



a Saudi Joint Stock Company

**Interim Consolidated Financial Statements For the Three-
Month Period and the Year Ended December 31, 2013
(Unaudited)**

Fourth Quarter 2013

Saudi Telecom Company
(a Saudi Joint Stock Company)
Index to the Interim Consolidated Financial Statements for the Three-Month period and
the Year Ended December 31, 2013 (Unaudited)

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LIMITED REVIEW REPORT

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

Scope of Review

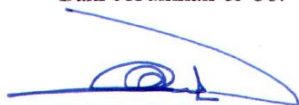
We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at December 31, 2013 and the related interim consolidated statement of income for the three months period and the year then ended and the interim consolidated statement of cash flows for the year 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
License No. 101

Rabi Al Awal 19, 1435
January 20, 2014

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

	<u>Notes</u>	<u>2013</u> (Unaudited)	<u>2012</u> (Audited/Restated)
ASSETS			
Current assets:			
Cash and cash equivalents		960,074	1,614,361
Short-term investments		16,828,933	8,670,447
Accounts receivable, net		7,572,722	7,705,006
Prepaid expenses and other current assets		<u>3,461,507</u>	<u>3,442,661</u>
		28,823,236	21,432,475
Assets held for sale	15	<u>3,540,292</u>	-
Total current assets		<u>32,363,528</u>	<u>21,432,475</u>
Non-current assets:			
Investments accounted for under equity method and others	3	9,658,623	13,394,050
Investments in sukuk		1,687,500	1,687,500
Property, plant and equipment, net		38,406,019	39,873,248
Intangible assets, net	4	4,607,753	5,053,784
Other non-current assets		<u>909,852</u>	<u>1,063,943</u>
Total non-current assets		<u>55,269,747</u>	<u>61,072,525</u>
Total assets		<u>87,633,275</u>	<u>82,505,000</u>
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable		2,763,798	4,283,553
Other credit balances – current		2,959,491	2,950,735
Accrued expenses		7,069,284	6,360,712
Deferred revenues – current portion		1,384,545	1,780,651
Murabahas – current portion	5	<u>1,560,571</u>	<u>1,411,491</u>
		15,737,689	16,787,142
Liabilities related to assets held for sale	15	<u>4,073,763</u>	-
Total current liabilities		<u>19,811,452</u>	<u>16,787,142</u>
Non-current liabilities:			
Murabahas – non-current portion	5	6,976,495	9,953,061
Provisions for end of service benefits		3,395,451	2,891,380
Other credit balances - non-current		<u>1,174,855</u>	<u>1,688,196</u>
Total non-current liabilities		<u>11,546,801</u>	<u>14,532,637</u>
Total liabilities		<u>31,358,253</u>	<u>31,319,779</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		28,779,212	22,792,023
Other reserves		(1,031,887)	(606,881)
Financial statements' translation differences		<u>(1,800,448)</u>	<u>(848,014)</u>
		55,946,877	51,337,128
Reserves related to assets held for sale		<u>372,846</u>	-
Total shareholders' equity		<u>56,319,723</u>	<u>51,337,128</u>
Non-controlling interests		516,836	(151,907)
Non-controlling interests recognized and related to assets held for sale		<u>(561,537)</u>	-
Total equity		<u>56,275,022</u>	<u>51,185,221</u>
Total liabilities and equity		<u>87,633,275</u>	<u>82,505,000</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-Month Period and the Year
Ended December 31, 2013
(Saudi Riyals in thousands)

	Notes	Three Months ended		Year ended	
		December 31		December 31	
		2013	2012	2013	2012
		(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Revenues from services		11,267,983	11,234,771	45,602,184	44,745,076
Cost of services	6	<u>(4,276,193)</u>	<u>(5,113,636)</u>	<u>(18,188,786)</u>	<u>(19,483,373)</u>
Gross Profit		<u>6,991,790</u>	<u>6,121,135</u>	<u>27,413,398</u>	<u>25,261,703</u>
Operating Expenses					
Selling and marketing expenses	7	(1,664,110)	(1,541,162)	(5,970,554)	(6,095,286)
General and administrative expenses	8	(822,980)	(788,030)	(2,922,411)	(2,893,160)
Depreciation and amortization	9	(1,652,936)	(1,618,151)	(6,378,283)	(6,336,702)
Impairment losses relating to investments	10	-	(190,869)	(1,103,608)	(190,869)
Total Operating Expenses		<u>(4,140,026)</u>	<u>(4,138,212)</u>	<u>(16,374,856)</u>	<u>(15,516,017)</u>
Operating Income		<u>2,851,764</u>	<u>1,982,923</u>	<u>11,038,542</u>	<u>9,745,686</u>
Other Income and Expenses					
Gains/(Losses) from investments accounted for under equity method	3	753,829	(1,485,649)	(873,121)	(2,002,774)
Finance costs		(41,660)	(104,406)	(143,253)	(677,714)
Commissions and interest		61,486	42,257	190,184	114,037
Losses resulted from assets held for sale	15	-	-	(597,867)	-
Others, net	11	<u>204,411</u>	<u>(28,468)</u>	<u>946,274</u>	<u>198,608</u>
Other income and expenses, net		<u>978,066</u>	<u>(1,576,266)</u>	<u>(477,783)</u>	<u>(2,367,843)</u>
Net Income before Zakat, Taxes and Non-controlling interests		3,829,830	406,657	10,560,759	7,377,843
Provision for Zakat and Taxes		<u>(61,961)</u>	<u>(23,701)</u>	<u>(230,533)</u>	<u>(214,982)</u>
Net Income before Non-controlling interests		3,767,869	382,956	10,330,226	7,162,861
Non-controlling interests		<u>(145,174)</u>	<u>10,480</u>	<u>(343,036)</u>	<u>113,098</u>
Net Income		<u>3,622,695</u>	<u>393,436</u>	<u>9,987,190</u>	<u>7,275,959</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>1.43</u>	<u>0.99</u>	<u>5.52</u>	<u>4.87</u>
Basic Earnings/(losses) per share on income from other operations (Other income and expenses) (in Saudi Riyals)		<u>0.49</u>	<u>(0.79)</u>	<u>(0.24)</u>	<u>(1.18)</u>
Basic earnings per share on net Income (in Saudi Riyals)		<u>1.81</u>	<u>0.20</u>	<u>4.99</u>	<u>3.64</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 Year Ended December 31, 2013
(Saudi Riyals in thousands)

	<u>2013</u> (Unaudited)	<u>2012</u> (Audited) (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, taxes and non-controlling interests	10,560,759	7,377,843
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	6,378,283	6,336,702
Impairment losses related to investments	1,103,608	190,869
Allowance for doubtful debts	1,334,102	1,480,969
Losses from investments accounted for under the equity method	873,121	2,002,774
Commissions and interest	(190,184)	(114,037)
Finance costs	143,253	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	(1,232,621)	(2,338,929)
Prepayments and other current assets	(525,989)	(1,124,484)
Other non-current assets	26,282	158,293
Accounts payable	(1,075,271)	1,638,052
Other credit balances	268,000	280,108
Accrued expenses	1,471,475	(1,429,387)
Deferred revenues	(330,823)	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	<u>19,639,702</u>	<u>15,722,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,469,291)	(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	21,554	7,979
Net cash used in investing activities	<u>(15,688,546)</u>	<u>(12,802,468)</u>
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	107,213	17,582
Net cash used in financing activities	<u>(4,405,129)</u>	<u>(4,988,667)</u>
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 15)	(200,314)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>960,074</u>	<u>1,614,361</u>
Non-cash items:		
Financial statements' translation differences	(952,434)	626,409
Other reserves	(425,006)	526,455
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-Month Period and the Year Ended December 31, 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>%</u>	<u>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 (Establishing, Owning and managing of Real Estate) – 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 (See 2-14 and note 3)

**Starting from second quarter of year 2013, this investment is accounted for as assets held for sale (See 2-13 and note 15)

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.

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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2013 (Unaudited)

- b- Deliver, provide, maintain and manage 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, manufacturing, marketing, selling, developing, 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.

Also, the Group has the right to establish other companies and to join with other companies, institutions, or other 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.

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 year ended December 31, 2013.

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). In addition, new accounting policy relating to non-current assets held for sale was applied (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 assets and liabilities at the date of the interim consolidated financial statements and the amounts of revenues and expenses during the reporting period of the interim consolidated financial statements.

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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2013 (Unaudited)

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 the subsidiaries are included in the interim consolidated financial statements of the Group effective from the date control commences until the date it ceases.

2-2 Period of the interim 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 for 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, landlines, 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 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.

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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 the 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
Networks and telecommunication 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 proceed with the book value of the disposed-off / 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 useful lives or the contract period whichever is shorter.

2-10 Computer software costs

- 1) Costs of operating systems and application software purchased from the vendor are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of an 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

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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. When 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) Computer software training and data-conversion costs are expensed as incurred.

2-11 Intangible assets

Goodwill

- Goodwill arises upon the acquisition of a stake 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, it is immediately recognized as a gain 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 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.

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Notes to the Interim Consolidated Financial Statements for the Three-Month Period and the Year Ended December 31, 2013 (Unaudited)

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.

2-14 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 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.

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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.

2-15 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 judgment 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 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 for retained earnings) are translated at the rate prevailing on the acquisition date.
- Assets and liabilities are translated using the exchange rate prevailing at the interim consolidated balance sheet date.
- Retained earnings are translated as follows: retained earnings translated at the end of prior 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.

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- 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.

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.

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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 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 risks (fair value of the hedge), hedge of variability in cash flows that are either attributable to a particular risks associated with 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 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 shareholder's 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 OTHERS

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

(Thousands of Saudi Riyals)	<u>2013</u> (Unaudited)	<u>2012</u> (Audited) (Restated)
Investments accounted for under equity method:		
Associates	1,547,893	1,412,436
Joint Ventures	8,035,288	<u>11,946,071</u>
Total investments accounted for under equity method	9,583,181	13,358,507
Other investments	<u>75,442</u>	35,543
	<u>9,658,623</u>	<u>13,394,050</u>

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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.

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 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. Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as of June 30, 2013. (See note 15)

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.

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Net intangible assets consist of the following as of December 31:

(Thousands of Saudi Riyals)	<u>2013</u> (Unaudited)	<u>2012</u> (Audited) (Restated)
Licenses	4,019,091	4,448,997
Goodwill arising on the acquisition of 80.10% in PT Axis Telekom (See note 15)	-	405,208
Others	<u>588,662</u>	<u>199,579</u>
	<u>4,607,753</u>	<u>5,053,784</u>

5 MURABAHAS

Murabahas consist of:

(Thousands of Saudi Riyals)	<u>2013</u> (Unaudited)	<u>2012</u> (Audited) (Restated)
Current portion	1,560,571	1,411,491
Non-current portion	<u>6,976,495</u>	<u>9,953,061</u>
	<u>8,537,066</u>	<u>11,364,552</u>

The non-current portion of murabaha facilities includes murabahas financing obtained by one of the subsidiaries (STC Bahrain) amounting to SR 1,057 million which is secured against mortgage of that subsidiary's fixed assets.

6 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u> <u>December 31,</u>		<u>Year ended</u> <u>December 31,</u>	
	<u>2013</u> (Unaudited)	<u>2012</u> (Unaudited) (Restated)	<u>2013</u> (Unaudited)	<u>2012</u> (Audited) (Restated)
Access charges	2,003,482	2,278,661	7,620,181	8,161,756
Government charges (*)	1,090,679	1,102,433	4,274,690	4,570,529
Repair and maintenance	458,548	515,495	2,007,027	2,054,145
Employees' costs	483,732	448,072	1,838,923	1,885,166
Rent of equipment, property and vehicles	90,800	195,131	500,430	654,453
Printing of telephone cards and stationary	28,131	93,199	61,933	294,364
Premises expenses	59,466	60,510	239,534	242,917
Others	<u>61,355</u>	<u>420,135</u>	<u>1,646,068</u>	<u>1,620,043</u>
	<u>4,276,193</u>	<u>5,113,636</u>	<u>18,188,786</u>	<u>19,483,373</u>

"Others" comprises various items, the main ones being: consultancy fees, telecommunication, postage, linking, security and safety expenses.

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(*The details of government charges are as follows:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Commercial service provisioning	906,822	870,804	3,560,831	3,555,936
License fees	68,280	69,832	278,183	284,592
Frequency Spectrum fees	115,557	161,797	435,676	730,001
	<u>1,090,679</u>	<u>1,102,433</u>	<u>4,274,690</u>	<u>4,570,529</u>

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
The Company	1,006,556	982,340	3,964,360	4,061,351
Other Group companies	84,123	120,093	310,330	509,178
	<u>1,090,679</u>	<u>1,102,433</u>	<u>4,274,690</u>	<u>4,570,529</u>

7 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Advertising and publicity	299,650	172,037	896,991	1,057,279
Sales commissions	111,965	214,757	424,896	548,212
Employees' costs	556,843	423,921	2,200,460	2,042,945
Doubtful debts expense	294,617	407,270	1,334,102	1,480,969
Printing of telephone cards and stationery	46,257	49,494	189,652	189,331
Repair and maintenance	101,265	55,036	324,873	165,585
Others	253,513	218,647	559,580	610,965
	<u>1,664,110</u>	<u>1,541,162</u>	<u>5,970,554</u>	<u>6,095,286</u>

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

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8 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Employees' costs	394,077	335,080	1,467,694	1,363,154
Repair and maintenance	111,877	111,481	324,831	364,455
Rent of equipment, property and vehicles	61,696	64,797	284,378	326,303
Consultancy & legal and professional fees	103,541	116,151	273,211	264,987
Premises expenses	17,627	24,487	69,394	89,572
Others	134,162	136,034	502,903	484,689
	<u>822,980</u>	<u>788,030</u>	<u>2,922,411</u>	<u>2,893,160</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>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Depreciation	1,497,838	1,502,130	5,891,323	5,860,590
Amortization	155,098	116,021	486,960	476,112
	<u>1,652,936</u>	<u>1,618,151</u>	<u>6,378,283</u>	<u>6,336,702</u>

10 IMPAIRMENT LOSSES RELATED TO INVESTMENTS

During the second quarter 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 15)

During the first quarter 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).

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11 OTHERS INCOME AND EXPENSES - OTHERS, NET

Other income and expenses – others, net consists of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Year ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Unaudited)	(Unaudited) (Restated)	(Unaudited)	(Audited) (Restated)
Miscellaneous revenues	231,600	657,665	1,606,607	1,440,169
Gains/(losses) from foreign currency exchange	2,057	(21,381)	(5,034)	(152,539)
(Losses) / Gains on sale / disposal of properties, plant and equipment	(163,511)	623	(530,992)	(41,327)
Cost of early retirement program	-	-	-	(312,584)
Miscellaneous expenses	<u>134,265</u>	<u>(665,375)</u>	<u>(124,307)</u>	<u>(735,111)</u>
	<u>204,411</u>	<u>(28,468)</u>	<u>946,274</u>	<u>198,608</u>

The miscellaneous income for the year ended December 31, 2013 includes an amount of SR 324 million as reverse for international settlements provision and also an amount of SR 216 million as accruing 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 the first quarter of 2013, the Company disposed fixed assets with a net book value of SR 277 million which resulted from the implementation of the fixed assets verification project.

12 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 amounted to SR 2,478 million as at December 31, 2013 (December 31, 2012: SR 3,060 million).
- (b) Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. During the fourth quarter and the year ended December 31, 2013, total rent expense under operating leases amounted to SR 148 million and SR 703 million respectively (fourth quarter and the year ended December 31, 2012: SR 235 million and SR 853 million respectively).
- (c) Saudi Telecom Company has investment in Venture Capital Fund which is specialized 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. It includes that the company should commit an increment in its investment in the fund for the amount of SR 94 million upon the request by the fund manager during 3 years starting from its establishment, noting that the fund has been launched in year 2011.

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.

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- The Group has outstanding letters of guarantee amounting to SR 2,883 million as of December 31, 2013.

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 its fair value as at December 31, 2013 and 2012 which is as follows:

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

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

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-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 when they become due. The Group does not consider itself exposed to significant risks in relation to liquidity.

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14 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 year ended December 31, 2013 (Unaudited):

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	28,903,348	4,881,375	12,758,732	(941,271)	45,602,184
Interconnect revenues	1,724,586	10,408,376	1,108,325	-	13,241,287
Interconnect expenses	<u>(6,130,436)</u>	<u>(2,104,191)</u>	<u>(5,006,660)</u>	-	<u>(13,241,287)</u>
Net revenue from services	<u>24,497,498</u>	<u>13,185,560</u>	<u>8,860,397</u>	<u>(941,271)</u>	<u>45,602,184</u>
Depreciation and amortization	3,346,629	2,209,962	633,580	188,112	6,378,283
Net income	4,006,644	532,114	5,672,069	(223,637)	9,987,190
Total assets	29,152,414	23,680,355	7,295,237	27,505,269	87,633,275
Total liabilities	18,228,160	7,438,082	2,698,819	2,993,192	31,358,253

The following table shows the information according to the Group`s activities for the year ended December 31, 2012 (Restated/Audited)) was as follows:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
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	<u>(5,616,986)</u>	<u>(2,184,306)</u>	<u>(4,087,228)</u>	-	<u>(11,888,520)</u>
Net revenue from services	<u>26,040,386</u>	<u>12,293,987</u>	<u>7,012,488</u>	<u>(601,785)</u>	<u>44,745,076</u>
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

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- 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 year ended December 31:

2013 (Unaudited)

(Thousands of Saudi Riyals)	<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 (*)	42,909,349	1,210,370	491,363	2,423,737
Total assets (**)	97,177,175	2,665,533	434,548	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 (15,022,059) thousand.

2012 (Restated)(Audited)

(Thousands of Saudi Riyals)	<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 (*)	41,587,688	991,668	585,646	1,832,475
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 from the adoption of the investment accounting standard according to equity method, the above numbers do not include the data for Oger Telecom Ltd. And Binariang GSM Holding (refer to Note 16)

15 ASSETS HELD FOR SALE

The 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 loss of investment	SR 604 million
Accrued expenses resulted from the reclassification	<u>SR 101 million</u>
Total losses (*)	SR 705 million

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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 directly related to the assets held for sale

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

Operating losses resulting from assets held for sale

Revenue from service	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>

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	<u>271,611</u>
Cash and cash equivalents at the end of the period	<u>200,314</u>

*The Group will calculate the final impact of the above items upon 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

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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 recalculated 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 proceed with the sale transaction above, the approval from the regulatory authorities in Indonesia and the shareholders of XL Axiata at a meeting of the Extraordinary General Assembly is required.

16 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)	<u>Post -Equity Method</u> (Audited / Restated)	<u>Pre - Equity Method</u> (Audited)
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

17 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.

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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.

18 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Monday Rabi al-Awwal 19, 1435H (corresponding to January 20, 2014), approved the interim consolidated financial statements for the fourth quarter of 2013 and proposed interim dividends for the fourth quarter of 2013 amounting to SR 1,500 million, at the rate of SR 0.75 per share.

19 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 fourth quarter and the year ended December 31, 2012 (comparative figures) have been restated to conform to the classifications used for the period ended December 31, 2013, with no impact on the net income or shareholders.