revenues from services rendered to customers are recognized in the period to which it related
- Revenues from services rendered to customers are recognized upon collection if the company have a high degree of uncertainty with respect to the collectability of these balances.

**2-20 Cost of services**

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

- Government charges are the costs incurred by the Group for the right to provide the telecommunications services in the Kingdom and the investees countries, including the use of the frequency spectrum.

- Access charges represent the costs to connect to foreign and domestic carriers' networks related to telecommunications services for the Group's clients.

**2-21 Selling and marketing expenses**

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

**2-22 General and administrative expenses**

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

**2-23 Earnings per share**

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

**2-24 Financial derivatives**

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

The Group designates certain derivatives as either hedges of the fair value of recognized assets and liabilities or an unrecognized commitment except for foreign currency risk (fair value of the hedge), hedge of variability in cash flows that are either attributable to a particular risk associated with a designated assets or liabilities 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 liabilities. In the case of cash flow hedges, the effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in shareholders' equity. The gain or loss relating to the 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 at the time remains in shareholders` equity and is recognized in the consolidated statement of income when the forecast transaction is no longer expected to occur.

**2-25 Related parties**

During the ordinary course of business, the Group deals with related parties, all 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 period. Transactions of the same nature are grouped into a single disclosure, with the exception of separate disclosures for transactions, which are necessary to understand the impact of the related party transactions on the financial data of the Group.

## 3 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 them during the year 2013 was 0.85% (2012: 1.04%). Total commissions earned on them during the year 2013 amounted to SR 4 million (2012: SR 50 million).

The Group's share in commissions earned by subsidiaries and joint ventures on deposits amounted to SR 4 million (2012: SR 14 million).

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

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Collection accounts | **833,849** | 1,083,045 |
| Short-term Murabahas | **19,891** | 422,843 |
| Short-term deposits | **102,523** | 43,677 |
| Disbursement accounts | **3,811** | 64,796 |
| | **960,074** | 1,614,361 |

## 4 SHORT-TERM INVESTMENTS

The Company invests a part of surplus cash in Murabaha accounts with maturity periods of 91 days or more with several local banks. Total commissions earned on them during the year 2013 amounted to SR 167 million (2012: SR 42 million).

The Group's share in commissions earned by subsidiaries on deposits amounted to SR 16 million (2012: SR 8 million).

## 5 ACCOUNTS RECEIVABLE, NET

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

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Billed receivables | **7,775,383** | 7,794,784 |
| Unbilled receivables | **1,096,433** | 951,321 |
| | **8,871,816** | 8,746,105 |
| Allowance for doubtful debts | **(1,191,907)** | (1,041,099) |
| | **7,679,909** | 7,705,006 |

The movement in the allowance for doubtful debts during the year is as follows:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Balance at January 1 | **1,041,099** | 729,936 |
| - Additions (refer to Note 22) | **1,374,102** | 1,480,969 |
| | **2,415,201** | 2,210,905 |
| - Bad debts written-off | **(1,223,294)** | (1,169,806) |
| Balance at December 31 | **1,191,907** | 1,041,099 |

(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 billed revenues from these customers for the year 2013 amounted to SR 60 million (2012: SR 83 million), with an annual average of SR 188 million for the thirteen years preceding 2013.

(c) The Group has agreements with local and outside network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31, 2013 and 2012, the net amounts included in the accounts receivable and accounts payable were as follows:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Accounts receivable, net | **2,871,515** | 2,387,030 |
| Accounts payable, net | **3,052,794** | 2,847,856 |

(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 of the Kingdom of Saudi Arabia as government charges against accumulated receivables balances due from various governmental parties for the usage of the Company's rendered services to these parties.(refer to Note 29).

## 6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Inventories | **1,089,027** | 1,003,641 |
| Advances to suppliers | **431,375** | 450,401 |
| Prepaid rents | **199,888** | 303,494 |
| Accrued commissions and receivables | **552,607** | 530,694 |
| Deferred expenses | **12,689** | 360,428 |
| Frequency evacuation project | **119,460** | 85,473 |
| Employees' housing loans - current portion | **125,583** | 118,236 |
| Others | **620,859** | 590,294 |
| | **3,151,488** | 3,442,661 |

"Others" comprise various items, the main ones being prepaid insurance and refundable deposits.

## 7 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

These investments consist of the following:

| (Thousands of Saudi Riyals) | Ownership | 2013 | Ownership | 2012 (Restated) |
|---|---|---|---|---|
| **Investments in associate companies:** | | | | |
| Arab Satellite Communications Organization ("Arabsat") – The Kingdom of Saudi Arabia | **36.66%** | **1,491,765** | 36.66% | 1,350,921 |
| Arab Submarine Cables Company Ltd. – The Kingdom of Saudi Arabia | **50%** | **34,439** | 50% | 44,981 |
| Call Centers Company– The Kingdom of Saudi Arabia | **50%** | **21,689** | 50% | 16,534 |
| | | **1,547,893** | | 1,412,436 |
| **Investments in joint ventures:** | | | | |
| Oger Telecom Ltd. U.A.E. | **35%** | **3,712,740** | 35% | 6,633,200 |
| Binariang GSM Holding - Malaysia | **25%** | **4,255,850** | 25% | 5,312,871 |
| | | **7,968,590** | | 11,946,071 |
| **Other investments** | | **75,442** | | 35,543 |
| **Total investments in equity and other** | | **9,591,925** | | 13,394,050 |

Other investments include the Company`s investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets. The Company invested an initial amount of USD 50 million (equivalent to SR 187.5 million) of which it only paid USD 25 million (equivalent to SR 93.8 million). In principle, the Company will be the sole investor and local and international companies will be invited to invest at subsequent stages. The Fund will target local, MENA, European and US markets in order to reduce its investment risks. The Fund will be managed by Ares Capital – a leading global venture capital fund manager

Also, other investments include the Company's investment made during the year 2013 in Saudi Media Measurement Company, which is currently under the establishment process and once it starts its operation, it will provide television's audience measurement information to the media market with authentic information from reliable sources. The Saudi Telecom Company owns 14.15% of its SR 39.8 million share capital which is equivalent to approximately SR 5.6 million, the amount paid was SR 3.2 million as at December 31, 2013.

During the year 2013, the STC Group conducted a review of its foreign investment in Binariang GSM holding group (joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result of such review, STC signed an amendment to the shareholders' agreement with other shareholders of Binariang GSM holding group with respect to certain operational matters of the Aircel group. Consequently, it has been concluded that STC group shall stop to account for its investment in Aircel group using the equity method effective from the second quarter 2013. This has resulted into STC group reversing its share of losses from Aircel group for the period from April 1, 2013 to September 30, 2013 amounting to SR 795 million.

## 8 INVESTMENTS IN SUKUK

Sukuk represents the Group's share in sukuk investment, which was undertaken by one of the Group's entities on December 2007 amounting to SR 1,688 million and maturing in 10 years. The commission margin rate 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 29).

## 9 PROPERTY, PLANT AND EQUIPMENT, NET

| (Thousands of Saudi Riyals) | Land and Buildings | Telecommunications Network and Equipment | Other Assets | Capital Work in Progress | Total | |
|---|---|---|---|---|---|---|
| | | | | | 2013 | 2012 |
| ***Gross book value*** | | | | | | (Restated) |
| - Balance at January 1 | 13,611,897 | 74,667,740 | 5,471,248 | 5,704,859 | 99,455,744 | 93,763,414 |
| - Additions | 1,017 | 64,303 | 42,060 | 7,603,380 | 7,710,760 | 6,141,731 |
| - Transfers | 527,441 | 6,474,848 | 370,767 | (7,373,056) | - | - |
| - Reclassification as Assets Held for Sale (***) | (11,193) | (3,986,734) | (84,949) | (140,627) | (4,223,503) | - |
| - Disposals (*) | (75,621) | (15,848,510) | (435,951) | - | (16,360,082) | (150,078) |
| - Re-classification | (548,598) | (100,591) | 649,189 | - | - | - |
| - Foreign currency translation adjustments | (174) | (54,753) | (1,313) | (5,510) | (61,750) | (299,323) |
| **Balance at December 31** | 13,504,769 | 61,216,303 | 6,011,051 | 5,789,046 | 86,521,169 | 99,455,744 |
| ***Accumulated depreciation*** | | | | | | |
| - Balance at January 1 | (6,768,591) | (48,655,431) | (4,158,474) | - | (59,582,496) | (53,917,326) |
| - Depreciation (**) | (486,715) | (5,264,720) | (349,949) | - | (6,101,384) | (5,860,590) |
| - Reclassification as Assets Held for Sale (***) | 265 | 1,661,310 | 69,276 | - | 1,730,851 | - |
| - Disposals (*) | 61,597 | 15,354,881 | 406,018 | - | 15,822,496 | 100,772 |
| - Re-classification | 225,885 | (98,738) | (127,147) | - | - | |
| - Foreign currency translation adjustments | 2 | 10,481 | 950 | - | 11,433 | 94,648 |
| **Balance at December 31** | (6,967,557) | (36,992,217) | (4,159,326) | - | (48,119,100) | (59,582,496) |
| **Net book value at December 31** | 6,537,212 | 24,224,086 | 1,851,725 | 5,789,046 | 38,402,069 | 39,873,248 |

(a) Land and buildings above include land of SR 2,208 million as at December 31, 2013 (December 31, 2012: SR 2,216 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as at May 2, 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 1,937 million as at December 31, 2013. The transfer of the ownership of the remaining land parcels with a value of SR 204 million is still in progress.

(c) Property, plant and equipment includes fixed assets subject to concession agreements belonging to one of the investees. The Group's share in concession agreements amounted to SR 110 million.

(*) During 2013, the Group has disposed of fixed assets with a net book value of SR 537 million (refer to Note 27).

(**) The depreciation in 2013 includes SR 210 million relating to property, plant, and equipment of PT Axis Telekom which was reclassified as assets held for sale during 2013.

(***) Refer to Note 33.

## 10 INTANGIBLE ASSETS, NET

Intangible assets include Goodwill arising from the acquisition of the majority share of PT Axis in addition to the other intangible assets recorded in those companies and which have been consolidated.

**PT Axis Telecom Indonesia – Indonesia Republic – (Formerly known as NTS)**

PT Axis Telecom obtained the license to operate a third generation mobile network in Indonesia and it commenced the commercial provisioning of this service in the first quarter of year 2008 in the Indonesian market. Saudi Telecom Company acquired 51% of its IDR 7.8 trillion share capital in September 2007, equivalent to approximately SR 3.2 billion at the exchange rate prevailing on that date. On April 6, 2011, the Company increased its share by 29.10% to reach 80.10%. Accordingly, the investment was reclassified as investment in subsidiaries instead of investment in joint ventures and the fair value of the net assets in April 6, 2011 was used for the calculation of goodwill arising from the Company's acquisition of an additional share of 29.10% in PT Axis Telecom based on the fair value reports completed in the end of the fourth quarter of year 2011. As a result, the amounts recorded as goodwill were accordingly reallocated. The Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as at June 30, 2013. (refer to Note 33)

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

In December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of Kuwait Telecom Company, equivalent to approximately SR 687 million at the exchange rate prevailing at that date. This company operates in the field of mobile services in the Kuwaiti market, and commenced commercial operations on December 4, 2008.

Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies as the Group's representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

**STC Bahrain Company (VIVA) (BSCC) – Kingdom of Bahrain**

STC Bahrain (VIVA) (BSCC) was established in the Kingdom of Bahrain in February 2009, and Saudi Telecom Company owns 100% of its BHD 75 million share capital, equivalent to SR 746 million at the exchange rate prevailing at that date. This company operates in the field of mobile services, international telecommunications, broadband and other related services in the Bahraini market, and commenced commercial operations on March 3, 2010.

Intangible assets, net consist of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Licenses | **4,019,091** | 4,448,997 |
| Goodwill arising on the acquisition of 80.10% in PT Axis Telecom (refer to Note 33) | **-** | 405,208 |
| Others | **588,662** | 199,579 |
| | **4,607,753** | 5,053,784 |

## 11 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Employees' housing loans | **802,348** | 869,888 |
| Deferred costs | **975** | 71,331 |
| Others | **106,529** | 122,724 |
| | **909,852** | 1,063,943 |

"Other" comprises different items, the main ones being advanced commissions and fees and refundable deposits.

## 12 ACCOUNTS PAYABLE

Accounts payable consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Outside networks settlements | **2,199,713** | 1,948,874 |
| Trade payables | **1,146,483** | 2,289,440 |
| Government charges | **(601,498)** | (200,097) |
| Capital expenditures | **16,730** | 245,336 |
| | **2,761,428** | 4,283,553 |

## 13 OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Provision for zakat and taxes (refer to Note 28) | **1,039,127** | 1,034,991 |
| Suppliers' retentions | **141,748** | 223,710 |
| Withholding tax provision | **238,168** | 505,551 |
| Customers' refundable deposits | **897,278** | 728,769 |
| Settlement of seconded employees' entitlements | **60,950** | 109,741 |
| Sport clubs sponsoring | **65,336** | 79,021 |
| Non-trade credit balances | **341,808** | 94,438 |
| Others | **174,974** | 174,514 |
| | **2,959,389** | 2,950,735 |

"Others" comprise different items, the main one being social insurance accruals.

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

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Deferred revenues - non-current portion | **780,400** | 803,884 |
| Financial derivatives | **135,706** | 487,839 |
| Trade - non current | **29,811** | 180,720 |
| Others | **228,938** | 215,753 |
| | **1,174,855** | 1,688,196 |

"Others" comprises different items, the main ones being long term payments, deposits and guarantees received in advance from customers.

## 14 ACCRUED EXPENSES

Accrued expenses consist of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Capital expenditures | **2,578,962** | 2,368,924 |
| Trade | **2,541,483** | 2,260,057 |
| Employees' accruals | **1,099,706** | 952,325 |
| Provision for liabilities and commitments | **462,875** | 612,294 |
| Others | **384,755** | 167,112 |
| | **7,067,781** | 6,360,712 |

## 15 MURABAHAS

Murabahas consist of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Current portion | **1,560,571** | 1,411,491 |
| Non-current portion | **6,976,494** | 9,953,061 |
| | **8,537,065** | 11,364,552 |

**Saudi Telecom Company-The Kingdom of Saudi Arabia**

During the fourth quarter of 2007, financing facilities were obtained in the form of Murabaha deals from a branch of a local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45% and a maturity period of 120 months. The amounts utilized of the facilities as at December 31, 2013 amounted to SR 1,688 million. (2012: SR 1,688 million)

In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks with a maturity period of 120 months. The amounts utilized of the facilities as at December 31, 2013 amounted to SR 9,500 million.

During the third quarter of 2010, the Company obtained financing facilities in the form of Murabaha deals from several local banks amounted to SR 1,000 million and the amounts not utilized as at December 31, 2013.

During the third quarter of 2011, the Company obtained financing facilities in the form of Murabaha deals from several local banks with a maturity period of 120 months. The amounts not utilized as at December 31, 2013 amounted to SR 2,250 million.

During the fourth quarter of year 2008, the Company started repayment of the due installments of the financing facilities. Amounts settled as at December 31, 2013 amounted to SR 4,755 million, of which

SR 1,054 million were settled during the year ended December 31, 2013. (2012: SR 3,701 million)

**Arabian Internet and Communications Services (Awal) - Kingdom of Saudi Arabia**

As at December 31, 2013, the Murabahas and bank facilities granted to Arabian Internet and Communications Services (Awal) amounted to SR 74 million.

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

As at December 31, 2013, the Murabahas and bank facilities granted to Kuwait Telecom Company (VIVA) amounted to SR 873 million. (2012: SR 467 million)

**STC Bahrain Company (VIVA) (BSCC) – The Kingdom of Bahrain**

As at December 31, 2013, the Murabahas and bank facilities granted to STC Bahrain (VIVA) amounted to SR 1,157 million (2012, SR 1,163 million). In addition, the non-current portion of the Murabahas and bank facilities for the year 2013 includes Islamic Murabahas which amounted to SR 110 million which are secured against fixed assets.

**PT Axis Telekom Indonesia – Indonesia Republic – (NTS formerly)**

During 2013, the Group has reclassified its investment in PT Axis Telekom Indonesia as assets held-for-sale (the bank facilities granted to PT Axis Telekom Indonesia amounted to SR 2,248 as at December 31, 2012) (refer to Note 33).

## 16 PROVISIONS FOR END OF SERVICE BENEFITS

The movement in the provisions for end of service benefits during the year is as follows:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Balance at January 1 | **2,891,380** | 2,663,191 |
| Additions during the year | **550,335** | 375,153 |
| Settlements/Adjustments during the year | **(46,264)** | (146,964) |
| Balance at December 31 | **3,395,451** | 2,891,380 |

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.

## 17 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 at December 31, 2013 and 2012, the Government owned 70% of the Company's shares.

## 18 STATUTORY RESERVE

As per the Company's Articles of Association, 10% of 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. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on Rabi Thani 23, 1432 H corresponding to March 28, 2011 it was approved to stop the transfer when it reached the formal limit.

## 19 OTHER RESERVES

Other reserves consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Hedging reserves | **232,526** | 382,035 |
| Other reserves | **799,361** | 224,846 |
| | **1,031,887** | 606,881 |

## 20 REVENUE FROM SERVICES

Revenue from services consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Usage charges | **27,317,070** | 28,866,654 |
| Subscription fees | **17,110,287** | 14,386,861 |
| Activation fees | **277,739** | 463,882 |
| Others | **899,533** | 1,027,679 |
| | **45,604,629** | 44,745,076 |

## 21 COST OF SERVICES

Cost of services consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Access charges | **7,620,212** | 8,161,756 |
| Government charges (*) | **4,274,690** | 4,570,529 |
| Repairs and maintenance | **2,007,027** | 2,054,145 |
| Employees' costs | **1,838,923** | 1,885,166 |
| Rent of equipment, property and vehicles | **500,430** | 654,453 |
| Printing of telephone cards and stationery | **61,933** | 294,364 |
| Utilities expenses | **239,534** | 242,917 |
| Others | **1,648,636** | 1,620,043 |
| | **18,191,385** | 19,483,373 |

"Others" comprises different items, the main ones being, consultancy, telephone, postage, security, safety expenses fees.

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

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Commercial service provisioning fees | **3,560,831** | 3,555,936 |
| License fees | **278,183** | 284,592 |
| Frequency spectrum usage fees | **435,676** | 730,001 |
| | **4,274,690** | 4,570,529 |

(Thousands of Saudi Riyals)

| | 2013 | 2012 (Restated) |
|---|---|---|
| The Company | **3,964,360** | 4,061,351 |
| Other Group companies | **310,330** | 509,178 |
| | **4,274,690** | 4,570,529 |

## 22 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consists of the following:

(Thousands of Saudi Riyals)

| | 2013 | 2012 (Restated) |
|---|---|---|
| Advertising and publicity | **896,991** | 1,057,279 |
| Sales commissions | **424,896** | 548,212 |
| Employees' costs | **2,208,765** | 2,042,945 |
| Doubtful debts expense | **1,374,102** | 1,480,969 |
| Printing of telephone cards and stationery | **189,652** | 189,331 |
| Repairs and maintenance | **324,873** | 165,585 |
| Others | **599,580** | 610,965 |
| | **6,018,859** | 6,095,286 |

"Others" comprises different items, the main ones are: rent of equipment, property and vehicles, telephone, postage, courier, security, safety expenses and consultancy fees.

## 23 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consists of the following:

(Thousands of Saudi Riyals)

| | 2013 | 2012 (Restated) |
|---|---|---|
| Employees' costs | **1,467,318** | 1,363,154 |
| Repair and maintenance | **324,831** | 364,455 |
| Rent of equipment, property and vehicles | **284,378** | 326,303 |
| Consultancy, legal and professional fees | **273,211** | 264,987 |
| Utilities expenses | **69,394** | 89,572 |
| Others | **504,709** | 484,689 |
| | **2,923,841** | 2,893,160 |

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

## 24 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)

| | 2013 | 2012 (Restated) |
|---|---|---|
| Depreciation | **5,891,324** | 5,860,590 |
| Amortization | **486,960** | 476,112 |
| | **6,378,284** | 6,336,702 |

## 25 PROVISION FOR IMPAIRMENT OF NON CURRENT ASSETS

During the second quarter of the year 2013, The Group classified its investment in PT Axis Telekom as assets held-for-sale. Accordingly, the group re-measured the net assets related to the investment at fair value and recognized a realized loss of SR 604 million. Therefore, the balance of the Group's investment in that company is zero as at December 13, 2013. (See note 33)

During the first quarter of the year 2013, the Group booked an impairment provision on investments (Goodwill) amounting to SR 500 million in relation to its investment in Aircel group (a subsidiary of Binariang GSM holding group).

## 26 FINANCE COSTS

Finance costs composed of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| The Company | **63,911** | 77,559 |
| Other Group companies (*) | **79,341** | 600,155 |
| | **143,252** | 677,714 |

(*) During 2013, the finance costs relating to PT Axis Telekom were reclassified under “losses resulting from assets held for sale” (refer to Note 33)

## 27 OTHER INCOME AND EXPENSES , NET

Other income and expenses, net consists of the following:

| (Thousands of Saudi Riyals) | 2013 | 2012 (Restated) |
|---|---|---|
| Miscellaneous revenue | **1,606,607** | 1,440,169 |
| Losses on foreign currency exchange fluctuations | **(5,034)** | (152,539) |
| Losses on sale/disposal of property, plant and equipment | **(530,992)** | (41,327) |
| Cost of early retirement program | **-** | (312,584) |
| Miscellaneous expenses | **(120,183)** | (735,111) |
| | **950,398** | 198,608 |

The miscellaneous income for the year ended December 31, 2013 includes an amount of SR 324 million which represents a reversal of the international settlements provision and also an amount of SR 216 million as earned revenue from the projects resulting from the Universal Service Fund related to Authority of Communications and Information Technology in addition to an amount of SR 369 million of telecom devices sales.

During 2013, the Company has disposed of fixed assets with a net book value of SR 537 million out of which SR 274 million resulted from the implementation of the fixed assets verification project. (refer to Note 9)

## 28 ZAKAT AND TAXATION PROVISION

### (a) Zakat base

| (Thousands of Saudi Riyals) | **2013** | 2012 |
|---|---|---|
| Share capital – beginning of the year | **20,000,000** | 20,000,000 |
| **Additions:** | | |
| Retained earnings, Statutory reserve and Provisions – beginning of the year | **34,519,990** | 31,729,995 |
| Borrowings and payables | **8,650,422** | 9,179,838 |
| Adjusted net income | **8,292,906** | 9,671,872 |
| **Total shareholders' equity** | **71,463,318** | 70,581,705 |
| **Deductions:** | | |
| Net property and investments | **57,883,092** | 55,771,932 |
| Dividends paid | **3,997,843** | 4,002,413 |
| Deferred expenses and other balances | **1,532,463** | 1,460,720 |
| **Total deductions** | **63,413,398** | 61,235,065 |
| **Difference represents zakat base** | **8,049,920** | 9,346,640 |
| **Zakat on fully owned ownership companies** | **201,248** | 233,666 |
| **Add: Zakat on partially owned companies** | **28,521** | 16,931 |
| **Total consolidated zakat expense** | **229,769** | 250,597 |

### (b) Zakat provision

| (Thousands of Saudi Riyals) | **2013** | 2012 |
|---|---|---|
| Balance at January 1 | **1,020,556** | 849,363 |
| Charge for the year | **229,769** | 250,597 |
| Amounts paid during the year | **(211,327)** | (79,404) |
| Balance at December 31 | **1,038,998** | 1,020,556 |

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004 up to 2009 have not yet been finalized, pending decisions on the Company's objections to certain items. The Zakat declaration for the year 2012 has been submitted, but the final zakat assessment for 2010 through 2012 has not been issued yet. The Company has received a restricted zakat certificate with validity up to 1/7/1435H (corresponding to 30/4/2014).

### (c) Subsidiaries

Effective from the year 2009, the application of Ministerial Decree No.1005 dated 28/4/1428 H mandating the submission of one zakat declaration for the Company and its directly or indirectly fully-owned subsidiaries, whether these subsidiaries are located inside or outside the Kingdom of Saudi Arabia.

### (d) TAX PROVISION

The tax amount shown in the consolidated statement of income represents the Group's share of taxes charged on subsidiaries in accordance with tax laws applicable in their countries. The tax expenses for the year ended on December 31, 2013 amounted to SR 662 thousand (December 31, 2012: SR 35.6 million) and the balance of the provision as at December 31, 2013 amounted to SR 130 thousand (December 31, 2012: SR 14.4 million).

## 29 RELATED PARTY TRANSACTIONS

**Government entities in the Kingdom of Saudi Arabia**

The Company provides various telecommunication services to the Government such as phone, data transfer and other services.

The revenues and expenses related to Governmental entities during year 2013 (including Government charges disclosed in Note 21 above) amounted to SR 2,979 million and SR 4,014 million, respectively (2012: SR 2,243 million and SR 4,096 million, respectively).

Amounts receivable from and payable to Government entities as at December 31, 2013 totaled SR 670 million and SR 169 million, respectively (2012: SR 1,156 million and SR 67 million, respectively).

**Joint ventures and Investments accounted for under the equity method**

Transactions and the outstanding balances with joint ventures and investments accounted for under the equity method during the year were not material except for the investment in Sukuk amounting to SR 1,688 (2012 SR 1,688 million) (refer to Note 8),

**Subsidiaries**

During 2013, the related parties transactions with subsidiaries amounted to SR 20,155 million and the outstanding balances were SR 4,783 million as at December 31, 2013 (2012: transactions amounted to SR 18,586 million and the outstanding balances amounted to SR 3,480 million). (Note: all transactions and balances were eliminated at the time of consolidation).

## 30 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 2,478 million as at December 31, 2013 (December 31, 2012: SR 3,060 million).

(b) Certain land and buildings, for use in the Group’s operations, are leased under operating lease commitments expiring at various future dates. For the year ended December 31, 2013, total rent expense under operating leases amounted to SR 703 million (Year ended December 31,2012: SR 853 million).

(c) STC`s investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets, includes that the company should commit an increment in its investment in the fund amounted to SR 94 million upon the request by the fund manager during 3 years starting from its establishment, knowing that the fund has been launched in 2011.

(d) The Saudi Telecom Company has an investment in the Saudi Media Measurement Company, which is currently under the establishment process and once it starts its operation, it will provide television's audience measurement information to the media market with authentic information from reliable sources. The Saudi Telecom Company owns 14.15% of its SR 39.8 million share capital which is equivalent to SR 5.6 million, the amount paid was SR 3.2 million as at December 31, 2013 and the Saudi Telecom Company is committed to pay an amount of SR 2.4 million which is the remaining part of its share in the share capital.

**Contingencies**

- The Company, in the ordinary 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 Company's financial position nor on the results of its operations as reflected in these interim consolidated financial statements.
- The Group has outstanding letters of guarantee amounting to SR 2,883 million as at December 31, 2013.

## 31 FINANCIAL INSTRUMENTS

**Fair value**

This is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31 December 2013 and 2012 and 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 value of the Group`s financial assets and liabilities differ materially from their carrying value.

**Commission rate risk**

This comprises various risks related to the effect of changes in commission rates in the market 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 Murabaha and short-term and long-term deposits, but the related commission rate risk is not considered to be significant.

**Currency risk**

This is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and believes the Company is not significantly exposed to currency risk because the official currency of the Company is the Saudi Riyal, the base currency dealing by the Company and its price is currently fixed with a minor margin against the U.S. dollar.

**Credit risk**

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

**Liquidity risk**

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

## 32 SEGMENT INFORMATION

### According to the main activities of the Group

The Group has identified its main operating segments by the type of services provided by the Group. Transactions between the 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 of the following:

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

**The following table shows the information according to the group's main activities for the year ended December 31, 2013:**

| (Thousands of Saudi Riyals) | GSM | LANDLINE | DATA | Un-allocated / Adjustments | TOTAL |
|---|---|---|---|---|---|
| **Revenue from services** | **28,903,349** | **4,881,375** | **12,758,732** | **(938,827)** | **45,604,629** |
| **Interconnect revenues** | **1,724,586** | **10,408,376** | **1,108,325** | **-** | **13,241,287** |
| **Interconnect expenses** | **(6,130,436)** | **(2,104,191)** | **(5,006,660)** | **-** | **(13,241,287)** |
| **Net revenue from services** | **24,497,499** | **13,185,560** | **8,860,397** | **(938,827)** | **45,604,629** |
| **Depreciation and amortization** | **3,346,629** | **2,209,963** | **633,580** | **188,112** | **6,378,284** |
| **Net income** | **3,912,986** | **532,086** | **5,672,056** | **(220,061)** | **9,897,067** |
| **Total assets** | **29,036,310** | **23,680,721** | **7,294,651** | **27,348,113** | **87,359,795** |
| **Total liabilities** | **18,228,783** | **7,438,082** | **2,698,819** | **2,831,418** | **31,197,102** |

**The information according to the Group`s activities for the year ended December 31, 2012 was as follows (Restated):**

| (Thousands of Saudi Riyals) | GSM | PSTN | DATA | Un-allocated / adjusted | TOTAL |
|---|---|---|---|---|---|
| Revenue from services | 29,772,584 | 5,388,787 | 10,185,490 | (601,785) | 44,745,076 |
| Interconnect revenues | 1,884,788 | 9,089,506 | 914,226 | - | 11,888,520 |
| Interconnect expenses | (5,616,986) | (2,184,306) | (4,087,228) | - | (11,888,520) |
| Net revenue from services | 26,040,386 | 12,293,987 | 7,012,488 | (601,785) | 44,745,076 |
| Depreciation and amortization | 3,118,580 | 2,417,383 | 574,731 | 226,008 | 6,336,702 |
| Net income | 3,529,007 | (301,833) | 4,250,783 | (201,998) | 7,275,959 |
| Total assets | 30,355,424 | 26,035,628 | 7,826,608 | 18,287,340 | 82,505,000 |
| Total liabilities | 18,058,203 | 5,792,355 | 2,118,412 | 5,350,809 | 31,319,779 |

**- According to Group operations**

The Group has divided its main operations into domestic and international operations

**The following table shows the information according to Group operations for the year ended December 31:**

**2013**

| (Thousands of Saudi Riyals) | Domestic Operations | International Operations | | |
|---|---|---|---|---|
| | KSA | STC-Bahrain | Intigral holding company | Kuwait Telecom Company |
| **Operating revenues (*)** | **42,909,349** | **1,210,370** | **493,808** | **2,423,737** |
| **Total assets (**)** | **97,127,576** | **2,665,533** | **435,244** | **2,378,079** |

***The financial statements consolidation adjustments relating to the revenues amounted to SR (1,432,635) thousand.**

**** The financial statements consolidation adjustments relating to the assets amounted to SR (15,246,637) thousand.**

**2012 (Restated)**

| (Thousands of Saudi Riyals) | Domestic Operations | International Operations | | | |
|---|---|---|---|---|---|
| | KSA | STC-Bahrain | Intigral holding company | Kuwait Telecom Company | PT Axis Telecom |
| Operating revenues (*) | 41,587,688 | 991,668 | 585,646 | 1,832,475 | 935,029 |
| Total assets (**) | 86,760,061 | 2,469,641 | 413,277 | 1,687,586 | 3,756,165 |

***The financial statements consolidation adjustments relating to the revenues amounted to SR (1,187,430) thousand.**

**** The financial statements consolidation adjustments relating to the assets amounted to SR (12,581,730) thousand.**

As a result of adopting the accounting standard on investment accounting for using the equity method, the above figures do not include the data for Oger Telecom Ltd. and Binariang GSM Holding (refer to Note 34). In addition, PT Axis Telekom has been re-classified as Assets Held for Sale (refer to Note 33).

## 33 ASSETS HELD FOR SALE

The Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as at June 30, 2013.According to this classification, the group re-measured the net assets related to the investment at fair value and recognized a realized loss of SR 705 million as follows:

| | |
|---|---|
| Impairment loss of investment | SR 604 million |
| Accrued expenses resulted from the reclassification | SR 101 million |
| Total losses (*****) | SR 705 million |

**The main categories of the investment's assets and liabilities are as follows:**

**(Thousands of Saudi Riyals)**

| **Assets Held for Sale** | |
|---|---|
| Property, plant and equipment, net | 2,492,652 |
| Intangible assets, net | 181,570 |
| Prepayments and other current assets | 507,144 |
| Cash and cash equivalents | 200,314 |
| Other | 158,612 |
| | **3,540,292** |

| | |
|---|---|
| **Liabilities directly related directly to the assets held for sale** | |
| Murabahas | 2,464,746 |
| Accrued expenses | 759,431 |
| Accounts payable | 444,484 |
| Others | 405,102 |
| | **4,073,763** |
| **Operating losses resulting from assets held for sale** | |
| Revenue from service | 548,382 |
| Cost of services | (767,709) |
| Total Losses | (219,327) |
| Operating expenses | (381,673) |
| Operating income | (601,000) |
| Other revenues and expenses and tax provision | (120,603) |
| Non-controlling interest | 123,736 |
| **Net Losses** | **(597,867)** |
| **Cash flows from assets held for sale as follows:** | |
| Net cash used in operating activities | (227,856) |
| Net cash used in investing activities | (67,198) |
| Net cash from financing activities | 223,757 |
| Net decrease in cash and cash equivalents | (71,297) |
| Cash and cash equivalents at the beginning of the period | **271,611** |
| **Cash and cash equivalents at the end of the period** | **200,314** |

*The Group will calculate the final impact of the above items upon the completion of the sale transaction.

On September 26,2013, the Group signed an agreement to sell its entire share in PT Axis Telecom ( 80.10% directly, and 3.725 % indirectly) to XL Axiata, one of the major telecom operators in the telecommunications market in Indonesia at USD 865 million, equivalent to approximately SR 3,243 million against 100% of the company's shares. In addition the Group signed a settlement agreement with Axis's main lenders and other creditors. The sales proceeds will be used to repay Axis's main lenders and equipment suppliers for their debts.

Therefore, the fair value of the company's liabilities arising from the sale process have been assessed as at September 30, 2013, and resulted in reversing an amount of SR 101 million from previously estimated losses at June 30, 2013. The fair value of the commitments arising from the sale transaction as at December 31, 2013 was not changed. In order to complete the sale transaction above, the approval from the regulatory authorities in Indonesia is required (refer to Note 36).

## 34 CHANGE FROM THE PROPORTIONATE CONSOLIDATION TO EQUITY METHOD

The Group used to account for and consolidate its investments in joint ventures in the consolidated financial statements using the proportionate consolidation method according to IAS 31, which is not covered under the standards issued by the Saudi Organization for Certified Public Accountants.

The International Accounting Standards Board issued IFRS 11 on May 12, 2011 to replace IAS 31, which cancelled the application of the proportionate consolidation method and replaced it with the equity method of accounting instead starting from January 1, 2013. Accordingly, the Group, starting from year 2013, has accounted for investments in joints ventures by using the equity method, retroactively, as per the accounting standard No. 16 (accounting for investment under equity method) issued by the Saudi Organization for Certified Public Accountants.

The following table demonstrates comparison of significant items of balance sheet and income statement post and pro adoption of the equity method:

| | Year Ended December 31, 2012 | |
|---|---|---|
| (Millions of Saudi Riyals) | Post -Equity Method | Pre - Equity Method |
| Revenue from services | 44,745 | 59,363 |
| Gross profit | 25,262 | 33,589 |
| Net income | 7,276 | 7,276 |
| Total assets | 82,505 | 117,904 |
| Total liabilities | 31,320 | 59,009 |
| Total Murabahas | 11,365 | 30,842 |
| Shareholders’ equity | 51,337 | 51,337 |

## 35 SIGNIFICANT AGREEMENTS WITH THIRD PARTIES

On October 31, 2013, STC Group signed a Settlement Agreement with Wataniya International FZ LLC and Al Wataniya Gulf Telecommunications Company Holding Company (collectively the other Parties) whereby STC shall acquire full ownership of Public Telecommunication Company Limited “BRAVO” a Saudi Arabian limited liability company. Bravo has been operating a Push to Talk mobile service in the Kingdom commercially since 2005. In 2005 Bravo entered into a Build Operate Transfer (BOT) agreement with STC for 15 years to provide wireless communication services using iDEN technology operating on the SMR800 frequency band.

As part of this final settlement of Bravo’s obligations towards STC, it has been agreed that other Parties will pay SR 244 million to settle STC dues and to transfer all of Bravo assets to STC. The transaction is subject to regulatory authorities’ approval and independent valuation of Bravo’s net assets. Management believes that this transaction will not have a material financial impact on the consolidated financial statements of the Group and there are no other obligations on STC as a result of this transaction. (refer to note 36)

## 36 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Monday Rabi Awal 19, 1435 H (corresponding to January 20, 2014), proposed interim dividends for the fourth quarter 2013 amounting to SR 1,500 million, at the rate of SR 0.75 per share, resulting in a total dividend for 2013 of SR 2.25 per share (2012: SR 2.00 per share).

The Board also approved in its meeting held on Wednesday, Rabi Thani 19, 1435 H (corresponding to February 19, 2014) the consolidated financial statements for 2013.

On January 30, 2014, the ownership transfer of Bravo Company to the Saudi Telecom Company has been completed and the approval of the regulatory authorities has been obtained. (refer to Note 35).

On February 5, 2014, the Extraordinary General Assembly of XL Axiata approved the acquisition of PT Axis Telekom (refer to Note 33).

## 37 RECLASSIFICATION

Starting from 2013, The Group accounted for its joint venture investments by using the equity method instead of the proportionate consolidation; accordingly the comparative figures for the year ended December 31, 2012 have been restated to conform to the new classifications used for the year ended December 31, 2013, with no impact on the net income or shareholders' equity.