Annual Report 2012

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بسم الله الرحمن الرحيم

King Abdul Aziz Bin Abdulrahman Al Saud

(May Allah's mercy be upon him)

Founder of the Kingdom of Saudi Arabia

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

The King of Saudi Arabia

His Royal Highness Prince
Salman Bin Abdul Aziz Al Saud

Crown Prince, Deputy Prime Minister & Minister of Defense

The Board of Directors' annual report to the shareholders of Saudi Telecom Company

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In the name of Allah, the Most Gracious, the Most Merciful

Prayers and peace be upon the noblest of Prophets and Messengers, Muhammad Ibn Abdullah, his family and companions

Messrs: shareholders and customers of Saudi Telecom Company

When we talk about the era of speed, knowledge and electronic transactions, we actually talk about the communications era. When we talk about the communications era, we talk about a highly-influential, high-speed and ever-changing cultural case. STC realized that its pioneering status mandates that it should occupy a leading position in formulating and shaping the future of telecommunications in the region. It realized that coping with the fast pace requires a crystal-clear and highly flexible vision which works incessantly towards continuous victories in the initiatives of “tomorrow” while always maintaining the fulfillment of the requirements of “today”. Service provision must continue, growth must be realized, planning shall be resumed and implementation shall be always on the move. During 2012, STC made a breakthrough in establishing its infrastructure and achieved high-profile advancements in reaching its customers. It Increased the number of its 4G towers at a percent of 400% and provided more than half a million sites with fiber optic services; a matter which increased the number of fiber optic subscribers at a percent more than 633%. During 2012, STC launched an ambitious program for strategic shift with the ultimate purpose of realizing a qualitative breakthrough in the Company's business. Such program focuses on the following:

- Creating an invocative and motivational business environment which concentrates on clear professional standards where the customer is in the core of its focus and increasing the level of staff's responsibility, excellence and performance
- Investing the available opportunities in the ICT sector to maintain a leading position in providing mobile services and the broadband new generation services
- Pioneering in the provision of business and digital services
- Providing customers with an excellent and integrated experience through the various communication services
- Raising the operational efficiency and effectiveness
- Thorough review of the international investment strategy

Through the grace of Allah and then due to its strong financial position, during 2012, STC continued to achieve growth in its operational revenues, total assets and shareholders' equity; a matter which enabled it to encounter the non-recurrent conditions which the Group faced during the fourth quarter.

In conclusion,

our belief that there are large opportunities always drives to exert all efforts in all fields at all conditions. We stress that our duty is to permanently develop the matrix of solutions which fulfills the needs of the various sectors of our customers, especially the Saudi market which has high growth rates in the volume of demand and fast-paced development in the ICT industry. STC aims at acquiring large portions of this market through its ambitious shift program. Through this program, we shall - with the Help of Allah - maintain the strongly-established position which STC. us A word by.

staff, customers and shareholders all deserve.
H.E. Eng. Abdul Aziz A. Alsugair, STC Chairman of the Board

A word by The CEO

In the name of Allah, the Most Gracious, the Most Merciful

Prayers and peace be upon the noblest of Prophets and Messengers, Muhammad Ibn Abdullah, his family and companions

Messrs: shareholders of Saudi Telecom Company

A year in the ICT sector may equal a generation of quantitative and qualitative development in other sectors. This highly-rapid development urges telecommunication companies to invest in two parallel tracks. The first track is focused on the long-term strategic orientations where we invest today in tomorrow's services, technologies and infrastructures. The second track is focused on the short-term procedural decisions where we quickly and considerably respond to any updates in our field, deal with all options which support our competitive attitude with high flexibility and shall be completely ready for encountering emergencies at any time. Here, comes the dire need for an accurate compass which strikes harmony between long-term strategic orientations and short-term decisions. This is exactly what STC owns and prides its possession due to the grace and favor of Allah. STC compass starts from the realistic state of affairs and ends with it.

Its pointers are the customers, its driver is the colleagues and its cardinal directions are the shareholders and the community including all its segments. This compass delineated the track of STC year after another. If we want to summarize our report for this year in one sentence, we can say that 2012 was the year of customers, colleagues, shareholders and the society. As for customers, the Company – during this year – achieved progressive breakthroughs in approaching them and providing them with services. STC managed to extend more than 5.500 kilometers of home fiber optics which, in turn, enabled the provision of services to more than half a million sites in the various regions of the Kingdom. Therefore and during 2012, the number of fiber optic subscribers tremendously increased at a percent exceeding 633% compared to the last year. The number of the 4G towers jumped from less than 500 to around 2.500 towers with a percentage of increase of 400%. The rate of coverage of the populated areas reached 99% for the second generation and 92% for the third generation. In addition, there have been remarkable developments in several service aspects such as expansion in branches network, noticeable excellence in smart devices packages and offers, growth of the broadband lines and the high marketability of the interactive TV (Invision).

As for colleagues, the last months of 2012 have been allocated for developing the business environment, raising the criteria of focusing on internal customers and reengineering the communication procedures between the various levels.

As for the society, STC confirmed its orientation to contribute to transferring the Saudi citizen to the Knowledge Community and adopt the strategies which support the realization of this target. STC believes that the telecommunication sector – in any society – is the leading sector entitled to realize such migration towards the comprehensive electronic civilization. One of the most prominent principles maintained by STC is the realization of this migration at the hands of the superior national cadres. In this context, STC was granted the Excellence Award in nationalizing jobs as the percentage of Saudization exceeded 91% in the Company, owing to the grace of Allah.

Finally, we realize that we have many things to do. We are also aware that the ceiling of development and progress becomes higher whenever we approach it. Hence, we are committed to maintaining our excellent performance in order to keep our promise with our customers, colleagues, shareholders and society with the support of Allah.

The administrative aspects are handled on the basis of complete transparency, participation, sharing knowledge among colleagues, creation of clear and effective channels to receive and manage complaints, enhancing business ethics and motivating self-impetus at each colleague regardless of his position in the hierarchy. A remarkable breakthrough has been realized in the administrative restructure project in a manner which copes with the market variables and the fast-paced developments in the telecommunication sector.

As for shareholders, STC managed to achieve an increase of 7% in the operational revenues which reached approximately SR 60 billion. Hence, the Company's solid financial position has been supported by generating profits and maximizing revenues. The total assets of the Company increased to reach approximately SR 118.000 million with an increase of 6% compared to the last year. In addition, there are also the remarkable revenues generated by the operational processes in the Saudi market and which exceeded SR 11.200 billion.

On the other hand, STC managed to cope with the decrease in the revenues of the last quarter of 2012 as well as the amortized deferred taxes which pertain to some of the Group's international investments (in India and South Africa) and these are non-repeated financial operations. The Group still enjoys a solid financial position which was positively reflected on the shareholders' equity which grew by the end of 2012 at a percent of 9% to reach SR 51.337 million compared to SR 46.908 million at the end of 2011.

Generally speaking, the Company maintained its share in the total revenues of the telecom market on the local sphere and supported its international position through 18 local and international companies (totally or partially owned) and a customer base exceeding 171 million customers in 11 countries around the world. Besides, STC participated in the largest land and marine cable network in the region and which provides services to more than 70% of the markets in the region. STC has strengthened it efforts towards helping turn Saudi society into a knowledge-based society, adopting a number of strategies to reach this goal. This is because we believe that telecommunications industry has a leading role in cultivating an electronic culture. One of the most important factors that STC took into account when making this shift, was making sure it utilised Saudi talents in the process. Because of these efforts, STC was given a special award for generating Saudi employment as, with the grace of God, the Saudiasation rate at the company has reached 91%.

At STC, we know that we have a long way to go, and that the celling for progress and innovation gets higher all the time. That's why we are committed to staying on top, achieving more, and continuing to exceed expectations with our customers, colleagues, stakeholders and our society, with the help and grace of God.

H.E. Dr. Khalid Bin Abdul Aziz Al-Ghunaim, STC CEO

The Board of Directors of STC

From right to left:

H.E. Mr. Mohamed Dhayyan Al Dhayyan

H.E. Eng. Muhammad Omran Al-Omran

H.E. Mr. Saleh Ali Al-Azal

H.E. Mr. Mohamed Abdullah Al-Kharachi (V. C. of the Board)

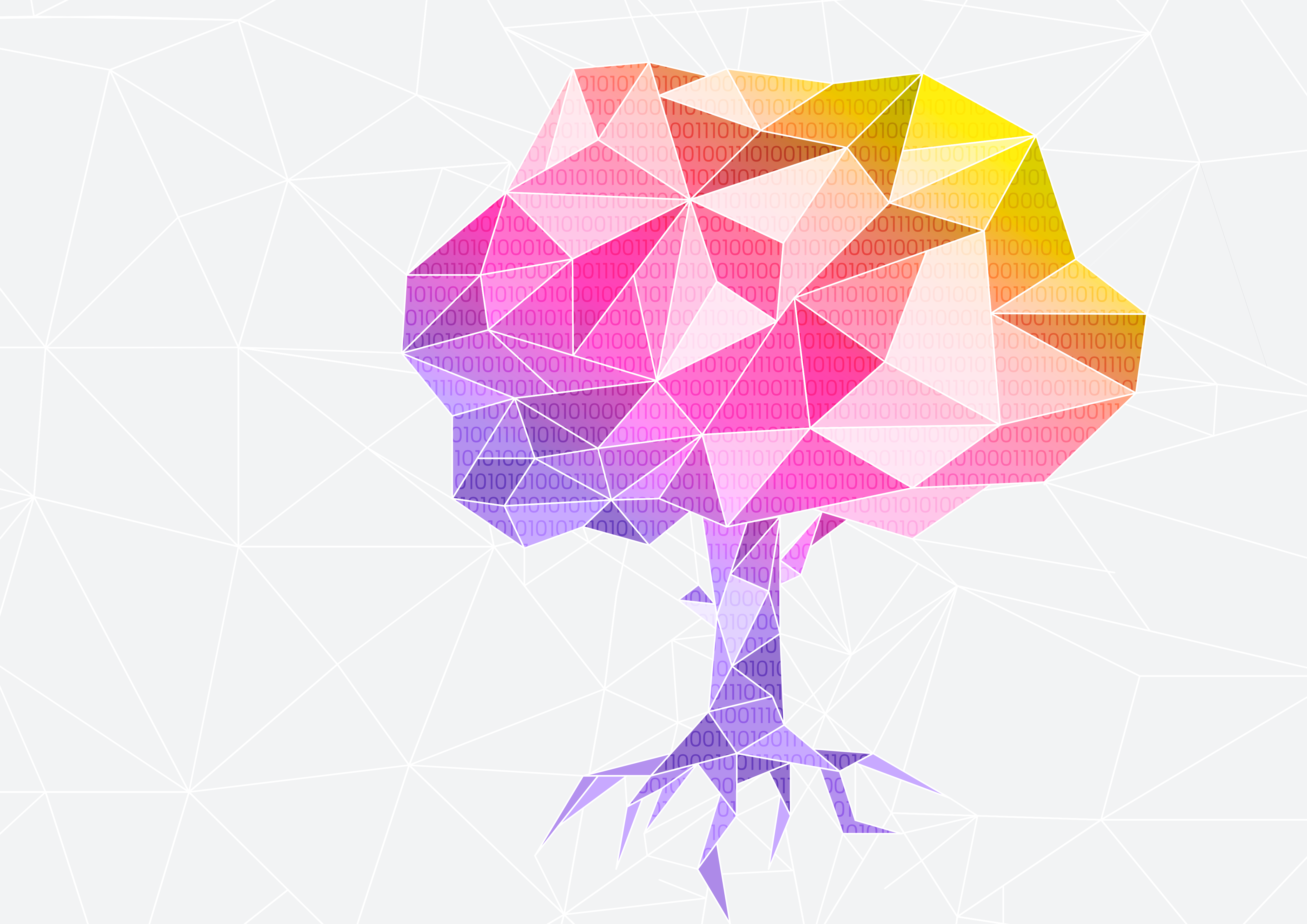
H.E. Eng. Abdul Aziz A. Alsugair (Chairman of the Board)

H.E. Mr. Muhammad Saleh Ad-Dahham

H.E. Mr. Abdul Aziz Habdan Al-Habdan

H.E. Mr. Ibrahim Ali Al-Hassan

H.E. Dr. Hamad Suliman Al-Qassumi



In The Name Of Allah

Dear Shareholders of the Saudi Telecom Company

May Allah's peace, mercy and blessings be upon you

The Saudi Telecom Company (the 'Company') was established as a Saudi Joint Stock Company pursuant to the Royal Decree No. M/35 dated 24th Dhul Hijja 1418 AH (April 21st, 1998). The decree authorized the transfer of the Telegraph and Telephone Division of the Ministry of Post (Telegraph and Telephone (MoPTT), hereinafter referred to as 'Telecom Sector', with its various components and technical and administrative facilities to the Company, in accordance with the Council of Ministers' Resolution No. 213 dated 23rd Dhul Hijja 1418 AH (April 20th, 1998), which approved the Company's Articles of Association (the 'Articles'). The Company was, at this point completely owned by the Government of the Kingdom of Saudi Arabia (the 'Government'). Pursuant to the Council of Ministers' Resolution No. 171 dated 2nd Rajab 1423 AH (September 9th, 2002), the Government sold 30% of its shares. The Company commenced its operations as the provider of telecommunications services in the Kingdom of Saudi Arabia (the 'Kingdom') on the 6th of Muharram 1419 AH (May 2nd, 1998) and received its Commercial Registration No. 1010150269 as a Saudi Joint Stock Company on the 4th of Rabi I 1419 AH (June 29th, 1998). The Company's head office is located in Riyadh.

The Company has made various investments in associates, subsidiaries and joint ventures, collectively known as the 'Group'.

The details of these investments are as follows:

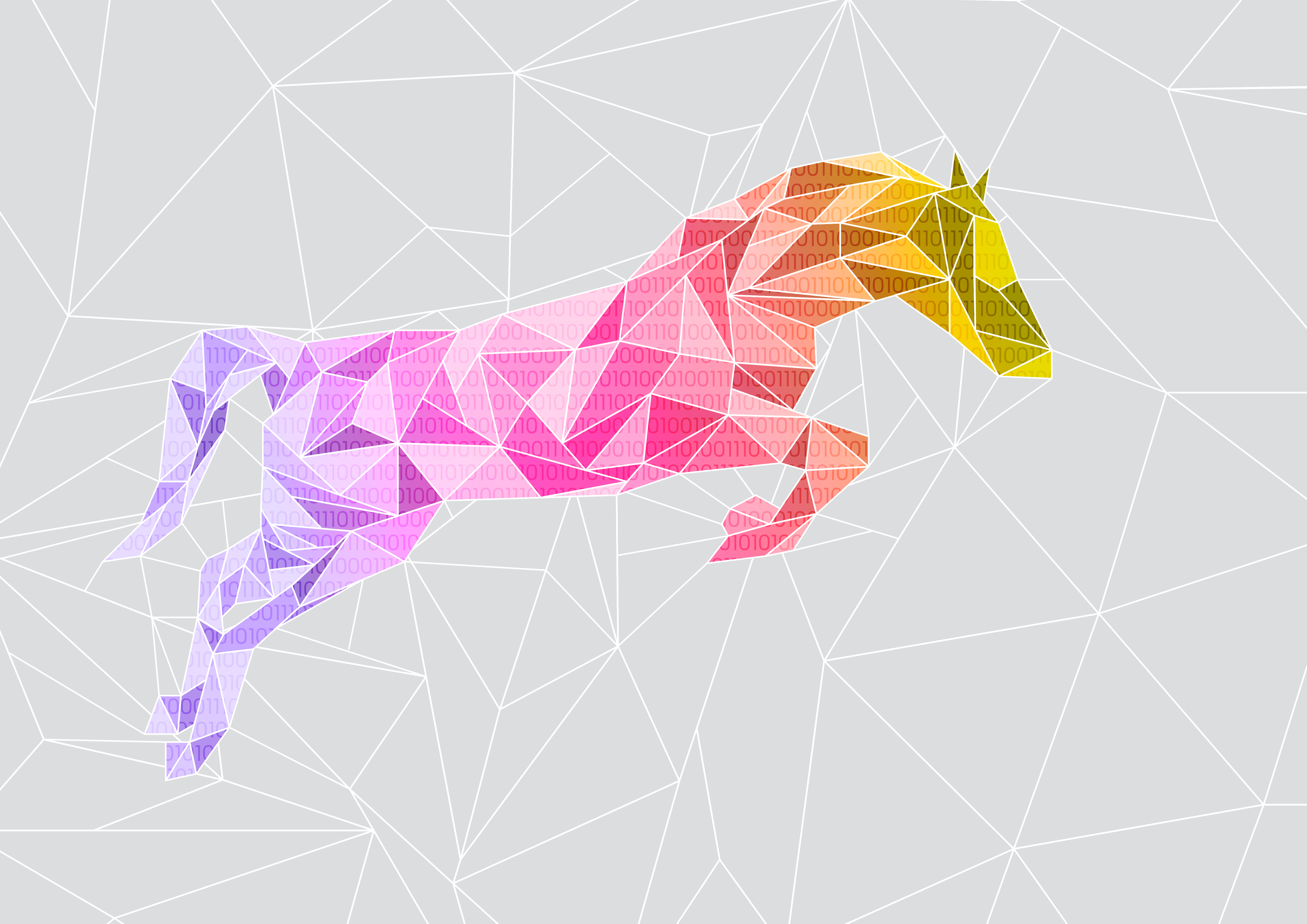
Name of Company	Ownership
Arabian Internet and Communications Services LLC. (Awal Net), KSA	100%
Telecom Investment Company Ltd., KSA	100%
STC Bahrain BSCC (VIVA), Kingdom of Bahrain	100%
Gulf Digital Media Holding BSCC, Kingdom of Bahrain	71%
Sale For Distribution and Communication Co. Ltd.	60%
Kuwait Telecom Company KSCC (VIVA), Kuwait	26%
BT AXIS Telecom Indonesia (formerly NTS), Indonesia	80.10%
Oger Telecom Ltd., UAE	35%
Binariang GSM Holding Group, Malaysia	25%
Arab Submarine Cables Company Ltd., KSA	50%
Arab Satellite Communications Organization (Arabsat), KSA	36.66%
Call Center Company, KSA	50%

The main activities of the Group are focused on the provision of ICT and media services and their objectives include – for example but they are not limited to – the following:

a. Creating, managing, operating and maintaining fixed and mobile communication networks and systems
b. Providing customers with the various communication services, maintaining and managing them
c. Preparing the plans and studies necessary for developing, implementing and providing communication services from all technical, financial and administrative aspects. Preparing and implementing training plans in the telecommunication field and providing or procuring the consultancy services related directly or indirectly to their works or faces of activities
d. Expanding and developing telecommunication networks and systems by using the state-of-the-art devices and equipment in the field of communication technologies especially in the area of providing and managing services
e. Providing customers with information, technologies and information-based systems including the preparation, printing and distribution of telephone directories, business directories, pamphlets, information and data and providing the communication means required to transfer Internet data in a manner that shall not contradict the resolution of the Cabinet No. 163 dated on 23/10/1418 AH. Providing general PC services and other activities related to telecommunications and services provided by the Company whether for media, business or advertising purposes or any other purposes deemed fit by the Company.
f. Wholesale and retail trade, importing, exporting, purchasing, owning, renting, manufacturing, marketing, selling, developing, designing, installing, and maintaining equipment, components and parts of the various telecommunications networks, including fixed, mobile and private networks as well as computer software, intellectual property, provision of other services and carrying out contracting works related to the various telecommunications networks.
g. Investing the Company's properties and the consequent actions such as selling, purchasing, leasing, managing, developing and maintaining such real estates.

In addition, the Company may establish other companies and cooperate with other Saudi or foreign companies, organizations or institutions which perform similar activities or complementary to its business and which may assist STC to achieve such purpose by purchasing them in whole or in part.

The Company's Board of Directors is pleased to submit to the valued shareholders this annual report on the Group's performance, and business results for the fiscal year 2012, reflecting the continued development of the Group's performance in the various aspects of its activities. The report illustrates its role in the promotion and development of the telecommunications sector in the Kingdom of Saudi Arabia so as to serve the Saudi society, achieve the national development plans, effectively contribute in promoting the national economy and achieve rewarding returns for its shareholders.



The Company's activities & performance during the fiscal year 2012

a. Operating Performance

1. STC

- **Personal Business Unit**

STC continued to provide excellent performance and maintain its pioneering position in the mobile market. 2012 witnesses a focus on increasing investments in developing the wireless network infrastructure and maximizing its penetration and consequently the customer's experiment in providing the state-of-the-art technologies has been enhanced. In order to support investments in the infrastructure and the dissemination of coverage, the sites covered by the 4Gt services LTE have increased to more than 2500 sites at 38 cities in the Kingdom of Saudi Arabia with a percentage of penetration reaching 65% of the populated sites by the end of the current year 2012 and by the end of 2014, it is targeted to reach 95% in order to provide high-speed wireless Internet reaching 100 Mbps.

The Company maintained its investments in other technologies to provide speeds reaching 84 Mbps on the advanced 3-generation networks HSPA + which are characterized by the wide coverage of all cities and provinces of the Kingdom so that the percentage of penetration shall be more than 92% for the third generation and 99% for the second generation.

Continuing to provide the most recent world-class services and offers, the Company provided its customers with various options to use the Internet through QuickNet packages and the most developed smart devices in addition to a wide variety of versatile applications. The Company continued to strike global partnerships with the largest and most renowned manufacturers of smart devices all over the world in order to attract new partners to share its success in establishing excellence for its customers. The number of its offices reached 300 all over the Kingdom. Through them, the Company provides smart devices provided by ten of the most prestigious hardware companies all over the globe: BlackBerry, Motorola, Apple, Sony, Sony Ericsson, Samsung, LG, Huawei, Nokia and Acer.

During 2012, 22 models of developed hardware have been provided and included in various packages which fulfill customers' mode of usage and their purchase options.

- **Home Business Unit**

STC continued to implement the strategic expansion of its network to connect and link all sectors and facilities by utilizing the latest communication technologies that meet customers' requirements. STC expanded its home fiber optic network FTTH to gain access to more than 500 thousand sites in the fiber optic network, with a total length of more than 5,500 kilometers of home fiber optics in all regions of the Kingdom.

STC has provided this service at new high-level speeds up to 1000 Mbps to transfer customers to a new era in all broadband applications, with the possibility of providing the different content services such as interactive TV (Invision), watching video on demand (VOD), entertainment services, phone call services to all Jood saving packages, interactive games, and modern social networking channels applications as well as other services. This matter contributed to the high increase of the number of FTTH technology customers at a percent exceeding more than 633% compared to the last year. In parallel with the qualitative additions with regard to use options, the Company launched the new Jood saving packages (Jood 1, Jood 2, Jood 3 and Jood 4) which enable customers to add all their required services in one package. In addition, these packages diversify their options to get a variety of Internet speeds commensurate with their needs and desires, all from the same source on the same bill, in addition to taking advantage of all package benefits including unlimited local and internal calls and international discounted calls … etc.

- **Enterprise Business Unit**

Within the context its strenuous efforts to provide services and innovative solutions needed by the major customers such as governmental agencies and the business sector, STC worked towards building its uniform global network "SGMN", to support its regional and global presence and keep pace with the service and technical development in the ICT industry. The network includes international Points of Presence "PoP" in ten countries covering most of the Gulf countries and the region, London and Singapore, in addition to its partnerships with major leading international companies which provide special international virtual information circuit services which are all linked with the Company's MPLS network within the Kingdom. MPLS network enables its customers to connect the headquarters of their companies and branches in the Kingdom with each other along with their branches outside the Kingdom in whatever city around the world. Through MPLS, the customer can obtain several services; the most important of which are Internet Protocol Virtual Private Network "IPVPN" at the various levels of security information protection, transnational Internet service, transnational voice call traffic transfer, content services "CDN", linking international world roaming service, Backup Link Service, disaster management service and information center MRS / MHS, practical applications service and future services, Tele-presence service, and meeting the requirements of the business sector including innovative solutions and services for various governmental, security and economic sectors such as banks and service sectors such as health and education.

During 2012, the Company provided many projects, services and packages, the most important of which are:

- Linking King Abdullah Economic City in Riyadh with the fiber technology on a total area of 134.500 square meters, including 43 buildings allocated for corporate and business sectors, a five-star hotel, apartment suites and a conference hall
- Agreeing with King Faisal Specialist Hospital and Research Center to supply and install mobile communication technology solutions in its capacity as the first project of its kind in this field
- Virtual link between 221 medical facilities subservient to the Ministry of Health in the Kingdom by equipping them with the latest communication technology, IP-VPN, DIA service for connecting to the Internet and MRS

service for managing customer devices, and all of which are supported by the advanced fiber network

- IP / VPN networking of the Ministry of Education in all its affiliated buildings and facilities throughout the various regions of the Kingdom, in addition to linking schools located in remote areas with the Internet via satellite V-SAT; a matter which connected these schools with the Ministry home site "DATA Center", made it available to access information and counting scores through the technical and service programs of the Ministry of Education such as Noor and Fares
- Launching Fusion allocated for the business sector in cooperation with the Canadian company RIM. This player provides a platform for companies which enables them to control tablet devices and smart phones
- Launching the dual-wave 4G QuickNet modem for customers in the business sector for the first time in the Middle East
- Offering a variety of distinctive packages for iPhone 5 which meet the needs of business sectors
- Launching the latest package for the business sector in the Kingdom. It is Flex Business Mobile which supports private and public sector customers, provide them with flexibility and grant them the ability to control the monthly expenses of the facility.

- **Wholesale Business Unit**

STC achieved qualitative breakthroughs in building its international network which is the most advanced one in the Middle East and North Africa. STC owns one of the most recent infrastructures in the world including submarine and terrestrial cables and satellites. The Company is tainted as operator No. 1 in the Middle East and North Africa in the provision of wholesale services for service providers.

Four continental and international cables in which the company owns shares which are not available for other operators in the region have been completely operated and expanded. The company shares in more than 10 marine cables passing through the region. In addition, STC owns capacities in many other cables outside the region; a matter which currently and in the future allows the Company to get large capacities related to most world countries. Such possession enabled the Company to provide high-quality and highly reliable international services thanks to the diversity of the routes of telephone traffic, data transfer and Internet services. The Company also supported the increase of international routes allocated for Internet services and to meet the rapidly growing demand on these services, with the percentage increasing at a rate of 35% during 2012.

2. Local Subsidiaries

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

Arabian Internet and Communications Services LLC. was established in April 2002. It is an Internet service provider, carries out telecoms projects and provides data transfer and processing in the Saudi market. STC owns 100% of Arabian Internet and Communications Services LLC., totaling SR 100 million.

- **Telecom Investment Company Ltd., KSA**

The Telecom Investment Company was established in the Kingdom of Saudi Arabia in October 2007. Its purpose is to operate and maintain telecommunication networks and business systems, computer and Internet networks, maintain and operate and install systems and communication software and information technology in the Saudi market. STC owns 100% of its one SR million share capital.

- **Sale For Distribution and Communication Co. Ltd. (SALECO), KSA**

Sale For Distribution and Communication Co. Ltd. was established in the Kingdom of Saudi Arabia in January 2008. It operates in the retail and wholesale of recharge services for prepaid telecom SIM cards, telecom devices, accessories and computer services (computer applications, maintenance and spare parts), electronic appliances, wired telecom devices and associated spare parts. It carries out the sale and resale of all fixed and mobile telecom services and maintains and operates commercial centers. The Company operates in the Saudi market and STC holds 60% of its basic capital amounting to 100 million Saudi Riyals.

3. International Subsidiaries

- **STC Bahrain BSCC (VIVA), Kingdom of Bahrain**

STC Bahrain BSC Closed (VIVA), a Bahraini closed Joint Stock Company, was established in February 2009 in the Kingdom of Bahrain and is a 100% owned subsidiary of STC with a capital of BD 75 million (equivalent to approximately SR 746 million according to the then prevailing exchange rate). Starting operations in March 3, 2010, the Company is active in all fields of mobile communication services, international communication and other services relevant to the Bahraini market. In spite of fierce competition in the Bahraini market, VIVA Bahrain managed to exceed expectations this year. VIVA Bahrain is the best telecom company in the Bahraini market in terms of the number of customers.

- **Gulf Digital Media Holding (Integral) (BSCC), Kingdom of Bahrain**

Gulf Digital Media Holding was established in June 2009 in the Kingdom of Bahrain. The holding company holds shares in several companies active in the content services and digital media fields in the Gulf region. STC owns 51% of its capital of BD 28 million, (equivalent to approximately SR 281 million according to the then prevailing exchange rate). In line with the Group's strategy to focus on content services leading to a great customer experience, ownership was increased to 71% in 13 December 2011.

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

In December 2007, STC acquired 26% of the Kuwait Telecom Company K.L.L. (VIVA), a total of KD 50 million, (equivalent to approximately SR 650 million at the then prevailing exchange rate). VIVA provides mobile telecom services in Kuwait and commenced its commercial operations in 4 December 2008. STC Group manages Kuwait Telecom Company K.L.L. (VIVA) and it processes its investments in a uniform manner as STC controls the financial and operational policies because it is represented in VIVA board by the majority of members. The Company's operations in Kuwait grew largely in the first few years. VIVA Kuwait acquired a 26% market share by the end of the third quarter and achieved a leading position in offering broadband services at the market's highest speeds. This is largely a result of high network quality, its reliance on up-to-date 3G technologies and comprehensive coverage all of Kuwait.

- **PT AXIS Telekom Indonesia (formerly NTS), Republic of Indonesia**

PT AXIS Telekom Indonesia obtained a license to operate a 3G mobile phone network in Indonesia. It commenced commercial activity in the Indonesian market during the first quarter of 2008. STC acquired 51% of PT AXIS Telekom Indonesia in September 2007 for IDR 7.8 trillion, (equivalent to approximately SR 3.2 billion according to the then prevailing exchange rate). In April 2011, STC increased its share in PT AXIS Telekom Indonesia at a percent of 29.10% to be 80.10%. Accordingly, this investment has been re-categorized as an investment in local subsidiaries rather than an investment in joint ventures. Fair value of the net assets was used on April 6, 2011 to calculate the goodwill arising from the Company acquisition of a ratio of 29.10% as an additional share in PT AXIS Telekom Indonesia. Such value was calculated based on the reports determining such value and which have been completed at the end of the fourth quarter of 2011. Consequently, this led to the redistribution of the amounts previously recorded for goodwill.

4. Joint Ventures

- **Oger Telecom Ltd., UAE**

Oger Telecom Ltd. is a holding company registered in Dubai, UAE, with investments in companies operating in the telecommunications field in Turkey and South Africa. In April 2008, STC acquired 35% of Oger Telecom Ltd. for USD 3.6 billion, (equivalent to approximately SR 13.5 billion at the then prevailing exchange rate).

- **Binariang GSM Holding Group, Malaysia**

The Malaysian Binariang Group is an investment holding company which was owning 100% of the Malaysian Holding Company Maxis, which operates in the mobile communication sector in Malaysia. At first, it was not listed on the Malaysian Stock Market. However, it issued 30% of its shares for public subscription in November 2009 and is, since then, listed on the Malaysian Stock Market. In July 2012, another share of 5% was also sold. Following this, Binariang's ownership of Maxis was reduced to 65%. Moreover, Binariang GSM Holding made several other investments in telecommunications companies, namely in India (Aircel) and PT AXIS Telekom Indonesia. In September 2007, STC acquired 25% of the Binariang Group's capital for MYR 20.7 billion, (equivalent to approximately SR 23 billion according to the then prevailing exchange rate). The purpose of this acquisition was to be present in highly populated countries, which resemble the local market in Saudi Arabia. This enabled STC to penetrate high-profile South Asian economic markets where the GDP reaches USD two trillion.

During the year ending as of December 31, 2012, the Telecom Authority of India filed a notice requesting Aircel Company, India, a subsidiary of Binariang Group to pay an amount in which the Group share reaches SR 231 million in return of additional spectrum fees related to three areas. Aircel is about to appeal the said ordinance before the Indian Supreme Court.

During the year ending as of December 31, 2012, Binariang Group amortized deferred taxes in which the Group share reaches an amount of SR 544 million. These taxes are associated with the fair value of the license fees and spectrum charges resulting from the acquisition of Aircel Company, India on 2007. Due to the amendment on the decisions of the regulatory body, this led to a change in the nature of the categorization of these assets from intangible assets with non-specific ages to intangible assets with specific ages. The Company will follow up this issue with the competent authorities through the Group.

The above-mentioned subsidiary companies or joint ventures didn't issue any debt instruments in the form of Sukuk, except for Binariang GSM Holding Group. As of the 31st of December 2012, the Group's share was SR 2.604 million in the Sukuk, which was used to finance the acquisition of the Malaysian Holding Group Maxis. Later on, 30% of its shares have been issued for public subscription and listed on the Malaysian Stock Market. The Sukuk maturity is in ten years. The average profit rate reached the Kuala Lumpur Interbank Offered Rate (KLIBOR) plus 0.45.

5. Investments

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

Arab Submarine Cables Company Ltd., KSA

The Arab Submarine Cables Company Ltd. (LLC) was established in September 2002. It provides, rents, manages and operates a marine cable connecting Saudi Arabia and the Republic of the Sudan to facilitate communication between them and any other country. The Company commenced operations in June 2003 and STC owns 50% of its capital amounting to SR 75 million.

Arab Satellite Communications Organization (Arabsat), KSA

This organization was established in April 1976 by member states of the Arab League. Arabsat offers various services to member states and to all public and private sectors within its coverage area, mainly the Middle East. Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis. The Company owns 36.66% of its USD 500 million share capital, (equivalent to approximately SR 1,875 million according to the then prevailing exchange rate).

Call Center Company, KSA

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

- **Other Investments**

Venture Capital Fund

STC has established and financed a venture capital fund, which invests in emerging, small and medium-sized telecommunications and information technology companies in Saudi Arabia and other global markets. Initially, STC intends to invest a self-financed amount of USD 50 million equivalent to SR 187.5 million, (of which USD 12.5 million equivalent to SR 46.8 million has been paid). In principle, the Company will be the sole investor and local and international companies will be invited to invest later. The Fund will target local, MENA, European and US markets in order to reduce its investment risks. The Fund will be managed by Ares Capital – a leading global venture capital fund manager.

b. The Group's financial performance

Net income in 2012 reached SR 7,276 million, compared to SR 7,729 in 2011, a decrease of 6%. Earnings per share in 2012 amounted to SR 3.64 against SR 3.86 in 2011. Gross profit in 2012 amounted to SR 33,589 million compared to SR 31,328 million in 2011, with an increase of 7%, whereas operating income for 2012 reached SR 11,208 million, compared to SR 11.171 million in 2011, with an increase of 1%. 2012 Earnings Before Interest, Tax, Depreciation and Amortization, "EBITDA", reached SR 20,246 million, compared to SR 20,025 in 2011, with an increase of 1%. 2012 cash flows from operating activities decreased by 27% compared to 2011. Total assets increased to SR 117,904 million at the end of 2012, compared to SR 111,402 million in 2011, with an increase of 6%. In addition, liabilities reached SR 59,009 million, compared to SR 57,319 million at the end of 2011. The Group has a strong financial position and high profits reflected positively on shareholders' equity which grew by the end of 2012 at a rate of 9% to reach SR 51.337 million compared to SR 46.908 million at the end of 2011.

The financial impact of major activities at Group level

STC provides telecom services throughout KSA and has various investments in local and international subsidiaries, associates and joint ventures, collectively known as the "Saudi Telecom Group" for the purpose of these financial statements. The main activities of the Group comprise the provision of a variety of telecommunications services, including: mobile (second, third and fourth-generation); fixed local, national and international telephone; and data services, such as data transmission, leased lines, Internet services and e-commerce.

The main operating segments of the Group are:

- GSM, in which the main services are: mobile, third and fourth-generation services, prepaid cards, international roaming and messages.
- PSTN, in which the main services are: fixed line, card telephones, interconnect and international calls.

- DATA, in which the main services are: leased data transmission circuits, DSL and Internet.
- Unallocated, comprising items not included in the main operating segments of the Group.

The following table illustrates the financial impact of major activities at Group level for the year 2012:

Description (Saudi Riyals in millions)	Mobile	Landline	DATA	Unallocated	Total
Revenue from services	38.012	8.360	13.440	(450)	59.362
Depreciation and amortization	4.267	3.499	672	600	9.038
Net revenue	3.529	(302)	4.251	(202)	7.276
Total assets	41.306	35.341	9.121	32.136	117.904
Total Liabilities	23.674	13.224	2.868	19.243	59.009

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

Description (Saudi Riyals in millions)	2008 Consolidated Audited	2009 Consolidated Audited	2010 Consolidated Audited	2011 Consolidated Audited	2012 Consolidated Audited
Income statement					
Operating revenues	47,469	50,780	51,787	55,662	59.362
Operating expense	(32,134)	(37,967)	(40,809)	(44,491)	(48,154)
Gross profit	15,335	12,814	10,978	11,171	11,208
Other income and expenses, net	(3,293)	(683)	(1)	(2,683)	(1,994)
Zakat, taxes and non-controlling interest	(1,005)	(1,267)	(1,541)	(759)	(1,938)
Net income	11,038	10,863	9,436	7,729	7,276
Statement of Financial Position					
Current assets (a)	18,946	22,663	18,704	21,967	28.793

Description (Saudi Riyals in millions)	2008 Consolidated Audited	2009 Consolidated Audited	2010 Consolidated Audited	2011 Consolidated Audited	2012 Consolidated Audited
Current liabilities (b)	22,899	29,341	26,618	25,263	25.288
Working capital (a-b)	(3,952)	(6,678)	(7,914)	(3,296)	3.505
Current assets	18,946	22,663	18,704	21,967	28.793
Other non-current assets	4,739	4,966	5,112	5,032	4.976
Fixed and intangible assets	76,077	81,959	86,966	84,403	84.135
Total assets	99,762	109,588	110,781	111,402	117.904
Current liabilities	22,899	29,341	26,618	25.263	25.288
Long-term loans	28,081	22,711	21,741	23,960	26.124
Other liabilities	6,220	6,703	8,957	8,096	7.597
Total liabilities	57,200	58,755	57,317	57,319	59.009
Paid-up capital	20,000	20,000	20,000	20,000	20,000
Reserves, Retained Earning and Translation Differences	17,638	22,035	24,996	26,908	31.337
Shareholders' equity	37,638	42,035	44,996	46,908	51.337
Non-controlling interest	4,924	8,798	8,468	7,174	7.558
Equity	42,562	50,833	53,464	54,082	58.895
Total liabilities and Shareholders' equity	99,762	109,588	110,781	111,402	117.904
Cash flow statementt					
Net operating cash flows	21,149	15,956	18,989	16,488	12.026
Net investing cash flows	(35,469)	(13,542)	(12,365)	(8,264)	(9.243)
Net financing cash flows	14,763	(2,765)	(8,283)	(7,686)	(4.252)
Net cash flows	443	(351)	(1,659)	538	(1.469)
Cash and cash equivalents at the beginning of the period	7,618	8,061	7,710	6,051	6.589
Cash and cash equivalents at the end of the period	8,061	7,710	6,051	6,589	5.120

Geographic analysis of the consolidated service revenues at Group level: During 2012, the Group achieved revenues of SR 59,362 million, of which foreign investments at Group level contributed 32%. The following table outlines the geographic analysis of these revenues according to the Group's strategic investments:

Description (Saudi Riyals in millions)	International revenues (Saudi Riyals in millions)						Total
STC, Arabian Internet and communications Services LLC. (Awal), Telecom Investment Company Ltd., Sale For Distribution and Communication Co. Ltd (Sale Co.)	STC Bahrain (VIVA)	Gulf Digital Media Holding (Integral)	Kuwait Telecom Company (VIVA)	Oger Telecom Ltd.	PT AXIS Telekom	Binariang GSM Holding Group	
40,400	992	586	1,832	10,437	935	4,180	59,362

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

The most important operating performance figures at Group level in 2012, compared to 2011, are as follows:

Description (Saudi Riyals in millions)	2012 Consolidated	2011 Consolidated	Change	%
Income statement				
Revenues from services	59,362	55,662	3,700	7%
Cost of services	(25,773)	(24,334)	(1,439)	6%
Gross profit	33,589	31,328	2,261	7%
Operating expenses	(22,381)	(20,157)	(2,224)	11%
Operating income	11,208	11,171	37	1%
Other income, expenses, Zakat, taxes and non-controlling interests	(3,932)	(3,442)	(490)	14%
Net income	7,276	7,729	(453)	6%

The most important reasons for the 6% decrease in the net income in 2012, compared to 2011, (in spite of the increase of the total profit at a percent of 7.2%) are as follows:

- During the year ending as of December 31, 2012, the Group reviewed the values of its investment in Cell C in South Africa and Aircel in India. This led to recording an amortization in the value of non-current assets at an amount of SR 640 million. This process is non-monetary, non-recurring and has no effect on cash flows.
- There was a change in the telecommunication regulations in India. Consequently, Binariang Group amortized deferred taxes resulting from Aircel operations in India in which the Group share reaches an amount of SR 544 million. This process is non-monetary, non-recurring and has no effect on cash flows.

When excluding these two processes, the net profit for the year 2012 shall be approximately SR 8,460 million with an increase of 9.5% compared to the previous year.

Murabaha and Group loans

They are represented by:

Description (Saudi Riyals in millions)	2012 Consolidated
Short-term	4,717
Long-term	26,124
	30,841

- **Saudi Telecom Company**

During the third quarter of 2007, the Company obtained financing facilities in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.25. Maturity is 60 months. The total amount of these facilities utilized as of December 31st, 2012 was SR 6,000 million. During the fourth quarter of 2007, financing facilities were obtained in the form of Murabaha deals from a branch of local bank in Malaysia based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45. Maturity is 120 months. The total amount of these facilities utilized as of December 31st, 2012 was SR 1,688 million. In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.25. Maturity is 120 months. The total amount of these facilities utilized as of December 31st, 2012 was SR 9,500 million. During the third quarter of 2010, financing facilities of SR 1,000 million were obtained in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.50. None of this facility has been utilized as of December 31st, 2012. During the third quarter of 2011, financing facilities of SR 2,250 million were obtained in the form of Murabaha deals from several local banks based on the Saudi Arabia Interbank Offered Rate ("SAIBOR") plus 0.60. None of this facility has been utilized as of December 31st, 2012. During the fourth quarter of 2008, the Company started repayment of due installments of the financing facilities. Amounts settled as of December 31st, 2012 amounted to SR 9,702 million, of which SR 2,273 million were settled during the year ended December 31st, 2012.

- **Oger Telecom Ltd. – UAE**

As of December 31st, 2012, the Group's share in the borrowings and bank facilities extended to Oger Telecom Ltd. amounted to SR 10,098 million. The non-current portion of Murabaha and loans included loans reaching approximately SR 736 million against mortgage of fixed assets.

Binariang GSM Holding Group

As of December 31st, 2012, the Group's share was SR 2,604 million in the Sukuk, and SR 6,776 million in bank facilities and finance lease contracts. The Sukuk were utilized in financing the acquisition of Maxis, the Malaysian Holding Group, which subsequently put 30% of them to the public and was listed on the Malaysian financial market. There are also registered bank deposits against loans reaching approximately SR 1.138 million.

- **PT AXIS Telecom – Indonesia (previously NTS)**

As of December 31st, 2012, the Group's share in the borrowings and bank facilities extended to PT AXIS Telecom amounted to SR 2,248 million. The non-current portion of Murabaha and loans also includes loans around SR 1.821 million against the mortgage of fixed assets, bank accounts, accounts receivable, insurance proceeds and the share of STC.

- **Kuwait Telecom Company (VIVA) (KCC) - Kuwait**

As of December 31st, 2012, the Group's share in Kuwait Telecom Company (VIVA) borrowings and bank facilities amounted to SR 467 million.

- **STC Bahrain (VIVA) (BSCC) - Kingdom of Bahrain**

As of December 31st, 2012, the Group's share in STC Bahrain (VIVA) borrowings and bank facilities amounted to SR 1.163 million. The non-current portion of Murabaha and loans also includes Islamic Murabaha of around SR 1.158 million against the mortgage of fixed assets.

Statement of the value of governmental amounts due paid by the Company and a brief description of their reasons:

Statement	(Saudi Riyals in millions)	Description	Reason
Governmental fees	2,934	Amounts paid or overloaded on the period according to the provisions of licenses granted to the Company against the commercial provision of services and usage of frequency spectrum	A governmental prerequisite
Profit dividends	3,347	Amounts paid or overloaded on the period as profit distributions to the government and semi-governmental bodies (such as Public Investment Fund, Public Authority of Retirement and Public Authority of Social Insurance)	A governmental prerequisite
Social Insurance	292	Amounts paid or overloaded on the period according to the provisions of labor system in the Kingdom of Saudi Arabia	A governmental prerequisite
Zakat, deduction tax and others	190	Amounts paid or overloaded on the period according to the provisions and rules of Zakat Cornerstone, income tax system, and the fees of Sadad system in the Kingdom of Saudi Arabia	A governmental prerequisite
Total of due and paid amounts to government and semi-governmental bodies	6,763	It represents the due and paid governmental amounts settled to the Kingdom of Saudi Arabia	

Implementing the equity method instead of the proportional consolidation method

The company has investments in projects under the joint control. It manages and consolidates such projects in its consolidated financial statements in accordance with the proportional consolidation method in accordance with the International Standard No. 31 taking into consideration that this matter has not been covered in the standards issued by the Saudi Organization for Certified Public Accountants.

On May 12, 2011, the International Accounting Standard Board issued the International Standard No. 11 as an alternative for the International Standard No. 31, which included the cancellation of the application of the proportional consolidation method and the usage of the equity method instead as from January 1, 2013. Accordingly, the Company - retroactively and as of 2013 - shall apply the equity method on projects under joint control in accordance with the standard No. 16 issued by the Saudi Organization for Certified Public Accountants.

The following note illustrates a comparison of the most important items of the financial position and income statements if these projects have been managed in accordance with the equity method starting from 2012:

(In SR millions)	The year ending as of December 31, 2012		The year ending as of December 31, 2011	
	After implementing the equity method (non-audited)	Before implementing the equity method (audited)	After implementing the equity method (non-audited)	Before implementing the equity method (audited)
Service revenues	44.745	59.362	40.573	55.662
Total income	25.262	33.589	22.401	31.328
Net income	7.276	7.276	7.729	7.729
Total assets	82.504	117.904	77.568	111.402
Total liabilities	31.319	59.009	30.830	57.319
Total Murabaha and loans	11.365	30.842	11.992	29.931
Shareholders' equity	51.337	51.337	46.908	46.908

Penalties, sanctions and reserve limits

There have been some fines imposed by the Communications and Information Technology Commission, but these remain unapproved by the Company, pending legal proof. As per the applicable regulations, complaints have been submitted to the Grievances Department. These penalties are under consideration by the Grievances Department and no decisive judgments have been passed to date.

Potential Risks

- **Operating risks**

No economic sector is free from potential risks. Undoubtedly, some risks may be a result of the developments in the Saudi telecoms sector, which is witnessing rapid changes. Major risks lie in the launch of new competitors and fiercer competition, as well as the need to provide customers with outstanding, high-quality and versatile services. Furthermore, fast-paced technological progress, which is now a major challenge to many telecom companies, compels them to adopt new high-cost technologies that may involve substantial risks. The Company has taken this into consideration, when developing its strategy, thereby maintaining its primary position in the market.

- **Financial Risks**

Fair value risk

This is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial instruments do not differ materially from their fair values as at 31st December 2012 and 2011, which is as follows:

Cash and cash equivalents, accounts receivables, payables and other receivables and payables' fair values are considered approximate to their recorded amounts, due to their short-term nature.

Fair values of shares in active markets rely on fair market values.

Fair value of Government bonds and loans rely on discounted cash flows. Management does not believe that the fair values of the Group's financial assets and liabilities differ materially from their book values.

Commission rate risk

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

Currency risk

This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and enters into hedge agreements when the need arises, in order to minimize any potential impact. In addition, the official and basic currency of the Group is the Saudi Riyal. Currently, its price is fixed, with a small margin, against the US Dollar.

Credit risk

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

Liquidity risk

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

The Company Dividend Distribution Policy

Article 44 of STC Articles of Association states that the Company's annual net profits are distributed after deducting all general expenses and other costs as follows:

- 10% of the net profit is appropriated to the statutory reserve. The Annual General Meeting may freeze such appropriation if the said reserve reaches half of the capital. It is to be noted that such a reserve reached the maximum statutory limit during 2010. Therefore, appropriations have been frozen.

- The Annual General Meeting may, upon the proposal of the Board of Directors, appropriate a percentage of the net profits to form a contingency reserve and allocate it for a specific purpose(s).
- After such appropriation, and from the remaining amount, 5% of the paid-up capital shall be distributed as an initial payment to the shareholders.
- After taking the above step, a percentage of the remaining amount not exceeding 0.5% (half of one per cent) shall be allocated as remuneration for the Board of Directors as identified by the Annual General Meeting. All remaining amounts shall then be distributed as an additional share in profits to the shareholders, while taking into consideration the instructions issued by the Ministry of Trade in this respect.
- Article 45 of STC Articles of Association states that the profits scheduled to be distributed to shareholders shall be distributed at the place and on the dates defined by the Board of Directors, provided that the date of distribution shall not exceed one month from the date of approval of the distribution, by the Annual General Meeting.
- Dividend distribution depends on the Company's profits and its cash flow, as well as future investment prospects of both main and new investments, taking into consideration the necessity of maintaining a solid financial position to counter any change in general conditions or any significant variation in the telecom sector. The Company has always paid substantial quarterly dividends, compared to the net profits and cash flow achieved. Despite expectations to pay shareholders dividends on a quarterly basis, there are no guarantees that this policy will continue, or assurances as to the amount to be paid in any given year. Hence, the dividend distribution policy may be subject to change from time to time. Cash dividends shall be paid in Saudi Riyals.

Contribution in the National Income

The Company's contribution in the national income, since 2000 and up to the end of 2012 amounts to more than SR 112 billion, in the form of fees paid and the Government's share in annual profits.

C. Strategic orientations

STC maintains its strategic orientations based on its primary axis which the "customer". The Company is incessantly keen on providing an excellent experience for all its segments of customers. The Company adopted future policies which achieve balance between the rapidly growing developments in the digital communication universe and the emergence of new needs and requirements for its customers in the various sectors by concentrating on the following six principles:

- Maintaining a leading position in providing and developing mobile services
- Leadership in providing the broadband new generation services
- Expansion in the provision of business services and leadership in digital services
- Excellence in providing an integrated experience for customers
- Achieve operational efficiency and effectiveness
- Achieve growth in sales of the wholesale customer care center

D. Human resources

During the last quarter of the fiscal year 2012, the executive management started to conduct a comprehensive review of the current organizational structure and the main processes based on the actually existing organizational structure of the Company and measuring it compared to the present and future strategic orientations. In this regard, the best forms of administrative organization necessary for achieving the ambitions of the Company and its strategic objectives have been investigated. Currently, a comparison is made between the available structural and organizational alternatives in order to select the proper organizational form in order to achieve the higher objectives of the Company. Saudi Telecom achieved the highest rates of Saudization which exceeded 91%. Such rates have been realized through the Saudization, Recruitment and Development Programs consistent with STC orientation towards hiring national young cadres. Within the framework of the company's efforts to raise the efficiency of its staff, improve the performance of its workforce, and develop the internal business environment, the Company focuses on the following programs:

- **Human resources training and development program**

About 1,574 training courses have been held and about 13,830 members of company staff have benefited from attending them. In addition, 161 workshops have been held using the WebEx technique – and 6,672 employee have benefited from them.

- **Early retirement program**

The Workforce Improvement Program is still available and it allows employees who wish to leave their jobs and obtain pension entitlements to do so. To date, 355 employees have benefited from the program, at a cost of SR 297.5 million.

- **Staff Loans Program**

The Housing Loans Program is still offered and, during 2012, 121 employees benefited from it by borrowing an amount of SR 154.452.728. In addition, during 2012, 92 employees benefited from the Vehicle Loans Program at a cost of SR 16.464.100.

- **The Social Solidarity Fund Program**

The Company continued to adopt the Social Solidarity Fund which aims to develop team spirit, cooperation and solidarity among the Company's staff. The Fund contributes towards overcoming any difficulties in life, experienced by colleagues, by providing non-refundable financial subsidies to eligible staff and refundable interest-free loans to the program participants. The Company contributed an amount of SR 5 million in the program's first year, and has since provided an annual support of SR 2 million.

During 2012, the Company provided 181 solidarity grants worth SR 1.181.000 and 975 financial subsidies worth SR 17.981.136.

E. Social responsibility

Currently, STC works towards reviewing and updating the Company's strategy with regard to social responsibility, focusing on community development in technical areas and contributing to the migration of Saudi Arabia to the information society. Such role stems from STS awareness of the size of the social responsibility entrusted to it. STC has the honor to provide such services within an integrated package in various areas which enabled it to be in the forefront on the level of the region. STC draws on the basis that it is an important player in a social entity which plays a crucial role in contributing to developing and applying national plans which aim at developing and improving the community members, especially people with special needs, as positively reflected on their working lives and social development and which ultimately leads to a radical change which, in turn, steers the promotion of the areas of innovation and talent development

In addition, Saudi Telecom sought to implement loyalty programs and launch many exclusive social initiatives, by virtue of which it recorded a significant presence in all national forums. STC worked towards supporting people with special needs by recently donating an amount of SR five million to support Prince Salman Center for Disability Research out of its belief in its national and social duty towards this category.

In another important track and to contribute to the overall development of the society, STC headed towards the health field. It presented its experience in the field of social responsibility by establishing and equipping dozens of health centers in the Kingdom at an amount of SR 100 million. During this year, many of these centers have been opened and operated and they were of significant benefit to the inhabitant of villages where they have been opened. This initiative is the strongest of its kind with regard to the health of the Kingdom citizens to be adopted by the private sector to support health services at levels of the Kingdom. In addition, there are STC outstanding initiatives exerted for the people of this dear country especially people with special needs. STC organized auctions of special numbers and the proceeds of such events are harvested by the most important charities which serve our children in this category. The proceeds of these auctions have been fully deposited to support the Disabled Children's Association, Kilana Association and Insan Association evenly between the three associations. Saudi Telecom treads these leading steps surpassing financial objectives to a higher and more prestigious target which is to contribute to community development and advancement. This appears evidently in the tremendous success of this event at both the local and regional arenas. Consequently, STC won the appreciation of both the state and the society. In addition, STC opened the doors for performing good deeds through its technologies and network. It enabled all customers to provide their donations for their desired charities in Saudi Arabia and took over the responsibility of delivering these donations to the said associations. Saudi Telecom exclusively offered special innovative packages, as its trained personnel serve people with special needs and meet their technical needs in each of its branches in all regions of the

Kingdom, to help them communicate with the world through voice and video calls and messaging. In addition, it secured the tools and instruments which have been specially designed to help them get in and out of STC branches, believing that it is required to provide all resources so as to ensure everyone an equal opportunity to share with others on an equal footing. STC continued its tangible social role in this field by providing the Initiative of Deaf and Hearing-Impaired Students by equipping halls and resource rooms and providing all tools and devices at the center of people with special needs in King Saud University to ensure a learning environment suitable for this group of students and facilitate their lives.

In a humanitarian gesture, the Company also responded to the directives of the Custodian of the Two Holy Mosques King Abdullah Bin Abdul Aziz to open its channels for the donation campaign to support the people of Syria in August 2012. The campaign achieved resounding success. It helped STC customers provide their donations which amounted to SR 22.182.080 million through official channels to reach officials to deliver them to the beneficiaries in order to alleviate their distress. STC enabled people to communicate and perform good deeds in the simplest and easiest manner. All such initiatives and similar others undertaken by Saudi Telecom make it at the forefront of national companies which shoulder their responsibility towards their homeland and society.

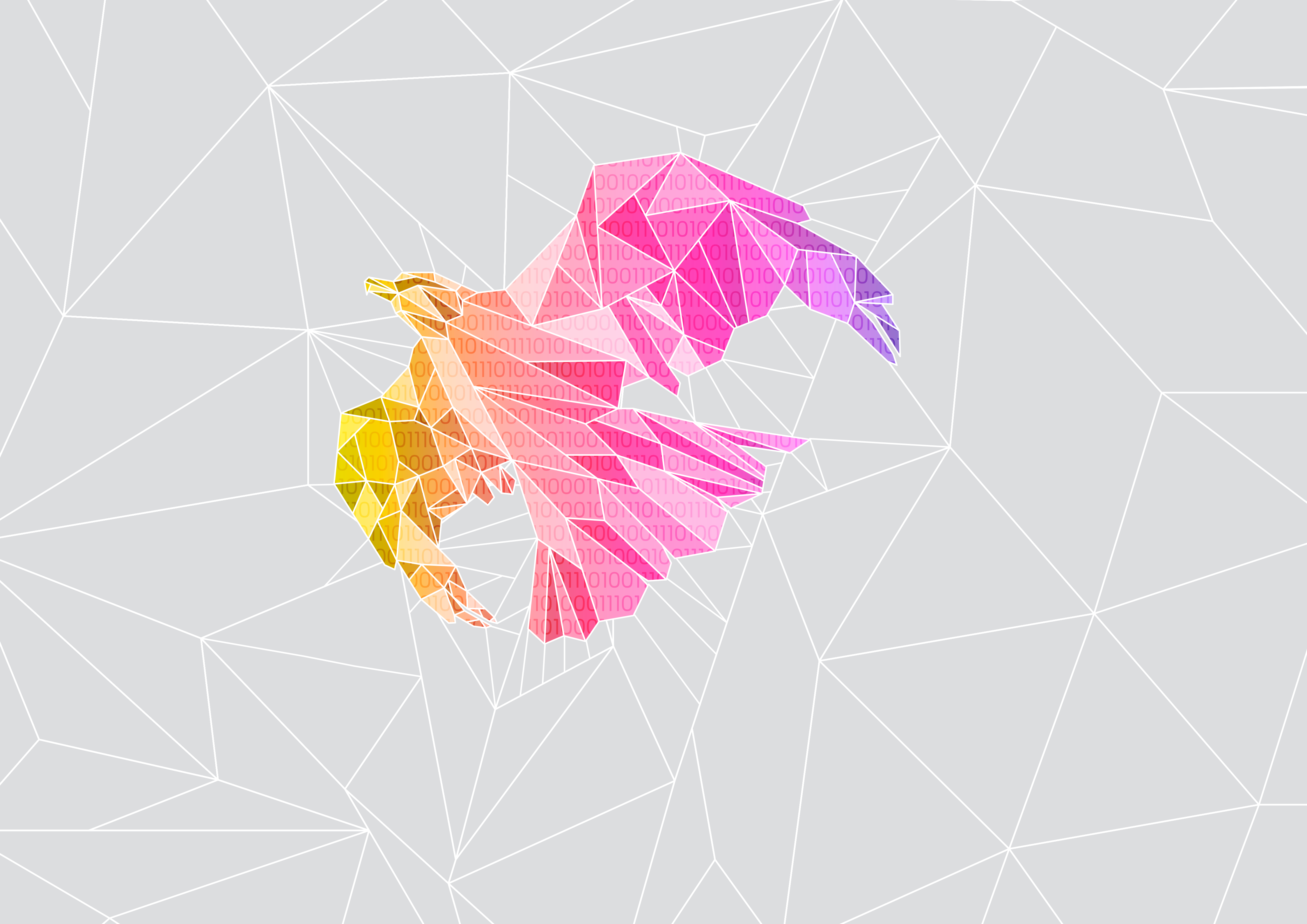
F. Offering services to the pilgrims of the Holy Mosque

STC succeeded in leading the operational processes of the pilgrims' communication traffic at high quality level. STC permanently linked pilgrims with their people to closely keep pace with their holy journey in the various regions of the holy sites in every detail. STC culminated its achievements during Hajj season this year 1433 AH with record facts and figures. STC expanded its network by 60% in Mecca and the holy sites and Medina to serve more than 26 million users (equivalent to the network capacity in a number of countries). More than 3 thousand mobile network coverage towers in all regions of the holy sites contributed to providing the best possible coverage for the pilgrims. In addition the International Connectivity Circuits increased to more than 192 thousand circuits. The Company developed a comprehensive vision for the most important needs of the pilgrims. It carried out its plans to provide free Wi-Fi service in Mecca, the holy sites and especially the areas of Hajj campaigns in Mina. The Day of Arafa witnessed the registration of new records in terms of the mobile communication traffic provided by the Company to the pilgrims. The most prominent figures in the Hajj of this year were the increase of the number of communications to the mobile network by 49%. The technical innovative solutions provided by STC through the deployment of fiber optic networks and expansion of the third and fourth generation networks played a significant role in recording the increase in communications and data traffic. Also, there has been an increase in the use of data across smart and QuickNet devices in the holy sites. The expansion and new features added by the STC to the network in Mecca and the holy sites this year led to raising the capacity of voice and information services in some areas of Mecca and the holy sites up to 385% compared to last year. This was demonstrated by passing communications through its network with more than 2750 terabytes to the Internet. The company has the largest Internet portal in the Middle East and North Africa and it can pass more than 380 GB per second.

During this year too, STC supported 747 new sites in order to raise the efficiency of mobile network and continue its excellence in providing fourth-generation services LTE which have been exclusively provided last year at the best performance. In addition, it increased the efficiency of third-generation networks at very high capacities. In this regard, a total of 381 base stations for the third-generation network in Mecca, the holy places and Medina have been expanded and developed of to raise their capacities. 32 new network features have been added to ensure the quality of performance and pilgrims' satisfaction in all areas of the holy sites. More than 18 additional sites have been covered with all mobile services so that the number of sites covered during this Hajj season reached 53 sites, including governmental service sectors, commercial and business sectors, economic facilities, official bodies, tunnels and the expansion regions north of the Haram. STC also provided a comprehensive coverage for all tunnels surrounding the Haram by utilizing smart solutions. It provided the new projects with covered advanced telecommunications services such as fiber optics and other services, thus contributing to the flow of traffic for both pilgrims and employees providing them with service from all sectors of the state.

The number of customers using mobile network on the Day of Arafa increased to more than 3 million customers. Maintaining its efforts to serve pilgrims, STC allocated five thousand employees for the success of Hajj in addition to its high-profile technical abilities employed for this important task. Thanks be to Allah, excellent records and new successes for the first time in Hajj, both in data traffic or calls, have been achieved.

STC exerts all these efforts out of its belief that Hajj ritual is a bless from Allah and not a commandment to be shouldered. The responsibility of keeping pilgrims in touch with their families has been our responsibility for dozens of years. We will continue to develop the services allocated for pilgrims so as to always keep these services at the highest levels of quality.



The Board of Directors

a. Structure of the Board of Directors and categories of members

Article 15 of the STC Articles of Association defines the number of Board of Directors members as nine, in accordance with section (a) of Article 12 of the guiding Corporate Governance Regulations issued by CMA with regard to the number of members which shall not be less than three and shall not be more than eleven via decree number 1-212-2006, dated 21/10/1427 AH, corresponding to 12/11/2006. During the fiscal year 2012, a new Board of Directors was elected for the fifth session in 28/4/2012 for three years. The following table lists the names of the Board of Directors members, their categories and membership in the Board of Directors of joint stock and other companies:

Ser. No.	Name	Membership of other boards	Categorization		
			Non-executive	Independent	Non-independent
1	His Excellency Eng. Abdul Aziz A. Alsugair, Chairman of the Board, Head of the Executive Committee and Head of the Nominations and Compensations Committee	Saudi Arabian Mining Company (Maaden)	√		√
2	Mr. Mohamed Abdullah Al-Kharachi, Vice Chairman of the Board, Head of the Auditing Committee and Member of the Executive Committee	Saudi Research and Marketing Group Saudi Basic Industries Corporation (SABIC) Saudi Arabian Mining Company (Maaden)	√		√
3	Dr. Hamad Suliman Al-Qassumi, member of the Nominations and Compensations Committee and member of the Executive Committee	None	√		√
4	Mr. Muhammad Saleh Ad-Dahham, member of the Executive Committee and member of the Investment Committee	Saudi Railway Company (SAR) Al-Elm Information Security	√		√
5	Mr. Ibrahim Ali Al-Hassan, member of the Investment Committee	None	√		√
6	Mr. Abdul Aziz Habdan Al-Habdan, member of the Nominations and Compensations Committee and member of the Auditing Committee	Banque Saudi Fransi Saudi-French Alliance Company for Cooperative insurance	√		√
7	Eng. Muhammad Omran Al-Omran, member of the Investment Committee and member of the Executive Committee	Ar-Rajhi Company for Cooperative insurance Saudi British Bank Saudi Orix for Financial Leasing Credit Suisse - Saudi Arabia	√	√	
8	Mr. Mohamed Dhayyan Al Dhayyan, Head of the Investment Committee and	Al-Qassim Medical Company Saudi Company for Private Laboratories (Motabaqah	√	√	
9	Mr. Saleh Ali Al-Azal, member of the Nominations and Compensations Committee and member of the Investment Committee	Electric Industries Company Saudi Company for Private Laboratories	√	√	

b. Members' Participation in meetings of the Board of Directors

First, the period from 1/1/2012 to 28/4/2012 represents the period remaining to the Board of Directors in its fourth session. The following table shows the number of Board's meetings and committees and members' attendance. During this period, the Board held six meetings:

Ser. No.	Name	Membership of other boards						
		1	2	3	4	5	6	Total
1	H.E. Dr. Mohammad Bin Suleiman Al-Jasser	√	x	√	√	√	√	5
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	√	√	√	√	√	6
3	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	√	√	6
4	H.E. Ibrahim Bin Ali Al-Hassan	√	√	x	√	√	x	4
5	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	√	√	√	6
6	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	6
7	H.E. Eng. Muhammad Omran Al-Omran	x	√	x	√	√	√	4
8	H.E. Abdulrahman Bin Abdul Aziz Mazi	√	√	√	√	x	√	5
9	H.E. Khalid Bin Abdulrahman Al-Rajhi	x	√	√	√	√	x	4

The Executive Committee		
1	H.E. Dr. Mohammad Bin Suleiman Al-Jasser	Head
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	Member
3	H.E. Mohammad Bin Saleh Ad-Dahham	Member
4	H.E. Ibrahim Bin Ali Al-Hassan	Member
5	H.E. Eng. Muhammad Omran Al-Omran	Member

The Committee held one meeting during 2012 from the period starting on 1/1/2012 to 28/4/2012.

Ser. No.	Name	Attendance sheet	
		1	Total
1	H.E. Dr. Mohammad Bin Suleiman Al-Jasser	√	1
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	1
3	H.E. Mohammad Bin Saleh Ad-Dahham	√	1
4	H.E. Ibrahim Bin Ali Al-Hassan	√	1
9	H.E. Eng. Muhammad Omran Al-Omran	√	1

The Nominations and Compensations Committee		
1	H.E. Mr. Mohamed Abdullah Al-Kharachi	Head
2	H.E. Dr. Hamad Suliman Al-Qassumi	Member
3	H.E. Mr. Abdul Aziz Habdan Al-Habdan	Member
4	H.E. Abdulrahman Bin Abdul Aziz Mazi	Member

The Committee held three meetings during 2012 from the period starting on 1/1/2012 to 28/4/2012.

Ser. No.	Name	Attendance sheet			
		1	2	3	Total
1	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	√	√	3
2	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	3
3	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	3
9	H.E. Abdulrahman Bin Abdul Aziz Mazi	√	√	√	1

The Audit Committee		
1	H.E. Khalid Bin Abdulrahman Al-Rajhi	Head
2	H.E. Mr. Abdul Aziz Habdan Al-Habdan	Member
3	H.E. Mr. Abdul Aziz Ibn Ibrahim Al-Umar	Member
4	H.E. Dr. Ahmad Ibn Abdullah Al-Maghamis	Member

The Committee held six meetings during 2012 from the period starting on 1/1/2012 to 28/4/2012.

Ser. No.	Name	Attendance sheet						
		1	2	3	4	5	6	Total
1	H.E. Khalid Bin Abdulrahman Al-Rajhi	√	√	√	x	√	√	5
2	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	6
3	H.E. Mr. Abdul Aziz Ibn Ibrahim Al-Umar	√	√	√	√	√	√	6
4	H.E. Dr. Ahmad Ibn Abdullah Al-Maghamis	√	x	√	√	√	√	5

Some members were unable to attend some of the meetings of the Committee due to personal circumstances or on account of their being outside KSA.

The Investment Committee		
1	H.E. Eng. Muhammad Omran Al-Omran	Head
2	H.E. Mohammad Bin Saleh Ad-Dahham	Member
3	H.E. Abdulrahman Bin Abdul Aziz Mazi	Member
4	H.E. Khalid Bin Abdulrahman Al-Rajhi	Member

The Committee held three meetings during 2012 from the period starting on 1/1/2012 to 28/4/2012.

Ser. No.	Name	Attendance sheet			
		1	2	3	Total
1	H.E. Eng. Muhammad Omran Al-Omran	√	√	√	3
2	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	3
3	H.E. Abdulrahman Bin Abdul Aziz Mazi	√	√	√	3
4	H.E. Khalid Bin Abdulrahman Al-Rajhi	√	x	√	2

Second, the period from 29/4/2012 to the end of 2012 represents the fifth session of the Board of Directors. The following table shows the number of Board's meetings and committees and members' attendance. During this period, the Board held ten meetings:

Ser. No.	Name	Ser. No.										
		1	2	3	4	5	6	7	8	9	10	Total
1	H.E. Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	√	√	√	√	√	10
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	√	√	√	√	√	√	√	√	√	10
3	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	√	√	√	√	√	√	10
4	H.E. Ibrahim Bin Ali Al-Hassan	√	√	x	√	√	√	√	x	√	√	8
5	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	√	√	√	√	√	√	√	10
6	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	√	√	√	√	10
7	H.E. Eng. Muhammad Omran Al-Omran	√	√	√	x	√	x	√	√	√	√	8
8	H.E. Mr. Mohamed Dhayyan Al Dhayyan	√	√	√	√	√	√	√	√	√	√	10
9	H.E. Mr. Saleh Ali Al-Azal	√	√	√	√	√	√	√	√	√	√	10

Some members were unable to attend some of the meetings of the Committee due to personal circumstances or on account of their being outside KSA.

c. Committees of the Board of Directors

According to the Corporate Governance Regulations approved in February 2005, the systems and regulations issued by the respective authorities, the Board of Directors shall set up the committees it deems fit to work in a manner which fulfills the effectiveness and efficiency of the Board. These areas include the Company's strategies, financial reports, nominating a Board member and the remuneration of members and executives. When setting up committees, their responsibilities and business procedures shall be identified by the Board of Directors in writing. Related decisions shall be issued by the Board in writing and relevant stakeholders shall be notified in an appropriate manner.

The Board of Directors committees for the fifth session have been set up as follows:

The Executive Committee		
1	H.E. Eng. Abdul Aziz A. Alsugair	Head
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	Member
3	H.E. Mohammad Bin Saleh Ad-Dahham	Member
4	H.E. Dr. Hamad Suliman Al-Qassumi	Member
5	H.E. Eng. Muhammad Omran Al-Omran	Member

Duties and Responsibilities:
The Executive Committee is charged with reviewing strategies, as well as domestic and global activities of the Company in basic and non-basic areas of work, and granting them approval as per the authority vested in them by the Board of Directors. The Committee held five meetings during 2012.

Ser. No.	Name	Attendance sheet					
		1	2	3	4	5	Total
1	H.E. Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	5
2	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	√	√	√	√	5
3	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	√	5
4	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	√	√	5
5	H.E. Eng. Muhammad Omran Al-Omran	x	√	√	√	√	4

The Nominations and Compensations Committee		
1	H.E. Eng. Abdul Aziz A. Alsugair	Head
2	H.E. Dr. Hamad Suliman Al-Qassumi	Member
3	H.E. Mr. Abdul Aziz Habdan Al-Habdan	Member
4	H.E. Mr. Saleh Ali Al-Azal	Member

Duties and Responsibilities:
The Committee is charged with formulating, approving and endorsing a suitable operating mechanism, structuring salaries in accordance with market criteria and ensuring fair implementation in a manner that motivates management and employees to perform their duties effectively. The Committee is also entitled to review the structure of the Board of Directors, refer recommendations with respect to required changes, verify annually the independence of independent members and ensure no conflicts of interest arise where members are also on the boards of other companites, and review and approve the compensation and rewarding policy as a preliminary step before referring it to the Board of Directors. The Committee held five meetings during 2012.

Ser. No.	Name	Attendance sheet					
		1	2	3	4	5	Total
1	H.E. Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	5
2	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	√	√	5
3	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	5
4	H.E. Mr. Saleh Ali Al-Azal	√	√	√	√	√	5

The Audit Committee

1	H.E. Mr. Mohamed Abdullah Al-Kharachi	Head
2	H.E. Mr. Abdul Aziz Habdan Al-Habdan	Member
3	H.E. Mr. Yahya Bin Ali Al-Jabr	Member
4	H.E. Dr. Khaled Bin Muhammad Al-Khuwaiter	Member

Duties and Responsibilities:

The Committee is charged with reviewing STC financial and administrative policies and procedures, and compiling financial reports and their outcome. The Committee also reviews the reports and observations of Internal Audit regularly and refers recommendations to the Board to appoint and fire chartered accountants, determine their fees and verify their independence. The Committee also studies the preliminary and annual financial statements before referring them to the Board of Directors and provides relevant opinions and directives. The Committee also studies the observations of the chartered accountants on the financial statements as well as the audit plan and provides relevant feedback in addition to performing other works in a periodical and regular manner in a way which enables the evaluation of the effectiveness and efficiency of the control activities and risk management in the Company. The Committee held seven meetings during 2012.

Ser. No.	Name	Attendance Sheet							
		1	2	3	4	5	6	7	Total
1	H.E. Mr. Mohamed Abdullah Al-Kharachi	√	√	√	√	√	√	√	7
2	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	√	7
3	H.E. Mr. Yahya Bin Ali Al-Jabr	√	√	√	√	√	√	√	7
4	H.E. Dr. Khaled Bin Muhammad Al-Khuwaiter	√	√	√	√	√	√	√	7

Some members were unable to attend some of the meetings of the Committee due to personal circumstances or on account of their being outside KSA.

The Investment Committee

1	H.E. Mr. Mohamed Dhayyan Al Dhayyan	Head
2	H.E. Mohammad Bin Saleh Ad-Dahham	Member
3	H.E. Eng. Muhammad Omran Al-Omran	Member
4	H.E. Mr. Saleh Ali Al-Azal	Member
5	H.E. Mr. Saleh Ali Al-Azal	Member

Duties and Responsibilities:

The Committee is charged with reviewing the Company's strategic investments as per Company strategies. The Committee also reviews and studies strategic investment opportunities and makes recommendations on suitable investments. The Committee held four meetings during 2012.

Ser. No.	Name	Attendance Sheet				
		1	2	3	4	Total
1	H.E. Mr. Mohamed Dhayyan Al Dhayyan	√	√	√	√	4
2	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	4
3	H.E. Ibrahim Bin Ali Al-Hassan	√	√	√	√	4
4	H.E. Eng. Muhammad Omran Al-Omran	√	√	×	×	2
5	H.E. Mr. Saleh Ali Al-Azal	×	√	√	√	3

d. Interests of Members of the Board of Directors

STC has not entered into any businesses or contracts involving substantial interests of Board of Directors members, the CEO, the Vice-President for Financial Affairs or any persons related to them.

Ownerships of Board of Directors members, their wives and minor children

Member's Name	Ownership at the beginning of the year 2012	Ownership at the end of the year 2012	Percentage of Change during the year 2012
H.E. Eng. Abdul Aziz A. Alsugair	None	None	-
H.E. Mr. Mohamed Abdullah Al-Kharachi	None	None	-
H.E. Mohammad Bin Saleh Ad-Dahham	None	None	-
H.E. Ibrahim Bin Ali Al-Hassan	None	None	-
H.E. Dr. Hamad Suliman Al-Qassumi	546	546	0%
H.E. Mr. Abdul Aziz Habdan Al-Habdan	1,000	0	(100%)
H.E. Eng. Muhammad Omran Al-Omran	713,666	320,920	(55%)
H.E. Mr. Mohamed Dhayyan Al Dhayyan	1,443,229	1,443,299	0%
H.E. Mr. Saleh Ali Al-Azal	256,880	256,880	0%

Ownership of top executives, their wives and minor children

Member's Name	Ownership at the beginning of the year 2012	Ownership at the end of the year 2012	Percentage of Change during the year 2012
Khaled Bin Abdul Aziz Bin Abdullah Al-Ghunaim	2,080	25,000	1.102%
Umar Abdullah Umar An-Numani	8,501	8,501	0%
Jamil Abdullah Al-Milham	None	None	-
Khaled Bin Abdurrahman Abdul Aziz Al-Jasser	1,273	1,273	0%
Amin Bin Fahd Bin Abdul Aziz Ash-Sheddi	None	None	-
Mazid Nasser Al-Harbi	None	None	-
Mohammad Nasser Al-Jasser	None	None	-
Humud Bin Mohammad Al-Qassir	2,933	2,933	0%
Ibrahim Abdulrahman Al-Omar	None	None	-
Abdullah Mohammad Al-Humidan	None	None	-
Bander Mohammad Al-Qafari	1,766	5,266	198%
Fahad Hassan Bin Mashit	None	None	-
Mahmoud Abdulkareem Al-Khateeb	None	None	-
Khalid Mohammad Al-Salea'	2,000	4,000	100%
Krishnan R. Kumar	None	None	-

e. Corporate Governance

STC endorsed Corporate Governance Regulations in Dhul Hijja, 1426 AH, corresponding to February, 2005. The Regulations are made up of 31 principles covering the field of corporate governance statute articles, issued by the Capital Market Authority (CMA) in 2006, as well as some of the best international practices in governance, conforming to the statutes and rules issued by relevant bodies in KSA. STC has also approved a written Disclosure Policy, determining what should be disclosed, when, how and by whom. The policy was published on the STC website. As such, STC has complied with the guiding Corporate Governance Regulations, as issued by CMA in decree 20061-212-, dated 21/10/1427 AH, corresponding to 12/11/2006, in terms of the number of committees, their make-up, members independence, as well as several other articles of the statute.

The following table details how far STC conforms to Saudi Executive Rules of Corporate Governance issued by CMA:

Ser. No.	Article number in Corporate Governance Regulations	Compliance	Partial Compliance	Non-Compliance	Details
1	Third: Shareholders' equities	•			
2	Fourth: Facilitating stakeholders exercising their rights and access to information	•			
3	Fifth: Stakeholders' rights relating to the General Assembly	•			
4	Sixth: Voting rights	•			
5	Seventh: Stakeholders' equities in assets' profits	•			
6	Eighth: Disclosure-related policies and procedures	•			
7	Ninth: Disclosure in the Board's report	•			
8	Tenth: Board of Directors main functions	•			The Policies, Criteria and Procedures of Membership in the Board of Directors have been included in the agenda of the General Assembly of the Company 2013
9	Eleventh: Board of Directors responsibilities	•			
10	Twelfth: Board of Directors structure	•			
11	Thirteenth: Board of Directors Committees and their independence	•			
12	Fourteenth: The Audit Committee	•			
13	Fifteenth: Nominations and Compensations Committee	•			
14	Sixteenth: Board of Directors meetings and agenda	•			
15	Seventeenth: Board of Directors members remunerations and compensations	•			
15	Eighteenth: Conflict of interest in the Board of Directors	•			

f. Internal Control

The Board of Directors hereby acknowledges that account ledgers have been compiled correctly, and hence the Board has no doubts regarding the ability of STC to continue its activities. The Board attests that the internal control of the financial statements relies on a proper base and operates adequately and efficiently.

The Audit Committee, stemming from the Board, oversees the internal audit of the Company, which regularly checks the adequacy and efficiency of the internal control systems. This is part of the Board target, namely to attain a high degree of trust concerning the soundness and efficiency of the internal control systems in the Company. To this end, the Audit Committee, during the fiscal year, has held thirteen meetings which discussed many topics related to the Committee's work, such as review of the financial statements, investments, business units, strategic and regulatory affairs, shared services, as well as network and information systems verification.

Officials from Internal Audit and other relevant sectors within STC, attended these meetings. Other issues relating to the business process, in all areas, have also been discussed.

g. Internal Audit

Internal Audit is an objective and independent checking and advisory function whose aim is to add value and improve Company operations. An internal audit assists an organization in achieving its objectives by providing regular input on the process of assessing and improving the efficiency of risk management, control, and operation, subject to the Internal Audit of the Company. The Internal Audit has carried out several regular and special audits. It concentrated on high-risk activities and functions in order to increase the efficiency, effectiveness and profitability of Company operations. It included – for example – auditing policies and procedures relating to shared services, corporate strategy, IT, business units and the financial sector. This resulted in reducing income loss, minimizing costs, in addition to taking part in reviewing preliminary and final financial statements and coordinating the work of external audit bodies. It is to be taken into account that necessary procedures to follow up the notes in the audit reports have been made, in order to check that corrective procedures have been undertaken.

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

a. The Proposed Distribution of Dividends in 2012

The Board of Directors proposed distributing preliminary dividends of SR 3,000 million throughout the fiscal year 2012 on the basis of SR 1.50 per share (or the previous three quarters of 2012). It also recommends the distribution of preliminary dividends totaling SR 1,000 million in the fourth quarter of 2012, or SR 0.50 per share. Therefore, total dividends distributed in 2012 reached SR 4.000 million on the basis of SR 2 per share, representing 20% of the shares' nominal value.

The recommended and approved distributions for 2012 were as follows:

Description	Total Dividend (in SR millions)	Share Dividend (in SR)	Date of Announcement	Maturity Date	Date of Distribution
Cash dividends in the first quarter of 2012	1,000	0,50	18/4/2012	25/4/2012	9/5/2012
Cash dividends in the second quarter of 2012	1,000	0,50	18/7/2012	25/7/2012	8/8/2012
Cash dividends in the third quarter of 2012	1,000	0,50	20/10/2012	24/10/2012	14/11/2012
Cash dividends in the fourth quarter of 2012	1,000	0,50	20/01/2013	TBA	TBA

b. The Board members' and senior executives' bonuses and remunerations

Bonuses and remunerations paid to members of the Board for their attendance of Board meetings and its committees, in addition to the five most senior Board members, including the President and the VP of Finance, for the fiscal year ending in 2012 are recorded in the table below. The Board recommends that SR 200,000 (two hundred thousand Saudi Riyals) shall be issued to each member as an annual bonus for 2012 as per Article 44 of the STC Articles of Association.

Description	Non-Executive Members / Independent Board Members	The five most senior executives in the Company including the CEO and VP of Finance
Salaries and allowances	708,000	9,110,699,30
Periodical and annual bonuses	1,680,000	4,569,600,00
Total	2,388,000	13,680,299,30

c. The Board's Declarations:

The STC Board of Directors hereby acknowledges that:

- Account ledgers have been compiled correctly.
- The Board of Directors has no doubts regarding the ability of STC to continue its activities.
- The internal control of the financial statements relies on proper bases and operates adequately and efficiently.
- The Consolidated Financial Statements for 2012 have been prepared in accordance with the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA).
- The Company has not been notified about any person who owns 5% or more of the Company's issued shares, during 2012.
- There are no debt instruments convertible to shares, option rights,

application right notes or similar rights issued or granted by the Company during 2012.

- There is no redemption, purchase or cancellation made by the Company during 2012 with regard to any redeemable instrument debts.
- There are no arrangements or assignment agreements under which any of the Board members or senior executives shall waive any salary or compensation.
- There are no arrangements or assignment agreements under which any of the Company shareholders shall waive any rights in dividends.
- STC has not entered into any businesses or contracts involving substantial interests of a Board member, the CEO, VP of Finance or any person related to them.
- The Company has not granted a cash loan to any Board members or guaranteed a loan contract made by any of them with a third party.
- There are no option or application rights attributable to the Board members, senior executives, their wives or minor children.
- There are no subsequent substantial events which affect the integrity of the Company's financial position and the outcomes of its operations which have not been disclosed, except for the announcement to recommend the distribution of the profits of the fourth quarter of 2012.
- The Company's external auditor expressed his opinion on the financial statements without any reservation.

d. Recommendations

The STC Board of Directors recommends to the General Assembly the following:

1. Approval of the Board's report for the fiscal year ending on 31/12/2012.
2. Approval of the Financial Statements of the Company and the auditor's report for the fiscal year ending on 31/12/2012.
3. Approval of the Board's proposal to distribute dividends for the fourth quarter of the fiscal year 2012, on a basis of SR 0.50 per share, in addition to what has been distributed for the first three quarters in 2012, amounting to SR 1.50 per share. Total dividends distributed for the fiscal year 2012 are thus equal to SR 2 per share. The eligibility of the profits of the fourth quarter of 2012 shall be to the shareholders registered in the trading records by the end of trading on the day when the Assembly has been held. Profits will be disbursed on Wednesday 29/5/1434 AH corresponding to 10/04/2013, and the remaining net profit shall be carried out to the coming years.
4. Approval of the selection of the Company's auditor from among candidates by the Audit Committee to audit and review the quarterly financial statements for the fiscal year 2013 and determine their fees.
5. Approving the policies, Criteria and Procedures of Membership in the Board of Directors
6. Updating the control document regulating the work of the audit committee
7. Acquitting the Board members with regard to the fiscal year ending on 31/12/2012.

Consolidated Financial Statements for the Year Ended December 31, 2012

Deloitte.

Deloitte & Touche
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AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as "the Group") as of December 31, 2012, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 36 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Bakr A. Abulkhair
License No. 101

Rabi Al Thani 10, 1434H
February 20, 2013

Saudi Telecom Company (A Saudi Joint Stock Company)
Consolidated Balance Sheet as of December 31, 2012 (Saudi Riyals in thousands)

	Notes	2012	2011
ASSETS			
Current assets:			
Cash and cash equivalents	3	5,120,230	6,588,554
Short-term investments	4	8,671,053	2,445,762
Accounts receivable, net	5	9,871,881	8,755,480
Prepayments and other current assets	6	5,129,597	4,177,239
Total current assets		28,792,761	21,967,035
Non-current assets:			
Investments in equity and other	7	2,731,513	2,682,441
Property, plant and equipment, net	8	55,995,322	55,085,184
Intangible assets, net	9	28,140,067	29,317,791
Other non-current assets	10	2,244,611	2,349,329
Total non-current assets		89,111,513	89,434,745
Total assets		117,904,274	111,401,780
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	11	6,577,581	5,190,003
Other credit balances - current	12	4,012,007	3,666,828
Accrued expenses	13	7,796,460	8,576,456
Deferred revenues – current portion		2,184,886	1,857,994
Murabahas and loans – current portion	14	4,717,314	5,971,814
Total current liabilities		25,288,248	25,263,095

Saudi Telecom Company (A Saudi Joint Stock Company)
Consolidated Balance Sheet as of December 31, 2012 (Saudi Riyals in thousands)

	Notes	2012	2011
Non-current liabilities:			
Murabahas and loans – non-current portion	14	26,124,199	23,959,617
Provisions for end of service benefits	15	3,448,909	3,062,097
Other credit balances - non-current	12	4,147,566	5,034,653
Total non-current liabilities		33,720,674	32,056,367
Total liabilities		59,008,922	57,319,462
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital			
2,000,000,000 shares, par value SR 10 per share	16	20,000,000	20,000,000
Statutory reserve	17	10,000,000	10,000,000
Retained earnings		22,792,023	19,516,064
Other reserves	18	(606,881)	(1,133,336)
Financial statements' translation differences		(848,014)	(1,474,423)
Total shareholders' equity		51,337,128	46,908,305
Non-controlling interests		7,558,224	7,174,013
Total equity		58,895,352	54,082,318
Total liabilities and equity		117,904,274	111,401,780

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

Saudi Telecom Company (A Saudi Joint Stock Company) Consolidated Statement of Income for the Year Ended December 31, 2012 (Saudi Riyals in thousands)

	Notes	2012	2011
Revenue from services	19	**59,362,589**	55,662,079
Cost of services	20	**(25,773,291)**	(24,333,827)
Gross Profit		**33,589,298**	31,328,252
Operating Expenses			
Selling and marketing expenses	21	**(8,492,475)**	(7,424,448)
General and administrative expenses	22	**(4,210,035)**	(3,878,940)
Depreciation and amortization	23	**(9,038,168)**	(8,853,844)
Provision for Impairment of non-current assets	24	**(640,450)**	-
Total Operating Expenses		**(22,381,128)**	(20,157,232)
Operating Income		**11,208,170**	11,171,020
Other Income and Expenses			
Cost of early retirement program		**(312,585)**	(413,529)
Finance costs	25	**(2,516,238)**	(2,237,858)
Commissions and interest		**377,230**	449,904
Other, net	26	**456,694**	(481,184)
Other income and expenses, net		**(1,994,899)**	(2,682,667)

Saudi Telecom Company (A Saudi Joint Stock Company) Consolidated Statement of Income for the Year Ended December 31, 2012 (Saudi Riyals in thousands)

	Notes	2012	2011
Net Income before Zakat, Tax and Non-controlling interests		**9,213,271**	8,488,353
Provision for Zakat	27	**(250,597)**	(118,002)
Provision for Tax	28	**(1,036,594)**	(478,845)
Net Income before Non-controlling interests		**7,926,080**	7,891,506
Non-controlling interests		**(650,121)**	(162,854)
Net Income		**7,275,959**	7,728,652
Basic earnings per share on Operating Income (in Saudi Riyals)		**5,60**	5,59
Losses per share on Other Operations (Other income and expenses) (in Saudi Riyals)		**(1,00)**	(1,34)
Basic earnings per share on Net Income (in Saudi Riyals)		**3,64**	3,86

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

Saudi Telecom Company (A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows for the Year Ended December 31, 2012 (Saudi Riyals in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, tax and non-controlling interests	9,213,271	8,488,353
Adjustments to reconcile net income before zakat, tax and noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	9,038,168	8,853,844
Provision for impairment of non-current assets	640,450	-
Doubtful debts expense	1,614,785	1,346,221
Earnings from investments accounted for under the equity method	(134,180)	(171,273)
Commissions and interest	(377,230)	(449,904)
Finance costs	2,516,238	2,237,858
Losses on foreign currency exchange fluctuations	212,688	1,105,323
Provision for end of service benefits	382,728	381,676
Gains on sale/disposal of property, plant and equipment	(60,515)	(97,968)
Changes in:		
Short-term investments	(6,225,291)	(2,060,620)
Accounts receivable	(2,731,186)	(1,394,343)
Prepayments and other current assets	(952,358)	(623,945)
Other non-current assets	(104,718)	222,337
Accounts payable	1,387,578	(1,846,411)
Other credit balances	(2,629,526)	(1,096,097)
Accrued expenses	764,053	2,518,454
Deferred revenues	298,542	178,406
Zakat paid	(79,404)	(61,754)

Saudi Telecom Company (A Saudi Joint Stock Company)
Consolidated Statement of Cash Flows for the Year Ended December 31, 2012 (Saudi Riyals in thousands)

	2012	2011
Taxes paid	(751,786)	(726,805)
Provision for end of service benefits paid	(145,281)	(314,950)
Adjustments on the provision for end of service	149,365	-
Net cash provided by operating activities	12,026,391	16,488,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(8,718,618)	(7,837,438)
Intangible assets, net	(1,015,032)	(1,329,523)
Investments in equity and other	(85,108)	(29,326)
Proceeds from commissions and interest	341,173	457,645
Proceeds from sale of property, plant and equipment	235,039	474,239
Net cash used in investing activities	(9,242,546)	(8,264,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,002,413)	(4,432,134)
Murabahas and loans, net	910,082	(256,625)
Finance costs paid	(1,544,049)	(1,702,957)
Non-controlling interests	384,211	(1,294,406)
Net cash used in financing activities	(4,252,169)	(7,686,122)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(1,468,324)	537,877
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	6,588,554	6,050,677
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5,120,230	6,588,554
Non-cash items		
Financial statements' translation adjustments	626,409	(1,452,352)
Other reserves	526,455	136,079

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

Saudi Telecom Company (A Saudi Joint Stock Company)
Consolidated Statement of Changes in Equity for the Year Ended December 31, 2012 (Saudi Riyals in thousands)

	Share Capital	Statutory Reserve	Retained Earnings	Other Reserves	Financial Statements` Translation Differences	Non-Controlling Interests	Total Equity
Balance at December 31, 2010	20,000,000	10,000,000	16,287,412	(1,269,415)	(22,071)	8,468,419	53,464,345
Net income	-	-	7,728,652	-	-	-	7,728,652
Dividends	-	-	(4,500,000)	-	-	-	(4,500,000)
Other reserves (Refer to Note 18)	-	-	-	136,079	-	-	136,079
Financial statements` translation differences	-	-	-	-	(1,452,352)	-	(1,452,352)
Non-controlling interests	-	-	-	-	-	(1,294,406)	(1,294,406)
Balance at December 31, 2011	20,000,000	10,000,000	19,516,064	(1,133,336)	(1,474,423)	7,174,013	54,082,318
Net income	-	-	7,275,959	-	-	-	7,275,959
Dividends	-	-	(4,000,000)	-	-	-	(4,000,000)
Other reserves (Refer to Note 18)	-	-	-	526,455	-	-	526,455
Financial statements` translation differences	-	-	-	-	626,409	-	626,409
Non-controlling interests	-	-	-	-	-	384,211	384,211
Balance at December 31, 2012	**20,000,000**	**10,000,000**	**22,792,023**	**(606,881)**	**(848,014)**	**7,558,224**	**58,895,352**

The accompanying notes from 1 to 36 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2012:

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

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

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

Company's Name	Ownership	Accounting Treatment
Arabian Internet and Communications Services Co.Ltd (Awal) - The Kingdom of Saudi Arabia	100%	Full Consolidation
Telecom Commercial Investment Company- The Kingdom of Saudi Arabia	100%	Full Consolidation
STC Bahrain (VIVA) (BSCC) – Bahrain	100%	Full Consolidation
PT Axis Telecom Indonesia – Indonesia (Refer to Note 33)	80.10%	Full Consolidation
Gulf Digital Media Holding (Intigral) (BSCC) – Bahrain	71%	Full Consolidation
Sale for Distribution and Communication Co. Ltd (SaleCo.) -The Kingdom of Saudi Arabia	60%	Full Consolidation
Kuwait Telecom Company (VIVA) (KSCC) - Kuwait	26%	Full Consolidation
Oger Telecom Company Ltd. - U.A.E.	35%	Proportionate Consolidation
Binariang GSM Holding - Malaysia	25%	Proportionate Consolidation
Arab Submarine Cables Company Ltd. - The Kingdom of Saudi Arabia	50%	Equity Method
Arab Satellite Communications Organization ("Arabsat") - The Kingdom of Saudi Arabia	36.66%	Equity Method
Call Centers Company- The Kingdom of Saudi Arabia	50%	Equity Method

The main activities of the Group comprise the provision and introduction of a variety of telecommunications, information and media services which include, among other things:

a. Establish, manage, operate and maintain fixed and mobile telecommunication network and systems.

b. Deliver, provide, manage and maintain diverse telecom services to customers.

c. Prepare the required plans and studies to develop, execute and provide telecommunication services from all technical, financial and managerial aspects. In addition, to prepare and execute training plans in the telecom field, provide and obtain consulting services which is directly or indirectly related to its business and activities.

d. Expand and develop telecom network and systems by utilizing the updated modern machinery and equipment in telecom technology, especially in the field of providing and managing services.

e. Provide information and technologies and systems that depend on customers' information including preparing, printing and delivering phone and commercial directories, brochures, information, data and providing the required communication methods to transfer internet services which do not conflict with the Council of Ministers' Resolution No. 163 dated 23/10/1418 H, the general computer services, and any telecom activities or services the Company provides for media, trade, advertising or any other purposes the Company considers appropriate.

f. Wholesale, retail, import, export, purchase, own, lease, manufacture, marketing, selling, develop, design, setup and maintain equipment, machinery and components of different telecommunication networks including fixed, moving and special networks, and computer programs and the other intellectual properties, in addition to providing services and construction works that are related to the different telecom networks.

g. Invest the Company's real estate properties and the resulting activities, such as selling, buying, leasing, managing, developing and maintenance.

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

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

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

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

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

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

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

- **Gulf Digital Media Holding (Intigral) (BSCC) – The Kingdom of Bahrain**

This company was formed in the Kingdom of Bahrain on June 2009. It is a holding company which owns shares in companies operating in the field of content services and digital media in Gulf countries. Saudi Telecom Company owns 51% of its BHD 28 million share capital which is equivalent to approximately SR 281 million at the exchange rate as of that date. On December 13, 2011, the ownership percentage was increased to 71%.

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

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

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

On December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of the Kuwait Telecom Company, equivalent to approximately SR 687 million at the exchange rate as of that date, this company operates in the field of mobile services in the Kuwaiti market, and commenced its 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. Group representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

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

PT Axis Telecom obtained the license to operate a third generation mobile network in Indonesia and it started the commercial provisioning of this service in the first quarter of 2008 in the Indonesian market. Saudi Telecom Company acquired 51% of its IDR 7.8 trillion share capital of PT

Axis, equivalent to approximately SR 3.2 billion on September 2007 at the exchange rate as of that date. On April 6, 2011, the Company increased its share for 29.10% to reach 80.10%, and therefore the investment in PT Axis Telecom was re-classed from a joint venture investment to investment in subsidiaries and the fair value of the net assets on April 6, 2011 were used for the calculation of goodwill arising from the Company's acquisition of an additional 29.10% of PT Axis Telecom shares based on the fair value reports completed in the end of the fourth quarter of year 2011. As a result, the amounts recorded as goodwill were accordingly reallocated.

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

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

- **Binariang GSM Holding Group – Malaysia**

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

Binariang Holding has other investments in telecommunications companies which operate in India (Aircel company) and Indonesia (PT Axis Telecom).

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

During the year ended 31 December, 2012 The Telecom Authority in India has entailed Aircel Company – Indian Company (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, Aircel Company is about to appeal in the Indian Supreme Court.

During the year ended December 31, 2012, Binariang group has amortized deferred taxes, the group's share equivalent to approximately SR 544 million relating to the fair value of spectrum and licensed fees resulted from the acquisition transaction of Aircel Co. in 2007 due to the modification in the authority regulations which resulted to the change in the reclassification of these assets nature from intangible assets with indefinite life to an intangible assets with definite life. The company will continue tracking the case with the related authorities via the group.

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

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

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

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

Current services offered include regional telephony (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and leasing of capacity on an annual or monthly basis.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Pubic Accountants. The consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the year ended December 31, 2012.

The significant accounting policies used for the preparation of the consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2011.

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

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

The significant accounting policies are summarized below:

2-1 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.

Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of all the parties sharing control.

Contractual arrangements that involve a separate entity in which each venture has an interest are referred to as jointly controlled entities.

In the consolidated financial statements, the Group reports its interests in jointly controlled entities using proportionate consolidation, whereby the Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined on a line-by-line basis with the equivalent items in the Company's financial statements. (Refer to note 34)

Goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill.

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 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.

2-4 Accounts receivable

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

2-5 Offsetting of accounts

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

2-6 Allowance for doubtful debts

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

2-7 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 switches, are recorded within property, plant and equipment. Inventory items held by contractors responsible for upgrading and expanding the network are recorded within 'capital work-in- progress'.

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

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

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

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

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

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed of / sold assets, and the gains or losses are included in the consolidated statement of income.

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

2-9 Software costs

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

2-10 Intangible assets

Goodwill

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

Spectrum rights and Second/Third Generation licenses

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

2-11 Impairment of non-current assets

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

2-12 Investments

Investments accounted for under the equity method (Associates)

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

The Company accounts for investments in entities in which it has a significant influence under the equity method. Under the equity method, the Company records the investment on acquisition at cost, which is adjusted subsequently by the Company's share in the net income (loss) of the investees, the investees' distributed dividends and any changes in the investees' equity, to reflect the Company's share in the investee's net assets. These investments are reflected in the consolidated balance sheet as non-current assets, and the Company's share in the net income (loss) of the investees is presented in the 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, the fair value of available for sale securities being based on market value when available. However, if fair value of available for sale securities cannot be determined, due to non-availability of an active exchange market or other indexes through which market value can reasonably be determined, cost will be considered as the alternative fair value. Unrealized gains and losses, if significant, are shown as a separate component within equity in the consolidated balance sheet. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the declines occur.

Gains and losses resulting from sales of available for sale securities are recorded in the period of sale, and previously recorded unrealized gains and losses are reversed in the consolidated statement of income. Investment held to maturity are recorded in adjusted cost for amortization of premiums and accretion of discounts, if any. Losses resulting from permanent declines in fair value below costs are recorded in the consolidated statement of income in the period in which the decline occurs.

2-13 Zakat

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

2-14 Taxes

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

Deferred taxes

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

2-15 Provision for End of service benefits

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

2-16 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

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

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

2-17 Contingent liabilities

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

2-18 Revenue recognition

Revenue is recognized, net of discounts, when services are rendered based on the access to, or usage of, the exchange network and facilities. Usage revenues are based upon fractions of traffic minutes processed, applying approved rates.

- Charges billed in advance are deferred and recognized over the period in which the services are rendered
- Unbilled revenues from services rendered to customers are recognized in the period to which it related
- Revenues from services rendered to customers are recognized upon collection if the company have a high degree of uncertainty with respect to the collectability of these balances.

2-19 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.

2-20 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.

2-21 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.

2-22 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.

2-23 Financial derivatives

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

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

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

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

2-24 Related parties

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

3. CASH AND CASH EQUIVALENTS

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on them during the year 2012 was 1.04% (2011: 0.63%). Total commissions earned on them during the year 2012 was SR 50 million (2011: SR 18 million).

The Group's share in commissions earned by subsidiaries and joint ventures on deposits was SR 106 million (2011: SR 19 million).

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

(Thousands of Saudi Riyals)	2012	2011
Collection accounts	1,130,287	568,081
Short-term Murabahas	422,843	2,235,109
Short-term deposits	3,502,304	2,919,212
Disbursement accounts	64,796	866,152
	5,120,230	6,588,554

4. SHORT-TERM INVESTMENTS

The Company invests a part of surplus cash in Murabaha accounts with maturity periods of 91 days or more with several local banks. The average rate of commission on them during the year 2012 was 1,19% (2011: 1.21%). Total commission earned on them during the year 2012 amounted to SR 42 million (2011: SR 3 million).

The Group's share in commissions earned by subsidiaries and joint ventures on deposits amounted to SR 8 million (2011: SR 137 million).

5. ACCOUNTS RECEIVABLE, NET

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

(Thousands of Saudi Riyals)	2012	2011
Billed receivables	10,850,134	9,150,985
Unbilled receivables	1,094,518	1,290,477
	11,944,652	10,441,462
Allowance for doubtful debts	(2,072,771)	(1,685,982)
	9,871,881	8,755,480

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

(Thousands of Saudi Riyals)	2012	2011
Balance at January 1	1,685,982	1,944,800
Additions (Refer to note 21)	1,614,785	1,346,221
	3,300,767	3,291,021
Bad debts written-off	(1,227,996)	(1,605,039)
Balance at December 31	2,072,771	1,685,982

b. Since inception, the Company recognizes revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected billed revenues from these customers for the year 2012 amounted to SR 83 million (2011: SR 89 million), with an annual average of SR 177 million for the thirteen years preceding 2012.

c. The Group has agreements with local and outside network operators whereby amounts receivable from and payable to the same operator are subject to offsetting. At December 31, 2012 and 2011 the net amounts included in accounts receivable and accounts payable were as follows:

(Thousands of Saudi Riyals)	2012	2011
Accounts receivable, net	2,325,071	2,250,659
Accounts payable, net	2,836,784	1,923,551

d. In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), the Company settles the amounts due to the Government of the Kingdom of Saudi Arabia as government charges against accumulated receivables balances due from various governmental parties for usage of the Company's rendered services to these parties.(Refer to Note 29).

6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

(Thousands of Saudi Riyals)	2012	2011
Inventories	1,155,026	831,560
Advances to suppliers	691,086	342,062
Prepaid rent	390,922	412,110
Prepaid tax	268,078	418,408
Accrued commissions and receivables	900,356	337,662
Deferred expenses	392,498	457,901
Employees housing loans - current portion	118,236	109,171
Others	1,213,395	1,268,365
	5,129,597	4,177,239

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

7 INVESTMENTS IN EQUITY AND OTHER

These investments consist of the following:

(Thousands of Saudi Riyals)	2012		2011	
	Ownership		Ownership	
Investments accounted for under the equity method:				
Arab Satellite Communications Organization ("Arabsat") – The Kingdom of Saudi Arabia	%36.66	1,350,921	%36,66	1,304,831
Arab Submarine Cables Company Ltd. – The Kingdom of Saudi Arabia	%50	44,981	%50	50,416
Call Centers Company-Kingdom of Saudi Arabia	%50	16,534	%50	960
		1,412,436		1,356,207
Investment in Sukuk and other		1,319,077		1,326,234
Total investments in equity and other		2,731,513		2,682,441

Investments in Sukuk and other

Sukuk represents the Group's share in sukuk investment, which was undertaken by one of the Group's entities on December 2007. Maturing in 10 years and amounting to SR 1,266 million, the commission margin rate is equal to Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45. This financing is a part of related party transactions within the Group. (Refer to Note 29).

Other investments include the Company`s investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets. The Company invested an initial amount of USD 50 million which equals to SR 187.5 million of which it only paid USD 12.5 million which equals to SR 46.8 million. The Group will be the only investor in this fund at the initial stage.

8 PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Land and Buildings	TELECOM Network and Equipment	Other Assets	Capital Work In Progress	Total 2012	Total 2011
Gross book value						
Balance at J anuary 1	14,596,064	89,657,174	6,455,063	5,851,266	116,559,567	111,947,623
Additions	6,668	2,110	8,740	5,317,148	5,334,666	5,769,607
Transfers	536,359	3,851,995	250,207	(4,638,561)	-	-
Group's share in total cost PPE costs of investees	525,195	2,143,777	278,046	198,747	3,145,765	1,034,908
Disposals	(9,665)	(142,642)	(43,542)	-	(195,849)	(2,192,571)
Balance at December	15,654,621	95,512,414	6,948,514	6,728,600	124,844,149	116,559,567
Accumulated Depreciation						
Balance at January 1	(6,713,146)	(50,342,080)	(4,419,157)	-	(61,474,383)	(56,820,180)
Depreciation	(537,410)	(6,693,163)	(403,383)	-	(7,633,956)	(7,557,348)
Group's share in movement of accumulated depreciation of investees	(137,699)	391,504	(15,618)	-	238,187	1,086,845
Disposals	213	18,553	2,559	-	21,325	1,816,300
Balance at December	(7,388,042)	(56,625,186)	(4,835,599)	-	(68,848,827)	(61,474,383)
Net book value	8,266,579	38,887,228	2,112,915	6,728,600	55,995,322	55,085,184

a. Land and buildings above include land of SR 2,318 million as of December 31, 2012 (December 31, 2011: SR 2,288 million).

b. In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,929 million as of December 31, 2012. The transfer of the ownership of the remaining land parcels with a value of SR 212 million is still in progress.

c. Property, plant and equipment includes fixed assets subject to concession agreements belonging to one of the investees. The Group's share in concession agreements amounted to SR 2,169 million. The ownership of these assets will construe at the end of the agreements period to the government.

d. Property, plant and equipment includes fixed assets subject to a mortgage for loans and bank facilities belonging to one of the investees, the Group's share amounted to SR 5,113 million.

e. Property, plant and equipment includes fixed assets leased by finance leasing belonging to one of the investees, the Group's share amounted to SR 679 million.

f. The Group's share in the movement of accumulated depreciation of investees appears in contrast to its nature as a result of changes in foreign exchange rates used to translate the financial statements of some investee companies.

9. INTANGIBLE ASSETS, NET

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

Intangible assets, net consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Licenses	14,583,736	15,288,793
Goodwill arising on the consolidation of financial statements	4,864,240	4,892,743
Trade marks and contractual relations	2,740,412	2,946,114
Spectrum usage rights	2,039,012	2,260,264
Goodwill arising on the acquisition of 25% in Binariang Holding Group	1,753,114	1,753,114
Goodwill arising on the acquisition of 35% in Oger Telecom Co. Ltd.	635,526	826,396
Goodwill arising on the acquisition of 80.10% in PT Axis Telecom	405,208	405,208
Others	1,118,819	945,159
	28,140,067	29,317,791

10. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(Thousands of Saudi Riyals)	2012	2011
Employees' housing loans	869,888	885,939
Deferred taxes	696,442	568,106
Deferred costs	71,331	224,163
Investment properties	30,535	277,882
Others	576,415	393,239
	2,244,611	2,349,329

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

11. ACCOUNTS PAYABLE

Accounts payable consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Outside network settlements	2,095,143	1,987,742
Trade payables	4,009,721	2,227,472
Government charges	227,381	340,243
Capital expenditures	245,336	634,546
	6,577,581	5,190,003

12. OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Provision for Zakat and Tax (Refer to Notes 27 & 28)	1,228,722	1,150,634
Suppliers' retentions	228,677	377,526
With holding tax provisions	592,895	557,819
Customers' refundable deposits	790,981	144,373
Settlement of seconded employees' entitlements	109,741	134,748
Contracts under construction payable	618,181	181,060
Sport clubs sponsoring	79,021	172,500
Others	363,789	948,168
	4,012,007	3,666,828

"Others" comprises different items, the main ones being social insurance and non-trade payables.

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

(Thousands of Saudi Riyals)	2012	2011
Deferred tax	152,646	1,280,284
Deferred revenues non-current portion	803,884	832,233
Financial derivatives	924,365	905,152
Trade-non current	211,362	773,149
Obligations under finance leases	196,414	236,459
Commitments under put option	344,258	387,900
Others	1,514,637	619,476
	4,147,566	5,034,653

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

13. ACCRUED EXPENSES

Accrued expenses consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Capital expenditures	2,569,569	3,352,799
Trade	2,849,970	3,776,469
Employee accruals	962,790	704,079
Others	1,414,131	743,109
	7,796,460	8,576,456

14. MURABAHAS AND LOANS

Murabahas and loans consist of the following:

(Thousands of Saudi Riyals)	2012	2011
Current portion	4,717,314	5,971,814
Non-current portion	26,124,199	23,959,617
	30,841,513	29,931,431

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

During the third quarter of 2007, the Company obtained financing facilities in the form of Murabaha from several local banks. Maturity is 60 months and the amounts utilized of the facilities as of December 31, 2012 amounted to SR 6,000 million.

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

In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks. Maturity is 120 months and the amounts utilized of the facilities as of December 31, 2012 amounted to SR 9,500 million.

During the third quarter of 2010, the Company obtained financing facilities in the form of Murabaha deals from several local banks amounted to SR 1,000 million and the amounts not utilized as of December 31, 2012.

During the third quarter of 2011, the Company obtained financing facilities in the forms of Murabaha deals from several local banks. Maturity is 120 months and the amounts not utilized as of December 31, 2012 amounted to SR 2,250 million.

During the fourth quarter of year 2008, the Company started repayment of the due installments of the loans. Amounts settled as of December 31, 2012 amounted to SR 9,702 million, of which SR 2,273 million were settled during the year ended December 31, 2012.

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

As of December 31, 2012, the Group's share in Oger Telecom Co. Ltd. loans and bank facilities amounted to SR 10,098 million. In addition, the non-current portion of murabahas and loans facilities amounted to SR 736 million and are secured against fixed assets.

- **Binariang GSM Holding Group - Malaysia**

As of December 31, 2012, the Group's share amounted to SR 2,604 million in the Sukuk, and SR 6,776 million in the bank facilities and finance lease contracts. The Sukuk was utilized in financing the acquisition of Maxis, the Malaysian holding group. Binariang subsequently sold 30% of these shares to the public and listed Maxis on the Malaysian stock market. In addition, the company has restricted bank deposits for loans amounting to SR 1,138 million.

- **PT Axis Telecom Indonesia-Indonesia-formerly known as NTS**

As of December 31, 2012, the Group's share in loans and bank facilities granted to PT Axis Telecom Indonesia amounted to SR 2,248 million. In addition, the non-current portion of murabahas and loans facilities amounted to SR 1,821 million and are secured against fixed assets, bank accounts, accounts receivables accounts, Insurance returns and Saudi Telecom Company's share.

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

As of December 31, 2012, the Group's share in the loans and bank facilities granted to Kuwait Telecom Company (VIVA) amounted to SR 467 million.

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

As of December 31, 2012, the Group's share in the loans and bank facilities granted to STC Bahrain (VIVA) amounted to SR 1,163 million. In addition, the non-current portion of Islamic murabahas and loans facilities amounted to SR 1,158 million are secured against fixed assets.

15. PROVISIONS FOR END OF SERVICE BENEFITS

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

(Thousands of Saudi Riyals)	2012	2011
Balance at January 1	3,062,097	2,995,371
Additions during the year	382,728	381,676
Adjustments during the year	149,365	
Settlements during the year	(145,281)	(314,950)
Balance at December 31	3,448,909	3,062,097

The provision is calculated on the basis of vested benefits to which the employees are entitled should they leave at the balance sheet date, using the employees' latest salaries and allowances and years of service. The Group's companies use benefits programs which comply with the laws applicable in theircountries.

16. SHARE CAPITAL

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As of December 31, 2012 and 2011, the Government owned 70% of the Company's shares.

17. STATUTORY RESERVE

As per the Company's Articles of Association, 10% of net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. Based on the approval of the Ordinary General Assembly of

Shareholders at its meeting on Rabi Thani 23, 1432 H corresponding to March 28, 2011 it was approved to stop the transfer when it reached the formal limit.

18. OTHER RESERVES

Other reserves consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Hedging reserves (Refer to Note 32)	32,476	145,344
Step acquisition reserve	418,722	546,081
Other reserves	155,683	441,911
Balance at December 31	606,881	1,133,336

19. REVENUE FROM SERVICES

Revenue from services consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Usage charges	37,177,805	37,794,779
Subscription fees	18,791,995	15,070,526
Activation fees	543,137	469,320
Others	2,849,652	2,327,454
	59,362,589	55,662,079

20. COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Access charges	10,439,956	9,345,651
Government charges (*)	5,576,952	6,270,576
Repairs and maintenance	2,679,240	2,451,908

(Thousands of Saudi Riyals)	2012	2011
Employees' costs	2,816,083	2,868,803
Rent of equipment, property and vehicles	1,225,887	1,358,742
Printing of telephone cards and stationery	308,115	233,362
Utilities	659,265	611,279
Others	2,067,793	1,193,506
	25,773,291	24,333,827

"Others" comprises different items, the main ones being, consultancies, courier, security, safety expenses fees.

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

(Thousands of Saudi Riyals)	2012	2011
Commercial service provisioning fees	4,357,128	5,138,310
License fees	421,329	438,927
Frequency spectrum usage fees	798,495	693,339
	5,576,952	6,270,576

(Thousands of Saudi Riyals)	2012	2011
The Company	4,061,351	4,507,566
Other Group companies	1,515,601	1,763,010
	5,576,952	6,270,576

21. SELLING AND MARKETING EXPENSES

Selling and marketing expenses consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Advertising and publicity	1,675,651	1,394,004
Sales commissions	1,299,363	1,310,916
Employees' costs	2,435,575	1,984,966
Doubtful debts expense	1,614,785	1,346,221

(Thousands of Saudi Riyals)	2012	2011
Printing of telephone cards and stationery	191,911	227,856
Repairs and maintenance	190,203	186,613
Others	1,084,987	973,872
	8,492,475	7,424,448

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

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consists of the following:

(Thousands of Saudi Riyals)	2012	2011
Employees' costs	1,924,302	1,829,526
Repairs and maintenance	384,211	365,747
Rent of equipment, property and vehicles	427,260	245,069
Consultancy, legal and professional fees	433,483	332,859
Utilities expenses	109,786	183,352
Others	930,993	922,387
	4,210,035	3,878,940

"Others" comprises different items, the main ones being insurance premiums, stationery, freight,

handling, postage and courier expenses.

23. DEPRECIATION AND AMORTIZATION

(Thousands of Saudi Riyals)	2012	2011
Depreciation	7,633,956	7,557,348
Amortization	1,404,212	1,296,496
	9,038,168	8,853,844

24. PROVISION FOR IMPAIRMENT OF NON CURRENT ASSETS

During the year ended December 31, 2012, the group conducted a review of its investments in subsidiaries and joint venture carrying values using the cash generating unit for each subsidiary and joint venture separately in order to determine the recoverable amounts and to determine whether there are any indications of impairment in their carrying values. This resulted in an impairment charge amounted to SR 640 million for the investments and intangible assets' recoverable values. The details as follow:

(Thousands of Saudi Riyals)	Oger Telecom	Binariang	Total
Properties, plant and equipment	8,429	194,210	202,639
Intangible assets	349,146	88,665	437,811
Total	357,575	282,875	640,450

The impairment provision amounts mentioned above were consolidated from the mentioned companies except for the amount of SR 191 million which represents the impairment provision of the intangible assets of Oger Telecom Company on the group level.

25. FINANCE COSTS

Finance costs composed of:

(Thousands of Saudi Riyals)	2012	2011
The Company	77,559	89,199
Other Group companies	2,438,679	2,148,659
	2,516,238	2,237,858

26. OTHER INCOME AND EXPENSES, NET

Other income and expenses, net consist of the following:

(Thousands of Saudi Riyals)	2012	2011
Miscellaneous revenue	1,759,914	1,564,790
Losses on foreign currency exchange fluctuations	(212,688)	(1,105,323)
Gains on sale/disposal of property, plant and equipment	60,515	97,968
Miscellaneous expenses	(1,151,047)	(1,038,619)
	456,694	(481,184)

The increase in the other income and expenses, net during year 2012 is mainly due to the decrease of the losses of the currency exchange transactions resulting from currency transfer differences from Turkish Lira and South African Rand versus US Dollar.

In 2011, miscellaneous revenues also included an amount of SR 554 million realized gains, of which an amount of SR 286 million is resulting from the equity restructuring of PT Axis and an amount of SR 268 million resulting from the purchase of a share in Sale Advanced Co.. In addition, the miscellaneous expenses included an amount of SR 375 million which represent a two salary reward for company's employees.

27. ZAKAT

a. Zakat base

(Thousands of Saudi Riyals)	2012	2011
Share capital – beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings, Statutory reserve and Provisions – beginning of the year	31,729,995	28,445,347
Borrowings and payables	9,179,838	10,317,495
Adjusted net income	9,671,872	13,115,886
Total	70,581,705	71,878,728
Deductions:		
Net property and investments	55,771,932	62,577,159
Dividends paid	4,002,413	4,432,134
Deferred expenses and other balances	1,460,720	149,355
Total	61,235,065	67,158,648
Difference represents zakat base	9,346,640	4,720,080
Zakat on completed ownership companies	233,666	118,002
Add: Zakat on partly ownership companies	16,931	-
Total consolidated zakat expense	250,597	118,002

The Zakat provision is calculated as 2.5% of the Zakat base. The Company amended its Zakat provision calculation on the basis of the Zakat base instead of Zakat base or adjusted net income for the purposes of Zakat, whichever is higher, and management believes that the Company would not entail any additional Zakat obligations that may arise as a result of the adoption of the policy set out above.

b. Zakat provision

(Thousands of Saudi Riyals)	2012	2011
Balance at January 1	849,363	793,115
Charge for the year	250,597	118,002
Amounts paid during the year	(79,404)	(61,754)
Balance at December 31	1,020,556	849,363

Final zakat assessments have been obtained for the years since inception through 2003. The final zakat assessments for 2004 up to 2009 have not yet been finalized, pending decisions on the Company's objections to certain items. The Zakat declaration for the year 2011 has been submitted, but the final zakat assessment on 2010 and 2011 has not been issued yet. The Company has received a zakat certificate with validity up to 20/6/1434H (corresponding to 30/4/2013).

Appeal Committee issued its resolutions No. (1238) and (1244) for the year 1434H on the resumption of the company on the decision of the Commission Primary Objection Committee of the second Zakat and taxation No.(28) for the year 1429H, the adjusted Zakat Department assessment for 2004 is still pending.

c. Subsidiaries

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

28. TAX PROVISION

- The amount shown in the consolidated statement of income represents the Group's share of taxes chargeable on subsidiaries and joint ventures in accordance with tax laws applicable in their countries. The balance of the provision on December 31, 2012 amounted to SR 208 million (December 31, 2011: SR 274 million).
- During the year ended December 21, 2012, Binariang group has amortized deferred taxes, the group share equivalent to approximately SR 544 million for the fair value of spectrum and licensed fees resulted from the acquisition transaction of Aircel Co. in 2007 due to the modification in the authority regulation which resulted to the change in the reclassification of these assets nature from an intangible assets with indefinite life to an intangible assets with definite life (refer to note No. (1) for Binariang group share).

29. RELATED PARTY TRANSACTIONS

Government entities in the Kingdom of Saudi Arabia

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

Revenues and expenses related to Government entities during year 2012 (including Government charges disclosed in Note 20 above) amounted to SR 2,243 million and SR 4,096 million, respectively (2011: SR 2,011 million and SR 4,632 million, respectively).

Amounts receivable from and payable to Government entities at December 31, 2012 totaled SR 1,156 million and SR 67 million, respectively (2011: SR 432 million and SR 80 million, respectively).

Subsidiaries, joint ventures and Investments accounted for under the equity method

Transactions and the outstanding balances with, subsidiaries, joint ventures and investments accounted for under the equity method during the year were not material, with the except for the investment in Sukuk amounting to SR 1,266 (Refer to Note 7), the exchange transactions with one of the subsdiairies (Saleco). Revenues amounted to SR 16,986 and expenses amounted to SR 16,152 million), and the loan provided by shareholders to PT Axis company amounting to SR 2,518.

30. COMMITMENTS AND CONTINGENCIES

Commitments

a. The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,571 million as of December 31, 2012 (December 31, 2011: SR 3,723 million).

b. Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. For the year ended December 31, 2012, total rent expense under operating leases amounted to SR 945 million (Year ended December 31,2011: SR 1,055 million).

c. STC`s investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets, includes that the company should commit an increment in its investment in the fund amounted to SR 141 million upon the request by the fund manager during 3 years starting from its establishment, knowing that the fund has been launched in 2011.

Contingencies

The Group, in the normal course of its business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact either on the Company's financial position or on the results of its operations as reflected in these financial statements.

- The Group has an outstanding letter of guarantee, the group's share approximated to SR 3,871 million.
- During the year ended 31 December, 2012,The Telecom Authority in India has entailed Aircel Company-Indian Company (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, Aircel Company is about to appeal in the Indian Supreme Court.

31. FINANCIAL INSTRUMENTS

Fair value

This is the amount for which an asset could be exchanged, or a liability settled, between

knowledgeable, willing parties in an arm's length transaction. The carrying amounts for all financial

instruments do not differ materially from their fair values as at 31 December 2012 and 2011 and which

are as follows:

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

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

Commission rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

32. FINANCIAL DERIVATIVES

The Group entered into interest rate swap agreements to hedge its interest rate risk expected from future cash outflows in relation to the floating element of its debt. The principal amount and fair value of the effective impact of these hedges as of December 31, 2012 was SR 11,915 million and SR 32 million respectively (2011: The principal amount and fair value of the effective impact of these hedges as of December 31, 2011 was SR 10,938 million and SR 145 million respectively). The fair value of the effective impact of these hedges is included in other reserves in the consolidated balance sheet.

33. SEGMENT INFORMATION

According to the main activities of the Group

The Group has identified its main operating segments by the type of services provided by the Group. Transactions between 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.
- Landline, 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, 2012:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated / Adjustments	TOTAL
Revenue from services	38,012,660	8,359,857	13,439,817	(449,745)	59,362,589
Interconnect revenues	2,875,380	9,406,213	1,113,634	(74,314)	13,320,913
Interconnect expenses	(6,582,555)	(2,401,327)	(4,261,471)	(75,560)	(13,320,913)
Net revenue from services	34,305,485	15,364,743	10,291,980	(599,619)	59,362,589
Depreciation and amortization	4,267,401	3,499,251	671,425	600,091	9,038,168
Net income	3,529,007	(301,833)	4,250,783	(201,998)	7,275,959
Total assets	41,306,192	35,341,300	9,120,688	32,136,094	117,904,274
Total liabilities	23,673,825	13,224,218	2,868,281	19,242,598	59,008,922

The information according to the Group`s activities for the year ended December 31, 2011 was as follows:

(Thousands of Saudi Riyals)	GSM	LANDLINE	DATA	Un-allocated / Adjustments	TOTAL
Revenue from services	37,909,106	8,309,321	9,387,522	56,130	55,662,079
Interconnect revenues	3,075,765	8,143,313	1,283,803	(64,620)	12,438,261
Interconnect expenses	(6,100,587)	(2,654,089)	(3,617,913)	(65,672)	(12,438,261)
Net revenue from services	34,884,284	13,798,545	7,053,412	(74,162)	55,662,079
Depreciation & amortization	4,361,547	3,650,397	643,936	197,964	8,853,844
Net income	7,619,985	(1,006,339)	1,428,666	(313,660)	7,728,652
Total assets	41,476,734	35,537,866	8,180,993	26,206,187	111,401,780
Total liabilities	20,673,847	12,717,194	2,083,268	21,845,153	57,319,462

According to Group operations

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

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

2012							
(Thousands of Saudi Riyals)	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	PT Axis	OTL	Binariang
Operating revenues	40,400,258	991,668	585,646	1,832,475	935,029	10,437,309	4,180,204
Total assets (*)	85,072,561	2,469,641	413,277	1,687,586	3,756,165	22,451,589	19,557,159

(*) The financial statements consolidation adjustments relating to the assets amounted to SR (17,503,704) thousand.

2011							
(Thousands of Saudi Riyals)	Domestic Operations	International Operations					
	KSA	STC-Bahrain	GDMH	VIVA-Kuwait	PT Axis	OTL	Binariang
Operating revenues	37,479,106	782,941	476,296	1,267,245	567,241	11,152,699	3,936,551
Total assets (*)	78,668,577	1,938,990	504,195	1,698,915	3,636,811	21,351,945	19,957,631

(*) The financial statements consolidation a djustments relating t o the assets amou nted to SR (16,355 ,284) thousand.

34. CHANGE OF PROPORTIONATE CONSOLIDATION TO EQUITY METHOD

The Company has Joint Venture Projects, and since the standard issued by Saudi Organization for Certified Public Accountants does not cover such projects, the company treats these projects by using the proportionate consolidation according to IAS 31.

The International Accounting Standards Board issued IFRS 11 on May 12, 2011 to replace IAS 31, which cancelled the application of proportionate consolidation method and uses the equity method of accounting starting from January 1, 2013. Accordingly, the Company starting from year 2013, will account for investments in joints ventures by using the equity method, retroactively, as per SOCPA accounting standard No. 16.

The following table demonstrates comparison of significant items of balance sheet and income statement had the project been treated using the equity method starting from 2012:

(Millions of Saudi Riyals)	The year ended December 31, 2012		The year ended December 31, 2011	
	Post -Equity Method	Pre - Equity Method	Post -Equity Method	Pre - Equity Method
Revenue from services	44,745	59,363	40,573	55,662
Gross profit	25,262	33,589	22,401	31,328
Net income	7,276	7,276	7,729	7,729
Total assets	82,504	117,904	77,568	111,402
Total liabilities	31,319	59,009	30,830	57,319
Total murabahas and loans	11,365	30,842	11,992	29,931
Shareholders' equity	51,337	51,337	46,908	46,908

35. SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Sunday Rabi Awal 8, 1434 H (corresponding to January 20, 2013), proposed interim dividends for the fourth quarter 2012 amounting to SR 1,000 million, at the rate of SR 0.50 per share, resulting in a total dividend for 2012 of SR 2.00 per share (2011: SR 2.00 per share).

The Board also approved in its meeting held on Wednesday, Rabi Thani 10, 1434 H (corresponding to February 20, 2013) the consolidated financial statements for 2012.

36. RECLASSIFICATION

Certain comparatives of the year ended December 31, 2011 have been reclassified to conform to the classifications used for the year ended December 31, 2012.

Conclusion:

The Board of Directors - after thanking God Almighty - extends his gratitude to the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al Saud, the Crown Prince His Royal Highness Prince Salman Bin Abdul Aziz Al Saud, the second deputy, his Royal Highness Prince Muqrin bin Abdul Aziz Al Saud, and our government. Praising the support, care and encouragement that the company received from them in its quest to enhance its performance and improve its services. Also, the board extends his appreciation to the valued customers and shareholders for their trust, all of the company's employees for their dedication in the performance of their duties, and all third parties. The board also stresses the company's efforts to develop the business to meet the needs of customers, and achieve the aspirations of the shareholders, as well as to serve the social objectives, and emphasizes the company's leading position in the telecommunications sector in the Kingdom of Saudi Arabia.