



a Saudi Joint Stock Company

**Interim Consolidated Financial Statements
For the Three and Six-Month Periods Ended June 30, 2013
(Unaudited)**

**Second Quarter
2013**

Saudi Telecom Company
(a Saudi Joint Stock Company)
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Periods Ended June 30, 2013 (Unaudited)

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Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of June 30, 2013 (Unaudited)
(Saudi Riyals in thousands)

Deloitte.

LIMITED REVIEW REPORT

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

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Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) (the "Company") as of June 30, 2013 and the related interim consolidated statement of income for the three and six months periods then ended and the interim consolidated statement of cash flows for the six months period then ended and the accompanying notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared and presented to us with all the information and explanations which we requested.

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

Review Result

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

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
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Ramadan 13, 1434
July 21, 2013

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of June 30, 2013 (Unaudited)
(Saudi Riyals in thousands)

	<u>Notes</u>	<u>2013</u>	<u>2012</u> (Restated)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		2,175,345	9,248,477
Short-term investments		11,485,763	682,280
Accounts receivable, net		8,835,704	7,886,503
Prepayments and other current assets		<u>2,933,687</u>	<u>3,288,124</u>
		25,430,499	21,105,384
Assets held for sale	16	<u>3,540,292</u>	-
Total current assets		<u>28,970,791</u>	<u>21,105,384</u>
Non-current assets:			
Investments accounted for under equity method and others	3	11,186,520	14,594,243
Investments in sukuk		1,687,500	1,687,500
Property, plant and equipment, net		36,199,366	38,508,409
Intangible assets, net	4	4,348,073	5,217,918
Other non-current assets		<u>1,001,149</u>	<u>1,082,622</u>
Total non-current assets		<u>54,422,608</u>	<u>61,090,692</u>
Total assets		<u>83,393,399</u>	<u>82,196,076</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable		5,621,740	5,639,524
Other credit balances – current		2,501,982	2,945,778
Accrued expenses		4,708,119	5,178,598
Deferred revenues – current portion		1,669,202	1,625,917
Murabahas – current portion	5	<u>1,425,167</u>	<u>1,725,074</u>
		15,926,210	17,114,891
Liabilities directly related to assets held for sale	16	<u>4,073,763</u>	-
Total current liabilities		<u>19,999,973</u>	<u>17,114,891</u>
Non-current liabilities:			
Murabahas – non-current portion	5	7,290,950	10,334,582
Provisions for end of service benefits		3,221,389	2,780,373
Other credit balances - non-current		<u>1,139,148</u>	<u>1,844,494</u>
Total non-current liabilities		<u>11,651,487</u>	<u>14,959,449</u>
Total liabilities		<u>31,651,460</u>	<u>32,074,340</u>
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		10,000,000	10,000,000
Retained earnings		23,770,933	22,444,790
Other reserves		(1,045,112)	(1,155,272)
Financial statements' translation differences		<u>(1,126,708)</u>	<u>(1,128,464)</u>
		51,599,113	50,161,054
Reserve directly related to assets held for sale		<u>372,846</u>	-
Total shareholders' equity		<u>51,971,959</u>	<u>50,161,054</u>
Non-controlling interests		331,517	(39,318)
Non-controlling interests recognized and directly related to assets held for sale		<u>(561,537)</u>	-
Total equity		<u>51,741,939</u>	<u>50,121,736</u>
Total liabilities and equity		<u>83,393,399</u>	<u>82,196,076</u>

The accompanying notes from 1 to 19 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Income for the Three and Six-Month Periods Ended
June 30, 2013 (Unaudited)
(Saudi Riyals in thousands)

	<u>Notes</u>	<u>Three Months ended</u>		<u>Six Months ended</u>	
		<u>June 30</u>		<u>June 30</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues from services		11,433,474	11,013,030	22,907,355	22,080,392
Cost of services	6	<u>(4,699,691)</u>	<u>(4,660,795)</u>	<u>(9,679,108)</u>	<u>(9,399,114)</u>
Gross Profit		<u>6,733,783</u>	<u>6,352,235</u>	<u>13,228,247</u>	<u>12,681,278</u>
Operating Expenses					
Selling and marketing expenses	7	<u>(1,319,003)</u>	(1,420,275)	<u>(2,736,610)</u>	(2,791,249)
General and administrative expenses	8	<u>(707,876)</u>	(741,844)	<u>(1,451,006)</u>	(1,472,309)
Depreciation and amortization	9	<u>(1,511,855)</u>	(1,572,808)	<u>(3,127,639)</u>	(3,125,048)
Impairment losses relating to investment	10	<u>(603,608)</u>	-	<u>(1,103,608)</u>	-
Total Operating Expenses			<u>(3,734,927)</u>	<u>(8,418,863)</u>	<u>(7,388,606)</u>
		<u>(4,142,342)</u>			
Operating Income		<u>2,591,441</u>	2,617,308	<u>4,809,384</u>	<u>5,292,672</u>
Other Income and Expenses					
Cost of early retirement program		-	(276,787)	-	(276,787)
Losses from investments accounted for under equity method		<u>(717,534)</u>	(234,779)	<u>(1,233,758)</u>	(264,277)
Finance costs		<u>(46,523)</u>	(33,043)	<u>(68,829)</u>	(398,645)
Commissions and interest		34,842	21,077	84,453	41,986
Losses resulted from assets held for sale assets	16	<u>(597,867)</u>	-	<u>(597,867)</u>	-
Other, net	11	<u>265,280</u>	375,828	<u>190,186</u>	578,851
Other income and expenses, net		<u>(1,061,802)</u>	<u>(147,704)</u>	<u>(1,625,815)</u>	<u>(318,872)</u>
Net Income before Zakat, Tax and Non-controlling interests		<u>1,529,639</u>	2,469,604	<u>3,183,569</u>	4,973,800
Provision for Zakat		<u>(57,522)</u>	(66,399)	<u>(112,652)</u>	(121,488)
Provision for Tax		<u>4,896</u>	2,285	<u>265</u>	19,192
Net Income before Non-controlling interests		<u>1,477,013</u>	2,405,490	<u>3,071,182</u>	4,871,504
Non-controlling interests		<u>(48,066)</u>	2,082	<u>(92,272)</u>	57,223
Net Income		<u>1,428,947</u>	<u>2,407,572</u>	<u>2,978,910</u>	<u>4,928,727</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>1.30</u>	<u>1.31</u>	<u>2.40</u>	<u>2.65</u>
Basic loss per share on income from other operations (Other income and expenses) (in Saudi Riyals)		<u>(0.53)</u>	<u>(0.07)</u>	<u>(0.81)</u>	<u>(0.16)</u>
Basic earnings per share on net Income (in Saudi Riyals)		<u>0.71</u>	<u>1.20</u>	<u>1.49</u>	<u>2.46</u>

The accompanying notes from 1 to 19 form an integral part of these interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Six-Month Periods Ended June 30,
2013 (Unaudited)
(Saudi Riyals in thousands)

	<u>2013</u>	<u>2012</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, tax and non-controlling interests	3,183,569	4,973,800
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	3,127,639	3,125,048
Impairment losses related to investments	1,103,608	-
Allowance for Doubtful debts	553,167	503,721
Earnings from investments accounted for under the equity method	1,233,758	264,277
Commissions and interest	(84,453)	(41,986)
Finance costs	68,829	398,645
Losses on foreign currency exchange fluctuations	18,056	93,601
End of service benefits	365,991	231,643
Losses on sale/disposal of property, plant and equipment	328,193	8,372
Change in:		
Accounts receivable	(1,714,668)	(1,543,178)
Prepayments and other current assets	1,831	(969,946)
Other non-current assets	(65,016)	139,614
Accounts payable	1,782,671	2,994,022
Other credit balances	(810,800)	(138,956)
Accrued expenses	(893,542)	(1,360,651)
Deferred revenues	(42,322)	153,004
Zakat and tax paid	(17,319)	(102,150)
End of service benefits paid	(18,549)	(112,061)
Net cash provided by operating activities	<u>8,120,643</u>	<u>8,616,819</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(2,098,605)	(1,760,049)
Intangible assets, net	(169,948)	(118,239)
Investments in equity and other	3,996	(688,602)
Short-term Investments	(2,815,316)	1,761,680
Proceeds from commissions and interest	50,408	41,986
Proceeds from sale of property, plant and equipment	16,583	3,616
Net cash used in investing activities	<u>(5,012,882)</u>	<u>(759,608)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,998,165)	(1,997,300)
Murabahas, net	(201,744)	(25,640)
Finance costs paid	(68,449)	(398,645)
Non-controlling interests	(78,105)	130,172
Net cash used in financing activities	<u>(2,346,463)</u>	<u>(2,291,413)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	761,298	5,565,798
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,614,361	3,682,679
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD—ASSETS HELD FOR SALE (Note 16)	<u>(200,314)</u>	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>2,175,345</u>	<u>9,248,477</u>
Non-cash items:		
Financial statements' translation differences	(288,562)	345,959
Other reserves	(55,512)	(21,935)

The accompanying notes from 1 to 19 form an integral part of these interim consolidated financial statements

Saudi Telecom Company
(a Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements for the Three and Six-Month
Periods Ended June 30, 2013 (Unaudited)

1 GENERAL

Saudi Telecom Company (the “Company”) was established as a Saudi Joint Stock Company pursuant to Royal Decree No. M/35, dated Dhul Hijja 24, 1418H (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, 1418H (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, 1423H (corresponding to September 9, 2002), the Government sold 30% of its shares.

The Company commenced its operation as the provider of telecommunications services throughout the Kingdom of Saudi Arabia (the “Kingdom”) on Muharram 6, 1419H (corresponding to May 2, 1998), and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on Rabi Awal 4, 1419H (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:

<u>Company’s Name</u>	<u>Ownership</u>	<u>Accounting Treatment</u>
Arabian Internet and Communications Services Co. Ltd. (Awal) - Kingdom of Saudi Arabia	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia	100%	Full Consolidation
STC Bahrain (VIVA) (BSCC) – Kingdom of Bahrain	100%	Full Consolidation
Aqalat Limited Company – (for Establishing, Owning and managing Real Estate) – Kingdom of Saudi Arabia	100%	Full Consolidation
Intigral Holding Company (BSCC) – Kingdom of Bahrain (Previously: Gulf Digital Media Holding)	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 (See 2-14 and note 3)

**Starting from second quarter 2013, this investment is accounted for as assets held for sale (See 2-13 and note 16)

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Notes to the Interim Consolidated Financial Statements for the Three and Six-Month
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The main activities of the Group comprise the provision and introduction of telecommunications, information and media services which include, among other things:

- a- Establish, manage, operate and maintain fixed and mobile telecommunication networks and systems.
- b- Deliver, provide, manage and maintain diverse telecommunication 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 telecommunication field, provide and obtain consulting services which are directly or indirectly related to its business and activities.
- d- Expand and develop telecommunication networks and systems by utilizing the updated modern devices and equipment in telecom technology, especially in the field of providing and managing services.
- e- Provide information, technologies and systems that depend on customers' information including preparing, printing and distributing phone and commercial directories, brochures, information, data and providing the required communication means to transfer (internet) services which do not conflict with the Council of Ministers' Resolution No. 163 dated 23/10/1418H, the general computer services, and any telecommunication activities or services the Company provides whether 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, computer programs and the other intellectual properties, in addition to providing services and contracting works that are related to the different telecom networks.
- g- Invest in 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, or other local or foreign, that are engaged in similar activities or completing to its core business or that may assist the Group to achieve its purpose and the Group can acquire the entire of the related company or part of it.

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. The interim consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended June 30, 2012.

The significant accounting policies used for the preparation of the interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2012, except for the accounting policy relating to investments in joint ventures which is effective from January 1, 2013 (see 2-14), and accounting policy relating to the held of sale assets (see 2-13),

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

The preparation of the interim consolidated financial statements in conformity with 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 disclosure of contingent

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assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenses during the reporting period of the consolidated financial statement.

The significant accounting policies are summarized below:

2-1 Consolidation basis

Subsidiaries

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

2-2 Period of the consolidated financial statements

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

2-3 Interim results

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

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

2-4 Cash and cash equivalents

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

2-5 Accounts receivable

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

2-6 Offsetting of accounts

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

2-7 Allowance for doubtful debts

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

2-8 Inventories

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 switch, are recorded within property, plant and equipment. Inventory items held by contractor responsible for upgrading and expanding the network are recorded within 'capital work-in-progress'.

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

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Notes to the Interim Consolidated Financial Statements for the Three and Six-Month Periods Ended June 30, 2013 (Unaudited)

2-9 Property, plant and equipment and depreciation

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

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

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

	<u>Number of Years</u>
Buildings	20 – 50
Telecommunications plant and equipment	3 – 25
Other assets	2 – 8

5. Repairs and maintenance costs are recognized 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 value of disposed-of / sold assets, and the gains or losses are included in the interim consolidated statement of income.
7. Leases of property, plant and equipment where the Group transfers substantially all benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability under the capital lease.
8. Assets leased under capital leases are depreciated over their estimated useful lives.
9. Assets under concession agreements (if any) are depreciated over their estimated useful lives or the contract duration whichever is the shorter.

2-10 Computer software costs

- 1) Costs of operating systems and application software purchased from vendor are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of the asset. These costs are amortized over the estimated period for which the benefits will be received.
- 2) Internally developed operating systems software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.

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- 3) Internally developed application software costs are recognized as expenses when incurred. When the costs of operating systems software cannot be identified separately from the associated hardware costs, the operating systems software costs are recorded as part of the hardware.
- 4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
- 5) Computer software training and data-conversion costs are expensed as incurred.

2-11 Intangible assets

Goodwill

- Goodwill arises upon the acquisition of stakes in subsidiaries. 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 at the date of purchase. When this difference is negative, a gain is immediately recognized in the interim consolidated statement of income in the period in which the acquisition occurred.
- Goodwill is recorded at cost and is reduced by any impairment losses (if any).

Spectrum rights and licenses to provide various telecommunication services

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

2-12 Impairment in value of non-current assets

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

2-13 Assets held for sale

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 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.

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2-14 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 joint 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 investees' 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 are shown as a separate component within 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.

Investments 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.

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2-15 Zakat

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

2-16 Taxes

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

Deferred taxes

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

2-17 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.

2-18 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

- Items of shareholders' equity (except retained earnings) are translated at the rate prevailing on the acquisition date.
- Assets and liabilities are translated using the exchange rate prevailing at the balance sheet date.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus interim net income for the interim period as per the translated interim consolidated statement of income less declared dividends within the period translated at the rate prevailing on the date of declaration.
- Interim consolidated statement of income items are translated using the weighted average rate for the period. Material gains and losses are translated at the rate prevailing on the date of their occurrence.
- All resulting exchange differences, if material, are recognised as a separate component of shareholders' equity.

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When those entities are partially sold or disposed of, exchange differences that were recorded in shareholders' equity are recognized in the interim consolidated statement of income as part of the gains or losses on sale.

2-19 Contingent liabilities

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

2-20 Revenue recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the switches' 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 service revenues are recognized in the period to which it relates.
- Service revenue is recognized upon collection when collectability is highly uncertain.

2-21 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.

2-22 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.

2-23 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.

2-24 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.

2-25 Financial derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward currency contracts and interest rate swaps. Derivatives are initially measured at fair value at the date the derivative contract is entered into and are subsequently re-measured at fair value at the date of each reporting period. The resulting gain or loss is recognized in

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the interim consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the interim consolidated statement of income depends on the nature of the hedge relationship.

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

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

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

2-26 Related parties

During the ordinary course of business, the Group deals with related parties, all material transactions with related parties are disclosed regardless of the presence or absence of balances from those transactions by the end of the financial period. Transactions of the same nature are grouped, together 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 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHER

Investments accounted for under equity method and other are comprised of the following:

(Thousands of Saudi Riyals)	<u>2013</u>	<u>2012</u> (Restated)
Investments accounted for under equity method:		
Associates	1,508,287	1,439,785
Joint Ventures	9,646,685	13,111,581
Total investments accounted for under equity method	11,154,972	14,551,366
Other investments	31,548	42,877
	<u>11,186,520</u>	<u>14,594,243</u>

4 INTANGIBLE ASSETS, NET

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

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

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 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 were used for the calculation of goodwill arising from the

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Company's acquisition of an additional 29.10% of 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.

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 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 (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.

Net intangible assets consist of the following as at June 30:

(Thousands of Saudi Riyals)	<u>2013</u>	<u>2012</u> (Restated)
Licenses	4,116,402	4,608,063
Goodwill arising on the acquisition of 80.10% in PT Axis Telekom (See note 16)	-	405,208
Others	<u>231,671</u>	<u>204,647</u>
	<u>4,348,073</u>	<u>5,217,918</u>

5 MURABAHAS AND LOANS

Murabahas and loans consist of:

(Thousands of Saudi Riyals)	<u>2013</u>	<u>2012</u> (Restated)
Current portion	1,425,167	1,725,074
Non-current portion	<u>7,290,950</u>	<u>10,334,582</u>
	<u>8,716,117</u>	<u>12,059,656</u>

The non-current portion of murabaha facilities includes murabaha financing obtained by one of the subsidiaries (STC Bahrain) amounting to SR 1,158 million are secured against that subsidiary's fixed assets.

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6 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
Access charges	1,739,019	1,885,254	3,869,930	3,746,379
Government charges (*)	1,010,454	1,098,503	2,113,845	2,303,211
Repairs and maintenance	497,564	519,409	1,105,979	996,433
Employee costs	498,103	488,013	1,011,003	1,029,293
Rent of equipment, property and vehicles	113,416	140,986	309,400	284,352
Printing of telephone cards and stationary	7,493	66,701	26,225	122,741
Premises expenses	42,921	59,077	120,103	120,721
Other	790,721	402,852	1,122,623	795,984
	<u>4,699,691</u>	<u>4,660,795</u>	<u>9,679,108</u>	<u>9,399,114</u>

“Other” comprises various items, the main ones being: consultancy fees, telecommunication, postage, and security and safety expenses.

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

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
Commercial service provisioning	919,334	851,440	1,760,132	1,816,639
License fees	72,914	74,454	141,760	144,645
Frequency Spectrum fees	18,206	172,609	211,953	341,927
	<u>1,010,454</u>	<u>1,098,503</u>	<u>2,113,845</u>	<u>2,303,211</u>

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
The Company	1,049,020	1,013,724	1,999,257	2,045,883
Other Group companies	(38,566)	84,779	114,588	257,328
	<u>1,010,454</u>	<u>1,098,503</u>	<u>2,113,845</u>	<u>2,303,211</u>

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7 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
Advertising and publicity	151,140	423,732	363,826	626,320
Sales commission	73,950	47,752	188,707	109,006
Employee costs	595,578	567,412	1,131,310	1,137,598
Doubtful debts expense	265,600	268,373	553,167	503,721
Printing of telephone cards and stationery	55,728	47,161	118,053	95,111
Repairs and maintenance	67,373	30,170	149,400	69,416
Others	109,634	35,675	232,147	250,077
	<u>1,319,003</u>	<u>1,420,275</u>	<u>2,736,610</u>	<u>2,791,249</u>

“Others” comprises various items, the main ones being: rent of equipment, property, motor vehicles, postage, courier, security and safety, and consultancy fees.

8 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
Employee costs	353,142	363,865	737,849	715,666
Repairs and maintenance	58,474	97,193	143,609	175,028
Rent of equipment, property and vehicles	80,605	118,234	149,058	173,399
Consultancy & legal and professional fees	56,269	61,345	130,052	103,195
Premises expenses	15,927	21,928	33,295	44,959
Others	143,459	79,279	257,143	260,062
	<u>707,876</u>	<u>741,844</u>	<u>1,451,006</u>	<u>1,472,309</u>

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

9 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
		(Restated)		(Restated)
Depreciation	1,413,963	1,441,507	2,935,059	2,881,065
Amortization	97,892	131,301	192,580	243,983
	<u>1,511,855</u>	<u>1,572,808</u>	<u>3,127,639</u>	<u>3,125,048</u>

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10 IMPAIRMENT LOSSES RELATED TO INVESTMENTS

During the second quarter 2013, The Group classified its investment in PT Axis Telekom as held-for-sale as of 30 June 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 604 million. Therefore, the balance of the Group's investment in that company is zero as at 30 June 2013. (See note 16)

BGSM Holding has a material wholly owned subsidiary (Aircel) in India. As at March 31, 2013, this subsidiary had accumulated losses of SR 14.604 million which exceeded its Share Capital by SR 6.213 million and its current liabilities exceeded its current assets by SR 8.801 million as at that date, as a result, the deficit in the shareholders' equity amounted to SR 5.153 million. Noting that Saudi Telecom Company Group owns 25% of Aircel through its ownership BGSM Holding.

The above mentioned subsidiary's going concern assumption relies heavily on the realization of its long range plan which is yet to be approved by the subsidiary's board of directors which is pending the finalization of the plan for the required funding.

Based on the above, and in the absence of an approved Long Range Plan and a clear visibility of the funding requirements for the subsidiary, Saudi Telecom Company management decided to book an impairment provision on investments (Goodwill) of SR 500 million as at March 31, 2013. The Saudi Telecom Company will assess in the future any need for additional impairment provisions, if any.

11 OTHER INCOME AND EXPENSES, NET

This item consists of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u> <u>2013</u>	<u>2012</u> <u>(Restated)</u>	<u>June 30,</u> <u>2013</u>	<u>2012</u> <u>(Restated)</u>
Miscellaneous revenues	493,864	626,421	818,839	1,144,460
(Losses)/gains foreign currency exchange	4,198	(66,422)	(18,056)	(93,601)
Losses on sale / dispose of properties, plant and equipment	(54,725)	(4,560)	(328,193)	(8,372)
Miscellaneous expenses	(178,057)	(179,611)	(282,404)	(463,636)
	<u>265,280</u>	<u>375,828</u>	<u>190,186</u>	<u>578,851</u>

During the first quarter of 2013, the Company disposed fixed assets with net book value of SR 277 million resulted from the fixed assets verification project which was implemented.

12 COMMITMENTS AND CONTINGENCIES

Commitments

- The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,003 million on June 30, 2013 (June 30, 2012: SR 2,450 million).
- Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the second quarter and the six-months period ended June 30, 2013, total rent expense under operating leases amounted to SR 259 million and SR 498 million (second quarter and the six-months period ended June 30, 2012: SR 254 million and SR 380 million respectively).

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(c) Saudi Telecom Company has 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 141 million upon the request by the fund manager during 3 years starting from its establishment, noting that the fund has been launched in 2011.

Contingencies

The Group, 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 Group's financial position or on the results of its operations as reflected in the interim consolidated financial statements.

- The Group has outstanding letters of guarantee amounting to SR 2,713 million as of 30 June, 2013.
- On December 28, 2012, Telecom Authority in India has issued an order to Aircel Group – Indian group (one of the subsidiaries of Binariang group) to pay an extra spectrum fees related to three regions. The Group's share of the fees amounted to SR 231 million. Noting that Aircel Company has decided to appeal in the Indian Supreme Court.

13 FINANCIAL INSTRUMENTS

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 30 June 2013 and 2012 which are as follows:

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

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

Commission rate risk

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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and enters into hedging agreements where possible to reduce the currency risk; the official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

Credit risk

Credit risk is the risk that other parties will fail to discharge their obligations and cause the Group to incur a financial loss. Financial instruments that subject the Group to concentrations of credit risk consist primarily of cash balances and accounts receivable. The Group deposits its cash balances with a number of major high credit-rated financial institutions and has a policy of limiting its balances deposited with each institution. The Group does not believe that there is a significant risk of non-

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performance by these financial institutions. The Group does not consider itself exposed to a concentration of credit risk with respect to accounts receivable due to its diverse customer base (residential, professional, large business and public entities) operating in various industries and located in many regions.

Liquidity risk

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

14 FINANCIAL DERIVATIVES

The Group enters into interest rate swap agreements to hedge its interest rate risk of expected future cash outflows in relation to its floating rate interest of debt. The notional amount and fair value of these effective hedges as of June 30, 2013 was SR 4,394 million and SR 167 million respectively (2012: The notional amount and fair value of these effective hedges was SR 4,394 million and SR 259 million respectively) The fair value of the effective impact of these hedges is included in other reserves in the interim consolidated balance sheet.

15 SEGMENT INFORMATION

- According to the main activities of the Group

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

The main operating segments of the Group comprise:

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

The following table shows the information according to the Group's main activities for the Six months period ended June 30, 2013:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated</u> <u>/ adjusted</u>	<u>TOTAL</u>
Revenue from services	14,922,654	2,425,069	5,796,472	(236,840)	22,907,355
Interconnect revenues	848,334	5,421,335	536,910	-	6,806,579
Interconnect expenses	<u>(3,424,398)</u>	<u>(1,031,159)</u>	<u>(2,351,022)</u>	=	<u>(6,806,579)</u>
Net revenue from services	<u>12,346,590</u>	<u>6,815,245</u>	<u>3,982,360</u>	<u>(236,840)</u>	<u>22,907,355</u>
Depreciation and amortization	1,644,491	1,078,191	305,571	99,386	3,127,639
Net income	1,358,026	259,791	2,463,721	(1,102,628)	2,978,910
Total assets	24,523,776	20,738,581	7,444,838	30,686,204	83,393,399
Total liabilities	18,585,783	5,945,949	2,474,327	4,645,401	31,651,460

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The following table shows the information according to the Group's activities for the Six months period ended June 30, 2012 was as follows (Restated):

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated / adjusted</u>	<u>TOTAL</u>
Revenue from services	14,851,629	2,741,354	5,052,118	(564,709)	22,080,392
Interconnect revenues	996,205	4,327,346	423,946	-	5,747,497
Interconnect expenses	<u>(2,662,948)</u>	<u>(1,131,778)</u>	<u>(1,952,771)</u>	-	<u>(5,747,497)</u>
Net revenue from services	<u>13,184,886</u>	<u>5,936,922</u>	<u>3,523,293</u>	<u>(564,709)</u>	<u>22,080,392</u>
Depreciation and amortization	1,528,244	1,195,324	283,964	117,516	3,125,048
Net income	2,616,802	322,816	2,227,904	(238,795)	4,928,727
Total assets	29,981,043	24,200,783	7,971,924	20,042,326	82,196,076
Total liabilities	17,047,210	7,280,817	1,429,973	6,316,340	32,074,340

- According to Group operations

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

The following table shows the segmental information according to Group operations during the six months ended June 30:

(Thousands of Saudi Riyals)	<u>2013</u>			
	<u>Domestic Operations</u>	<u>International Operations</u>		
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral holding company</u>	<u>Kuwait Telecom Company</u>
Operating revenues	20,974,338	586,300	257,930	1,088,787
Total assets (*)	90,728,955	2,441,268	450,647	2,095,022

*The financial statements consolidation adjustments relating to the assets amounted to SR (15,862,785) thousand.

(Thousands of Saudi Riyals)	<u>2012 (Restated)</u>				
	<u>Domestic Operations</u>	<u>International Operations</u>			
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral holding company</u>	<u>Kuwait Telecom Company</u>	<u>PT Axis Telecom</u>
Operating revenues	20,053,209	463,522	278,232	848,344	437,085
Total assets (*)	85,059,030	2,394,880	493,804	1,647,602	3,958,787

*The financial statements consolidation adjustments relating to the assets amounted to SR (11,358,027) thousand.

As a result from the adoption of the investment accounting standard according to equity method, the above details do not include the data for the following companies:

(Thousands of Saudi Riyals)	<u>2013</u>		<u>2012</u>	
	<u>OTL</u>	<u>BGSM</u>	<u>OTL</u>	<u>BGSM</u>
Operating revenues	5,352,102	2,147,906	5,119,881	2,033,126
Total Assets	23,072,065	16,301,162	22,523,417	19,869,302

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16 ASSETS HELD FOR SALE

Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as of 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 provision of investment	SR 604 million
Accrued expenses resulted from the reclassification	<u>SR 101 million</u>
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	<u>158,612</u>
	<u>3,540,292</u>

Liabilities related to the assets held for sale

Borrowings	2,464,746
Accrued expenses	759,431
Accounts payable	444,484
Other	<u>405,102</u>
	<u>4,073,763</u>

Operating losses resulting from assets held for sale

Services revenue	548,382
Cost of services	<u>(767,709)</u>
Total Losses	(219,327)
Operating expenses	<u>(381,673)</u>
Operating income	(601,000)
Other revenues and expenses and tax provision	(120,603)
Non-controlling interest	<u>123,736</u>
Net Losses	<u>(597,867)</u>

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Cash flows from losses resulted from assets held for sale as follows:

Net cash provided by operating activities	(227,856)
Net cash used in investing activities	(67,198)
Net cash used in financing activities	<u>223,757</u>
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 at the sale of the investment.

17 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:

(Millions of Saudi Riyals)	<u>Six-month periods ended June 30, 2012</u>	
	<u>Post -Equity Method</u> <u>(Unaudited)</u>	<u>Pre - Equity Method</u> <u>(Unaudited)</u>
Revenue from services	22,080	29,233
Gross profit	12,681	16,851
Net income	4,929	4,929
Total assets	82,196	117,011
Total liabilities	32,074	59,986
Total Murabahas	12,060	32,398
Shareholders' equity	50,161	50,161

18 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on 13 Ramadan 1434H (according to Umm Al-Qura Calendar) (corresponding to July 21, 2013), approved the interim consolidated financial statements for the second quarter of 2013 and proposed interim dividends for the second quarter of 2013 amounting to SR 1,000 million, at the rate of SR 0.50 per share.

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19 RECLASSIFICATION

Starting from 2013, The Group accounted for its joint venture investments by using the equity method instead of the proportionate consolidated; accordingly the comparative figures for the second quarter of 2012 have been restated to conform to the classifications used for the period ended June 30, 2013, with no impact on the net income or shareholders.