Annual Report 2013

STC
الاتصالات السعودية

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 STC

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A word by The Chairman of the Board of STC

In the name of God Most Gracious Most Merciful

Peace and blessings be upon the Messenger of Allah

Att: the Shareholders in Saudi Telecom The echoes of our words lead us into the greatest extent of success in light of the accelerating global progress in the telecommunications sector year after year, the sky is now the limit for our ambitions. We have become more determined to develop our capacities in order to keep pace with all innovations and requirements, to address the variable challenges that impede the development of the telecommunications sector companies and to meet the multiplying needs of different client segments.

Hence, STC ensured a broad and comprehensive presence. It realized progress in the vast and varied telecommunications world and met the needs of the society, at the local and community levels, by continuously providing a series of services, most of which became a daily indispensable need in our technical era. We do not claim in this report that we met all of our clients' needs or that we have achieved all of our aspirations to assume high levels of distribution of services, fulfil all requirements and achieve all of our objectives. Yet, we can proudly say that we worked hard as one team to achieve most of our ambitions, in such a way as to improve STC revenues and safeguard the rights of its shareholders.

In this respect, we can say that STC has worked with the highest determination, through the transformation program very much like a journey, with the aim to drastically transform the capabilities of the Company's human resources and consequently improve the quality of the way of thinking and working, and the culture prevalent in the Company. This had a positive effect on the work system and the financial and institutional performance, and promises a better future.

One of the most important challenges was maintaining the Company's leading position in the telecommunications sector in the Kingdom and preserving its status as a reliable choice for the provision of various services. For this purpose, we focused on the internal market instead of our external investments due to the latter's negative effects on the financial results achieved in recent years. The most important step was the sale of our shares in PT AXIS Telekom Indonesia.

STC achieved growth in revenues, reaching up to SR 45.605 million i.e. an increase of 2% as compared to 2012. The net profits reached SR 9.987 million, thus registering a 36% increase as compared to 2012. The results also show STC's ability to overcome the decline in the results of the first and second quarters of 2013, by achieving better results in the third and fourth quarters. STC distributed cash dividends to its shareholders at a rate of SR 0.75 per share for the fourth quarter of 2012, bringing the total distributed profit for 2013 to SR 4.5 million compared to SR 4 million in 2012. Furthermore, STC 's improved its results by focusing on reducing the expenses of the group companies and supporting the growth of high demand services. These results and figures are relatively good compared to 2012, where the Company registered a decline in the number of mobile services clients. This decline was due to the regularization of migrant workers' situation and the low number of pilgrims due to major governmental development expansions of the Holy Mosque.

STC focused on fundamental aspects in light of the current situation and the needs of the telecommunications market. Most importantly, STC promoted its broadband services and ensured their dissemination over the widest possible scope in the Kingdom. Therefore, the growth and presence of wireless broadband services registered an 80% increase and 830,000 sites fiber were connected to a fiber optic network. STC also focused on strengthening and distributing 3G and 4G Networks, in such a way as the 3G network now covers 96% of populated areas.

Moreover STC focused on fostering business companies and keeping up with their increasingly growing needs, by signing bilateral agreements with major legal entities, most notably King Abdullah Financial District in Riyadh, the Information Technology & Communication Complex (ITCC) in Riyadh, a subsidiary of the Public Pension Agency of Saudi Arabia, the Economic Knowledge City in Medina and Jabal Omar Development in Mecca.

Moreover, the telecommunications traffic and data transmission indicators registered high figures during the Hajj of 1434 AH and a significant increase was registered in the pilgrims' use of broadband services. According to the results, the pilgrims used wireless data transmission services with an increase by up to 100% as compared to the same period during the Hajj in 1433 AH.

Furthermore, STC promoted community development programs in line with its increasing social role. It supported and sponsored social and philanthropic programs, whether by cooperating with the program's implementing agencies or by launching community-based initiatives of a cultural dimension and efficient impact.

In conclusion, my colleagues and I, in STC, would like to emphasize our commitment to continue providing superior services to our clients in accordance with the best modern methods focusing on the client as a primary axis.

Engineer/ Abdulaziz bin Abdullah Al-Sugair
The Chief Executive Officer of STC

The Board of Directors of STC

Eng. Muhammad Omran Al-Omran

Mr. Ibrahim Ali Al-Hassan

Dr. Hamad Suliman Al-Qassumi

Mr. Muhammad Saleh Ad-Dahham

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

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

Mr. Saleh Ali Al-Azal

Mr. Mohamed Dhayyan
Al-Dhayyan

Mr. Abdul Aziz Habdan
Al-Habdan

In The Name Of Allah

Dear Shareholders of the STC

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

The STC (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 wholly 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'1 1419 AH (June 29th, 1998). The Company's head office is located in Riyadh.

The Company has made various investments in affiliates, subsidiaries and joint ventures, collectively known as the 'Group'. The details of these investments are as follows:

Name of Company	Ownership	Treatment
Arabian Internet and Communications Services LLC. (Awal Net), Kingdom of Saudi Arabia	100%	Full Consolidation
Telecom Investment Company Ltd., Kingdom of Saudi Arabia	100%	Full Consolidation
STC Bahrain BSCC (VIVA), Kingdom of Bahrain	100%	Full Consolidation
Aqalat Limited Company (Establishing, Owning and managing of Real Estate)	100%	Full Consolidation
Intigral Holding Company (BSCC)-Bahrain (Previously: Gulf Digital Media Holding Company)	71%	Full Consolidation
Sale For Distribution and Communication Co. Ltd. (SALECO), Kingdom of Saudi Arabia	60%	Full Consolidation
Kuwait Telecom Company KSCC (VIVA), Kuwait	26%	Full Consolidation
PT AXIS Telekom Indonesia, Indonesia Republic	80.10%	Assets held for sale**
Oger Telecom Ltd., UAE	35%	Equity Method*
Binariang GSM Holding, Malaysia	25%	Equity Method*
Arab Submarine Cables Company Ltd., Kingdom of Saudi Arabia	50%	Equity Method*
Arab Satellite Communications Organization (Arabsat), Kingdom of Saudi Arabia	36.66%	Equity Method*
Call Centers Company, Kingdom of Saudi Arabia	50%	Equity Method*

* These investments have been addressed as equity methods since 2013.

** This investment was addressed as assets held for sale since the second quarter of 2013.

The main activities of the Group are the provision of ICT and media services and their objectives include – for example, but 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; and preparing and implementing telecommunications training plans and providing or procuring consultancy services related directly or indirectly to their works or activities.
d. Expanding and developing telecommunication networks and systems by using the latest 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) services in a manner that shall not contradict Cabinet Resolution No. 163 dated 23/10/1418 AH; and providing general computer 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 telecommunication networks, including fixed, mobile and private networks as well as computer software, intellectual property; and providing other services and carrying out contracting works related to the various telecommunication networks.
g. Investing the Company's properties and the consequent actions such as selling, purchasing, leasing, managing, developing and maintaining such real estates.

Furthermore, the Company may establish other companies and cooperate with other Saudi or foreign companies, organizations or institutions which conduct similar activities or activities complementary to its business and which may assist STC to achieve such purpose, and purchase 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 the business results for the fiscal year 2013, reflecting the continued development of the Group's performance in the various aspects of its activities. The report illustrates the Group's 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.

Performance and Activities

of the Company during the fiscal year 2013

A. Performance and Activities of the Company during the fiscal year 2013

a. Operating Performance

1. STC (Kingdom of Saudi Arabia)

- **Personal Business Unit**

STC continued to provide many excellent services and new offers as part of its strategy to enhance and enrich the customers' experience, through offering versatile mobile and wireless (broadband) options to its customers through the 4G QuickNet packages that meet the needs of different types of customers. The coverage of the 4G/HSPA+ network has increased, with a percentage of penetration reaching more than 77% of the populated sites in the Kingdom of Saudi Arabia, targeted to reach 95% by the end of 2014, given that the 3G/HSPA+ network of STC currently covers around 96% of the populated sites within the Kingdom. Accordingly, STC has become the biggest operator in terms of number of sites and coverage capacity of 3G and 4G networks, in order to provide high-speed wireless Internet reaching 100 Mbps.

Due to the agreements it signed with more than 2000 operators around the world, STC has also provided the best internet roaming packages for postpaid and SAWA customers in more than 40 countries on the preferred networks of the strategic partnerships with roaming partners in said countries.

To strengthen its strategic partnerships with the most renowned manufacturers of smart devices, STC continued to launch many state-of-the-art smart devices with exclusive packages that meet the needs and expectations of the customers, thus maintaining their unique leadership.

- **Home Business Unit**

STC introduced its customers to the concept of smart homes with advanced features provided through the fiber optic network FTTH. This falls within its continuous efforts to complete the strategic extension of its fiber optic network in main cities to connect all sectors and facilities, including shopping centers and apartment buildings, with the most recent communication technologies. More than 830 thousand sites were connected to the fiber optic network that reached a total length of over 18,000 kilometers and the number of the service users witnessed an increase of 88% as compared with the year 2012. The continued expansion of the fiber optic network contributed to the spread of the STC's Interactive Television Service, otherwise known as "InVISION", and the number of subscribers increased by 32% as compared with the year 2012.

- **Enterprise Business Unit**

STC opened "model business centers" in Riyadh, Jeddah and Al Khobar through which it offers a consultations platform for a wide selection of technological solutions that meet all the various business needs of customers. It also opened a Network Operating Center (NOC) to monitor and operate all the systems of the King Abdullah Financial District (KAFD) and the Information Technology and Communication Complex (ITCC) projects, which include NSS, OSS and BSS systems; screens were equipped and connected to monitor all the services, the MPLS network and errors.

- **Wholesale Business Unit**

STC achieved qualitative breakthroughs in wholesale business through catering to all the needs and providing all the international services for the Company's business units, including landline, internet and data services. Internationally, through its clients-local and international providers, regional and international service providers and wholesale customers, in addition to the regional business sector-STC made achievements in the field of international infrastructure by maintaining its excellence and asserting its international presence with the most advanced and modern network in the MENA region. This was due to the development and expansion of its land and marine cables, which are considered the most high-tech in the world. In the past year, a number of these cables were expanded, such as the 4th Continental Marine Cable and the India Middle East Western Europe Cable. This allowed the Company to get large capacities related to most countries, enabling the Company to provide highly reliable, quality international services thanks to the diversity of the routes of the cables. The number of direct international circuits for the international phone call service witnessed an increase of 13% to effectively accommodate for the significant increase in the incoming and outgoing international phone calls, especially during the past month of Ramadan and the Hajj season. Meanwhile, the international internet circuits in the Kingdom of Saudi Arabia and the transnational internet service for the Company's regional customers increased by 57%, and there was an increase in the capacities of the Regional Center for Temporary Caching of Internet Services Content in the MENA Region in Riyadh and Jeddah. This helped provide unique, high-quality services with a high level of continuity, which put the Company's customers at an advantage not available to anyone else in the region. STC also strived to expand the international PoP network through building and supporting many international PoPs, in cooperation with a number of international operators. Currently there are 10 international PoPs in the world, located in a number of Middle Eastern countries and international centers in other countries. STC aims, through this expansion in its international network, to complement its international services and reach all countries to fulfill the needs of its local and international customers, business customers, internet service providers and international companies operating in the Middle East and the world, enabling them to communicate with their branches elsewhere, achieve their economic and marketing goals and develop their businesses.

2. Local Subsidiaries

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

Arabian Internet and Communication Services LLC. was established in the Kingdom of Saudi Arabia in April 2002. It is an Internet service provider that carries out telecom, data transfer and processes projects in the Saudi market. STC owns 100% of the capital stock of Arabian Internet and Communications Services LLC worth SR 100 million.

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

The Telecom Investment Company (LLC) was established in the Kingdom of Saudi Arabia in October 2007. Its main activities comprise the operation and maintenance of telecommunications networks, business systems, computer and Internet networks, as well as the operation, maintenance and installation of communication and information technology systems and software in the Saudi market. STC owns 100% of the capital stock of Telecom Investment Company, worth SR 1 million.

- **Aqalat Co. Ltd. (Property Establishment, Appropriation and Management), KSA**

Aqalat Co. Ltd was established in March 2013 in the Kingdom of Saudi Arabia. STC owns 100% of the capital stock of Aqalat Co. worth SR 10 million. The work of this company includes establishing, owning, investing and managing real estate and providing consultancy, importing and exporting services to STC. It is worth noting that the company has yet to begin commercial operation.

- **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 is a retail and wholesale seller of prepaid recharge 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 provides operation and maintenance services for commercial centers. The Company operates in the Saudi market and has branches in Bahrain and Oman. STC holds 60% of the capital stock of Sale-CO, worth SR 100 million.

3. International Subsidiaries

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

STC Bahrain BSCC (VIVA) was established in February 2009 in the Kingdom of Bahrain with a capital stock of BD 75 million (approximately SR 746 million subject to the prevailing exchange rate at the time of establishment) 100% owned by STC. The Company that started its operations on 3 March 2010 is active in all fields of mobile communication services, international communications, broadband 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, becoming the best telecom company in the Bahraini telecommunication market in terms of the number of customers.

- **Intigral Holding BSCC (Previously Gulf Digital Media Holding Company), Bahrain**

Integral was established in June 2009 in the Kingdom of Bahrain. It holds shares in several companies offering digital content and media services in the Gulf region. STC holds 51% of its capital stock worth BD 28 million (approximately SR 281 million subject to the prevailing exchange rate at the time of establishment). In line with the Group's strategy to focus on content services offering a great customer experience, ownership was increased to 71% on December 13, 2011.

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

In December 2007, STC acquired 26% of the capital stock of Kuwait Telecom Company (VIVA) that is worth KD 50 million, (approximately SR 687 million subject to the prevailing exchange rate at the time of acquisition). VIVA provides mobile telecommunications services in Kuwait; it has started its operations on December 4, 2008. Kuwait Telecom Company (VIVA) is managed under full consolidation by STC Group represented in VIVA board by the majority of members, and controlling the financial and operational policies.

It is worth noting that the Company's operations in Kuwait grew largely in the first few years as it became a market leader in high speed broadband services, thanks to high network quality, up-to-date 3G and 4G technologies and coverage all over 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 started offering its commercial services in the Indonesian market during the first quarter of 2008. STC acquired 51% of the capital stock of PT AXIS Telekom Indonesia in September 2007 that is worth IDR 7.8 trillion (approximately SR 3.2 billion subject to the prevailing exchange rate at the time of acquisition). On 6 April 2011, STC increased its share in PT AXIS Telekom Indonesia by 29.10% for a total of 80.10%. Accordingly, this investment has been reclassified as an investment in local subsidiaries not as an investment in joint ventures. The fair value of the net assets was used on April 6, 2011 to calculate the goodwill arising from the acquisition 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 assigned to goodwill (Review Note No. 33 in the consolidated financial statements for the fiscal year 2013).

The above mentioned subsidiaries of joint ventures have no debt instruments issued in the form of bonds or deeds.

4. Investments

A. Investments Accounted for Under the Equity Method

- **Investments in 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 sector in Turkey and South Africa. In April 2008, STC acquired 35% of the capital stock of Oger Telecom Ltd. that is worth USD 3.6 billion (approximately SR 13.5 billion subject to the prevailing exchange rate at the time of acquisition).

- **Binariang GSM Holding Group, Malaysia**

The Malaysian Binariang Group is an investment holding company which is 100% owned by Maxis Group, a holding company that operated as a mobile telecommunications provider in Malaysia which was not listed on the Malaysian Stock Market. In November 2009, 30% of Maxis' share capital was listed for sale in the Malaysian stock market. In July 2012, another 5% of the company's share capital was sold, reducing Binariang's ownership of Maxis to 65%. Binariang GSM Holding had investments in other telecommunications companies in India (Aircel) and in Indonesia (PT AXIS Telekom Indonesia) (Review Notes no. 7 and 33 in the consolidated financial statements for the fiscal year 2013).

In September 2007, STC acquired a 25% stake in Binariang Group with its capital stock of MYR 20.7 billion, (approximately SR 23 billion subject to the prevailing exchange rate at the time of acquisition), so as to expand greatly and find a strong stepping stone through being present in densely-populated countries with markets similar to the local market in Saudi Arabia.

- **Investments in Associate Companies**

- **Arab Submarine Cables Company Ltd., KSA**

The Arab Submarine Cables Company Ltd. (joint stock limited liability company) was established in September 2002 for the rollout, lease, management and operation of a submarine cable link connecting between the Kingdom of Saudi Arabia and Sudan and providing a means of communication between them and the rest of the world. The Company started its operations in June 2003 and STC holds 50% of its capital stock worth SR 75 million.

- **Arab Satellite Communications Organization (Arabsat), KSA**

This institution was founded in April 1976 by the Arab League member states, and it provides services to these states and to all private and public sectors under its coverage, especially in the Middle East. Arabsat offers a wide range of services including regional communication (voice, data, fax and telex), television broadcasting, regional radio broadcasting, restoration services and satellite capacity lease on an annual or monthly basis. STC holds 36.66% of the Arabsat share capital worth USD 500 million (approximately SR 1,875 million subject to the prevailing exchange rate at the time of acquisition).

- **Call Centers Company, KSA**

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

2. Other Investments

- **Venture Capital Fund**

STC has invested a self-financed amount of USD 50 million, i.e. SR 187.5 million (of USD 25 million - SR 93.8 million has been paid) in a venture capital fund, specialized in investing in emerging, small and medium-sized telecommunications and information technology companies in Saudi Arabia and other global markets. In the initial phase, 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 investment risks. The Fund will be managed by Ares Capital - a leading global venture capital fund manager.

- **Saudi Media Measurement Company (SMMC)**

In 2013, STC invested in the Saudi Media Management Company, a company currently being established. In case of operation, SMMC will measure viewer ratings in order to provide the media market with information based on proper sources. STC hold 14.15% of the share capital worth SR 39.8 million, i.e. a total sum of SR 5.6 million, given that the amount paid as of 31 December 2013 is SR 3.2 million.

B. The Financial Performance of the Group

Net income in 2013 was SR 9.897 million, compared to SR 7.276 million in 2012, registering an increase of 36%. Earnings per share in 2013 was SR 4.95 million compared to SR 3.64 million in 2012, whereas gross profit in 2013 was SR 27.413, compared to SR 25.262 million in 2012, registering an increase of 9%. Operating income in 2013 was SR 10.989 million, compared to SR 9.746 million in 2012, registering an increase of 13%. Earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2013 were SR 18.470 million, compared with SR 16.274 million in 2012, i.e. an increase of 14%. Cash flows from operating activities increased by 25% compared to 2012. Total assets increased by 6%, reaching SR 87.360 million at the end of 2013, compared to SR 82.505 million in 2012. Liabilities reached SR 31.197 million at the end of 2013, compared to SR 31.320 million at the end of 2012. The Group has a strong financial position and has reaped high profits generating strong returns on shareholder's equity which grew by 10% at the end of 2013, reaching SR 56.230 million compared to SR 51.337 million at the end of 2012.

The financial impact of the main activities at the group level

STC strives to provide telecommunication services in the scope of the Kingdom of Saudi Arabia, and it has investments in subsidiaries, associates and joint ventures of local and international companies, known collectively for the purpose of financial statements as STC Group. The main activities of the group can be summarized in providing a series of telecom services including mobile phone (second, third and fourth generations), landline telephone services (domestic and international), data services such as transferring data, leased lines, Internet services and electronic 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: landline, 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 shows the financial impact of the main activities at the Group level during 2013:

(Saudi Riyals in Millions)	Mobile	Landline	Data	Unallocated	Total
Revenue from Services	28,903	4,881	12,759	(938)	45,605
Depreciation and Amortization	3,347	2,210	633	188	6,378
Net Revenue	3,913	532	5,672	(220)	9,897
Total Assets	29,036	23,681	7,295	27,348	87,360
Total Liabilities	18,229	7,438	2,699	2,831	31,197

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

(Saudi Riyals in Millions)	2009 Consolidated Audited	2010 Consolidated Audited	2011 Consolidated Audited	2012 Consolidated Audited	2013* Consolidated Audited
Income Statement:					
Operating Revenues	50,780	51,787	55,662	59,362	45,605
Operating Expenses	(37,967)	(40,809)	(44,491)	(48,154)	(34,616)
Gross Profit	12,813	10,978	11,171	11,208	10,989
Other Income and Expenses, Net	(683)	(1)	(2,683)	(1,994)	(541)
Zakat, Taxes and Non-controlling Interest	(1,267)	(1,541)	(7,59)	(1,938)	(551)
Net Income	10,863	9,436	7,729	7,276	9,897
Balance Sheet:					
Current Assets (a)	22,663	18,704	21,967	28,793	32,161
Current Liabilities (b)	29,341	26,618	25,263	25,288	19,650
Working Capital (a-b)	(6,678)	(7,914)	(3,296)	3,505	12,511
Current Assets	22,663	18,704	21,967	28,793	32,161
Other Non-Current Assets	4,966	5,112	5,032	4,976	12,189
Fixed and Intangible Assets	81,959	86,965	84,403	84,135	43,010
Total Assets	109,588	110,781	111,402	117,904	87,360
Current Liabilities	29,341	26,618	25,263	25,288	19,650
Long-term Loans	22,711	21,741	23,960	26,124	6,976
Other Liabilities	6,703	8,958	8,097	7,597	4,571
Total Liabilities	58,755	57,317	57,320	59,009	31,197
Paid-up Capital	20,000	20,000	20,000	20,000	20,000
Reserves and Retained Earnings and translation differences	22,035	24,996	26,908	31,337	36,230
Shareholders' Equity	42,035	44,996	46,908	51,337	56,230
Non-controlling Interest	8,798	8,468	7,174	7,558	(67)
Equity	50,833	53,464	54,082	58,895	56,163
Total Liabilities and Shareholders' Equity	109,588	110,781	111,402	117,904	87,360
Cash Flow Statement					
Net Operating Cash Flows	15,956	18,989	16,488	12,026	19,635
Net Investing Cash Flows	(13,542)	(12,365)	(8,264)	(9,243)	(15,662)
Net Financing Cash Flows	(2,765)	(8,283)	(7,686)	(4,252)	(4,427)
Net Cash Flows	(351)	(1,659)	538	(1,469)	(454)
Cash and Cash Equivalents at the beginning of the period	8,061	7,710	6,051	6,589	1,614
Cash and Cash Equivalents at the end of the period - Assets held for sale	-	-	-	-	(200)
Cash and Cash Equivalents at the end of the period	7,710	6,051	6,589	5,120	960

*Since 2013, the Group began to apply the Registered Investments Standard in accordance with the equity method instead of the proportional consolidation of its investments in joint ventures as per Accounting Standard No. 16 (Accounting for Investments via the Equity Method) issued by the Saudi Organization for Certified Accountants (SOCPA) (review the note on implementing the equity method instead of the proportional consolidation method on page 28). Accordingly the Group reviewed the financial data for the year ending on 31 December 2012 in the consolidated annual balance sheets for the year ending on 31 December 2013, so that it would adhere to the applied categorization, in a way that does not affect the net profits and shareholder equity.

- **Geographic analysis of the consolidated service revenues at Group level:**

During 2013, the Group achieved revenues of SR 45.605 million, of which foreign investments at Group level contributed 6%. The following table outlines the geographic analysis of these revenues according to the Group's strategic investments:

Local Revenues (Saudi Riyals (in Millions	International Revenues (Saudi Riyals in Millions)			Total*
STC , Arabian Internet and Communications Services LLC (Awal net), Telecom Investment Company Ltd, Sale Advanced Co. Ltd. (SaleCo), Aqalat Co.	STC Bahrain (VIVA)	Intigral Holding (previously Gulf Digital Media Holding)	Kuwait Telecom Company (VIVA)	
42,909	1,210	494	2,424	47,037

*The settlements of the consolidation of balance sheets related to the revenues for the services exchanged with the subsidiaries amounted to SR 1,432 million.

As regards the local segmentation of revenues, there is no geographical analysis of the company revenues on a local basis due to the operational nature of the segment and because 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 depending on the location thereof, regardless of the area where the customer's account was created. International and roaming calls made or received by a customer are also not attributed to a particular area, since they are made outside the geographical borders of the Kingdom of Saudi Arabia.

The most important operating performance figures at Group level in 2013, compared to 2012, are as follows:

(Saudi Riyals in Millions)	2013 Consolidated	2012* Consolidated	Change	%
Income Statement				
Revenue from Services	45,605	44,745	860	2%
Cost of services	(18,191)	(19,483)	1,292	(7%)
Gross Profit	27,414	25,262	2,152	9%
Operating Expenses	(16,425)	(15,516)	(909)	6%
Operating Income	10,989	9,746	1,243	13%
Other Income, Expenses, Zakat, Taxes and Non-controlling Interests	(1,092)	(2,470)	1,378	(56%)
Net Income	9,897	7,276	2,621	36%

*The the financial data for the year ending on 31 December 2012 were reviewed so that they would adhere to the categorization applied in the year ending on 31 December 2013, in a way that does not affect the net profits and shareholder equity (review the note on implementing the equity method instead of the proportional consolidation method on page 27).

The most important reasons for the 36% increase in the net income in 2013, compared to 2012, are as follows:

- The operating revenues increased by SR 1.243 million in 2013 compared to 2012 (a 13% increase) as a result of an increase of SR 860 million (2% increase) in the cost of service in 2013 compared to 2012, and a decrease of SR 1.292 (7% decrease) in the cost of service in 2013 compared to 2012, despite an increase in operating expenses in 2013 because of non-monetary, non-recurrent investment losses amounting to SR 1.104 million due to the re-evaluation of STC's investments in Asia (Aircel and AXIS) during the first half.
- There was a decrease in the investments made using the full equity method in 2013 by SR 1.063 million as compared with 2012, as a result of non-consolidating the results of Aircel following a review by the Group of its external investments in Binariang GSM Holding Group (joint venture), including its management method, and determining the actual joint control of these investments, and the resulting authenticated amendment of the agreement with the rest of the partners in Binariang as regarding its operating rights in Aircel Group. Accordingly, the Group stopped processing its share in Aircel Group using the equity method as of the second quarter of 2013. As a result, the Group reversed its share from the total losses of Aircel Group between the period of 1 April 2013 and 30 September 2013, amounting to SR 795 million. Also, the results of AXIS (assets held for sale) were not consolidated from the second quarter of 2013, as opposed to the previous year.
- Other revenues (part of the other revenues and expenses) increased by SR 752 million compared with last year, mainly due to the revenues generated by projects relevant to the Comprehensive Service Fund of the Communication and Information Technology Commission (CITC), and the revenues of the device sales and large ventures.
- Decrease in finance cost by SR 534 million as compared with the previous year.
- During 2013, the unrealized losses amounting from differences in exchange rates amounted to SR 1.122 million, due to the decrease in the value of the Turkish Lira during this year.

Murabaha Deals of the Group

They include:

(Saudi Riyals in Millions)	2013 Consolidated
Short-term	1,561
Long-term	6,976
Total	8,537

And the details are as follows:

- **STC - KSA**

During the fourth quarter of 2007, the Company obtained financing facilities through Murabaha from a branch of a local bank in Malaysia, based on the Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") + 0.45 percentage points, for a period of 120 months. The total amount of the facilities utilized by December 31st, 2013 was SR 1.688 million. During April of 2008, financing facilities were obtained through Murabaha deals several local banks, and total amount used by 31 December 2013 amounted to SR 9.500 million.

During the third quarter of 2010, financing facilities of SR 1,000 million were obtained through Murabaha deals from several local banks, but none has been utilized until December 31, 2013.

During the third quarter of 2011, financing facilities of SR 2,250 million were obtained through Murabaha from several local banks for a period of 120 months, but none has been utilized until December 31, 2013.

During the fourth quarter of 2008, the Company started repayment of due installments of the financing facilities. Amounts settled until December 31, 2013 amounted to SR 4.755 million, of which SR 1.054 million were settled during the year ended December 31, 2013.

The total amount of the facilities utilized by December 31, 2013 was SR 6,433 million.

- **Arabian Internet and Communications Services Co.Ltd (Awal) – KSA**

In December of 2013, The Company acquired short-term Islamic funding from a local bank amounting to SR 74 million based on the Saudi Arabia Inter-bank Offered Rate ("SAIBOR") + 5 percentage points to be paid within a year.

The current total facilities as of 31 December 2013 amount to SR 74 million.

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

During the first quarter of 2010, Kuwait Telecom Company acquired funding through Murabaha deals with a commercial bank amounting to KWD 20 million (SR 265.7 million) based on the Kuwait Inter-bank Offered Rate (KIBOR) + 1.5 percentage points, to be paid within 6 years. In addition, funding was acquired through Tawarq deals with a commercial bank amounting to KWD 20 million (SR 265.7 million) based on the Kuwait Interbank Offered Rate (KIBOR) + 1.5 percentage points, to be paid within 6 years. In the second quarter of 2013, Kuwait Telecom Company acquired credit facilities amounting to KWD 28.3 million (SR 376 million) from a commercial bank, to be paid in 5 years at an interest rate of 3% (LIPOR). During the same quarter, funding was acquired through Murabaha deals from a commercial bank, amounting to KWD 10 million (SR 132.9 million), based upon KIBOR + 1.5 percentage points, to be paid within 5 years.

As of December 31, 2013, the total facilities amount to KWD 65.7 million (SR 873 million).

- **STC Bahrain (VIVA) (BSCC) – Bahrain**

During the third quarter of 2012, The Company acquired funding through Murabaha deals from a commercial bank, amounting to BHD 10.8 million (SR 107.4 million), based upon BAIBOR + 0.65 percentage points, to be paid within 8 years.

Also during the third quarter of 2012, The Company acquired funding through Murabaha deals from a commercial bank, amounting to BHD 105.6 million (SR 1.057 million), based upon BAIBOR + 0.60 percentage points, to be paid within 5 years.

As of December 31, 2013, the facilities amounted to BHD 116.3 million (SR 1.157 million). The non-current portion of Murabaha deals and loans includes Islamic Murabaha amounting to SR 110 million against the mortgage of fixed assets.

The following table provides descriptions of the governmental amounts due and paid by STC and the reason behind each:

Statement	Saudi Riyals (millions)	Description	Reason
Governmental fees	4,061	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 the frequency spectrum	A governmental prerequisite
Profit dividends	3,762	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	530	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	201	Amounts paid or overloaded on the period according to the provisions and rules of Zakat, 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	8,554	It represents the due and paid amounts settled to the government of the Kingdom of Saudi Arabia	

Application of the Equity Method instead of the Proportional Consolidation Method

The Company used to process and consolidate its investments in joint ventures in its consolidated financial statements using the proportional consolidation method, in accordance with International Standard No. 31 if not covered by the standards issued by SOCPA. On 12 May 2011, the International Accounting Standard Board (IASB) issued International Accounting Standard No. 11 to replace No. 31, eliminating the proportional consolidation method and using instead the equity method as of 1 January 2013. Accordingly, as of the start of 2013, the Group applied – retroactively – the equity method on its joint ventures in accordance with Standard No. 16 (Accounting for Investments using the Equity Method) issued by SOCPA.

The following is a comparison between the most important items of the financial status and income statements before and after the application of the equity method for the accounting of investments:

(In Saudi Riyal Millions)	Year Ending on 31 December 2012	
	After (Amended)	Before
Revenue from Services	44,745	59,363
Gross profit	25,262	33,589
Net Income	7,276	7,276
Total Assets	82,505	117,904
Total Liabilities	31,320	59,009
Total Murabaha and Loans	11,365	30,842
Shareholder's equity	51,337	51,337
Net Operating Cash Flow	15,723	12,026
Net Investment Cash Flow	(12,802)	(9,243)
Net Funding Cash Flow	(4,989)	(4,252)
Net Cash Flow	(2,068)	(1,469)
Cash and Cash Equivalent at the beginning of the period	3,682	6,589
Cash and Cash Equivalent at the end of the period	1,614	5,120

Penalties, Sanctions and Reserve Limits

The Violations Committee in the Communication and Internet Technology Commission (CITC) issued a number of decisions against STC. The Company did not trust in these decisions, but rather appealed them on the basis of the Telecommunications Act issued by His Highness. The decisions were issued by the Violations Committee for many reasons, some related to the method of issuing prepaid SIM cards; claims regarding offers unapproved by the Commission that were being made by the Company; or some customer complaints where CITC believes a response has been long overdue. The total number of claims made against STC in the fiscal year of 2013 was 601, at a total value of SR 650 million. The Company, in accordance with the Telecommunications Act, submitted claims to the Administrative Court (Board of Grievances) to appeal the decisions of the Violations Committee. The Board issued the following judgments:

1. 12 initial sentences issued were awarded to the Company, at a total value of SR 35,253,000.
2. 2 final sentences issued were awarded to the company, at a total value of SR 5,166,000.
3. 12 final sentences were issued against the Company, at a total value of SR 343,000.

Potential Risks

- **Operating risks**

Every economic sector has potential risks, which STC will undoubtedly face due to the fast developments of the telecommunications sectors. The most important risks include licensing the access of virtual operators; the increased competition; and the need to provide customers with a wide range of outstanding, high-quality services. Furthermore, fast-paced technological progress is becoming a challenge for many telecommunication companies, thus creating a growing need for new, costly technologies with high risks. STC's strategy took those challenges into consideration with a view to maintaining its leadership and status in the local and international markets.

- **Financial Risks**

Fair Value Risks:

Is the amount for which an asset can be exchanged or a liability settled, between knowledgeable, willing parties under fair transaction conditions. There is no material difference between the carrying value and fair values of all the financial instruments on December 31, 2013 versus December 31, 2012:

- Fair value of the cash, cash equivalents, accounts receivable, accounts payable and other debit and credit balances approximates their carrying value, due to the short-term nature of these instruments.
- In an active market, fair value of a share equals observed market price.
- Fair value of government bonds and loans is determined using discounted cash flows.

According to the Group's management, there is no material difference between the fair value of the Group's assets and liabilities and their book values.

Commission Rate Risks:

They refer to the various risks related to the effect of changes in return rates on the Group's financial position and cash flows. The Group manages its cash flows by controlling the timing between cash inflows and outflows. Surplus cash is invested to increase the Group's income from rate of return through balances held as Murabaha and short-term and long-term bank deposits, but the related return rate risks is not considered to be significant.

Currency Risks

It refers the risk posed by changes in the market value influenced by constant fluctuation in exchange rates. STC assesses unexpected exchange rate fluctuations and enters into currency hedging agreements when needed, in order to minimize any potential impact. Furthermore, the currency of the Group is the Saudi Riyal whose exchange value to USD is relatively stable.

Credit Risks

This refers to the risks involved with parties unable to fulfill their obligations to the Group, consequently leading to financial losses. Cash reserves and accounts receivable are among the financial instruments that give rise to credit risk. Cash reserves of STC are held by major high credit-rated financial institutions, and the Group is currently working towards introducing a limit to the cash reserves held by each financial institution. The Group's exposure to risks, including risks posed by the inefficiency of financial institutions and those related to accounts receivable, is minimal thanks to its diverse customer base (residential, professional, large business organizations and public entities) operating in various industries and located in many regions.

Liquidity Risks

They are the risks encountered by the Group in receiving the funds needed to meet the obligations associated with financial instruments. Liquidity is managed by ensuring, periodically, its availability in amounts sufficient to meet any future commitments, and the Group believes that it is not exposed to significant liquidity risks.

STC's Profit Distribution Policy

Article 44 of STC's Articles of Association provides for the distribution of the annual net profits after deduction of all general expenses and other costs, as follows:

- 10% of the net profits shall be set aside to form a statutory reserve. The General Assembly may discontinue this whenever reserve reaches half of the capital, given that STC's reserve reached the set limit during 2010 and as such, this has been discontinued.
- Based on a proposal by the Board, the General Assembly may decide to set aside a given percentage of the net profits to form a non-statutory reserve and it shall be allocated to a given purpose or given purposes.
- From the remaining amount, a first installment equivalent to 5% of paid-up capital shall be distributed to shareholders.
- A percentage identified by the General Assembly shall be allocated as remunerations to the Board of Directors, provided that it does not exceed 0.5% of the net profits after the aforementioned deductions. The remaining amount shall be distributed as an additional share in profits, subject to the regulations issued by the Ministry of Commerce in this regard.

Article 44 of STC's Articles of Association provides for the distribution of the profits to shareholders at the place and on the dates set 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 General Assembly.

Profit distribution depends on profit level, cash flow, and future investment prospects of both main and new investments, taking into consideration the necessity of maintaining a solid financial position to respond flexibly to changes in general economic conditions or to major developments in the telecommunications sector. The Company has always paid substantial quarterly profits, compared to the profits and net cash flow achieved. Despite expectations to allocate profits to shareholders on a quarterly basis, profits might not be regularly paid, and amounts to be allocated each year cannot be set. The profit distribution policy may be subject to change from time to time. Cash profits shall be paid in Saudi Riyals.

Contribution to Domestic Product

STC contribution to the local domestic product, from 2000 till 2013 amounts to more than SR 120 billion, as fees paid to the Government and the Government share of annual profits.

C. Strategy of the Company

STC has always based its strategy around the “customer” and strived to provide excellent services to all customers. The Company adopted future strategies that anticipate changes in the telecommunications sector, and achieve balance between the emergence of the new needs and requirements of all its customers, by concentrating on the following principles:

- Leadership in providing the new-generation broadband services and acquiring growth opportunities in the market through an integrated approach towards providing services to the personal and home business units.
- Maintain leadership in the business unit, and lead the growth in providing business services related to digital economy.
- Excellence in providing an integrated experience to customers.
- Optimal investments in infrastructure to maintain leadership in telecommunications technology.
- Achieve operational efficiency and effectiveness.

D. Procurement

The procurement segment in STC witnessed a significant transformation to achieve the highest international levels and standards in business. The management of this segment was changed towards the end of 2013, in order to strengthen the notion of lowering procurement costs and transforming the segment’s current role in administrative responsibility into a strategic mission or responsibility in the Company system, while also paying attention to the continuity of the procurement business and securing the interests of the Company.

To achieve this goal, initiatives were made for these new orientations, and new governance procedures and regulations were established to be implemented during 2014. This was to achieve and support the execution of the strategies laid down by the Company to increase its revenues and profits through providing services in a timely manner and enhancing and developing the local supply base to ensure continuity of business in the midst of the constant changes in the telecommunications network. Furthermore, STC performed a comprehensive evaluation of local and international suppliers in order to choose the most suitable and most capable of supporting STC in achieving its goals and strengthening its competitive position.

E. Human Resources

Developed companies in the telecommunications industry periodically work towards restructuring their main segments in order to deal with the challenges posed by the market, as necessitated by the multiple and diverse services provided by said companies and their constant endeavors towards advancement, upgrades and keeping up with the expectations of their customers.

As for STC, its executive administration collaborated with international experts to choose the best forms of administrative organization so as to give the Company a more customer-based structure. Through building a new organizational structure that enables STC to achieve its strategic goals and aids it in understanding the needs of all customers and providing different, highly effective services packages that meet their needs, expectations and ambitions. The board of directors of the Company will be able to – Allah willing - embrace its team spirit and achieve the highest strategic goals of STC.

The implementation of the new organizational structure began in the second quarter of 2013 with an announcement regarding the staff of the first and second levels, and a second announcement regarding the staff of the third and fourth levels was made during the final quarter of 2013.

In order to activate and execute the new structure, STC

launched a project to describe and evaluate all positions in the Company. This project will cover a variety of axes including the job descriptions of all levels in the organizational structure, and the different career paths in order to produce promising leaders, as well as a coordinated package of HR policies that will enable the Company – Allah willing – to motivate and maintain promising competencies.

STC achieved high rates of Saudization (nearly 90%) through the adoption of Saudization, Recruitment and Development Programs consistent with its strategy of encouraging employment of Saudi nationals. With a view to improve the efficiency of its staff and the performance of its workforce, the Company focuses on the following programs:

- **Human resources training and development program**

About 1,391 training courses have been organized and attended by about 11,069 members of company staff, with a total of 16,533 implemented training opportunities. 112 workshops have been held through WebEx that benefited 3,543 employees.

- **National Recruiting Program**

450 jobs were made available in 2013, a 300% increase compared with 2012. Furthermore, many local and external recruitment campaigns were implemented to attract national competencies from the graduates of the King Abdullah Foreign Scholarship Program and the graduates of local universities.

- **Staff Loans Program**

During 2013, the number of employees who benefited from the Housing Loans Program was 82 employees worth SR 103,118,189.20. 19 employees benefited from the Vehicle Loans Program worth SR 3,292,225.

- **The Social Solidarity Fund Program**

STC's employees continued to benefit from the Social Solidarity Fund which the Social Solidarity Fund Programme which works to develop team spirit, cooperation, and solidarity between the Company employees and help in overcoming living difficulties faced by their coworkers. The Fund supports eligible employees through non-refundable financial subsidies and interest-free loans. 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 2013, the Company provided 132 solidarity grants worth SR 1,370,000 and 876 interest free loans worth SR 15,429,501.

F. Social Responsibility

STC has always contributed to the development of the society and its members as part of its social role, for it believes in the importance of interacting with the needs of the society, serving it and supporting its activities, in order to achieve sustainable and comprehensive development. It does so through supporting and sponsoring social and charitable programs, whether by cooperating with the program organizers or by launching initiatives to that end, which are expected to have a positive effect on the targeted segments of the society.

STC realizes that the concept of social responsibility is synonymous with openness and the implementation of the policy of transparency and disclosure, as well as adherence to excellent administrative guidelines. It also stands for continuity in developing our relationships with our customers. We also care about our staff and their motivation, as well as the environment and the society. In this regard, 2013 was a year full of many social contributions and activities provided by STC in an act of contribution to the development of the society, of which the following are most important:

- STC took upon itself the act of publishing the first guidebook for deaf people, titled "Telecommunication Services in Sign Language for the Deaf". It aims to educate sales employees on how to recognize the service being requested by a deaf customer. It is an initiative for integrating people with special needs into the society through keeping them up to date on recent developments in the telecommunication services. The guidebook includes sign language terminology unique to STC and the services it provides. This enables employees to meet the needs of the deaf, as the guidebook has been already distributed among all the offices and branches of the Company, so that all sales employees may be able to serve deaf customers.

- As per the teachings of Islam regarding social dealings and solidarity, STC organized 4 blood donation campaigns under the banner of “A drop of your blood can save a life” in collaboration with many hospitals. It believes in the health and social benefits of such a campaign, as well as its staff’s contribution to their sick and injured brothers in hospitals – may Allah heal them. The number of donors from STC employees exceeded 500 this year.
- STC was always keen to support the historical and national heritage of the Kingdom of Saudi Arabia. It contributed to the sponsorship of the 28th Jenadriyah Heritage and Cultural Festival, for it believed in the importance of supporting culture and national heritage, as well as the importance of creating a harmony between the private sector and the government sectors. This step reflects the national role played by STC in the popular and cultural movement of the Saudi society.
- To assist charitable foundations in the society, the Company established a Short Code for Mawaddah Women Charity for Reduction of Divorce and its Effects (5082) in order to enable the efforts and programs of the charity to raise awareness in the society regarding its role and goals.
- STC also contributed in spreading an awareness campaign on behalf of AFTA Society (an ADHD society). The campaign included educational advice aiming to raise awareness among families and society members regarding this ailment and the proper ways of dealing with it, and how to identify affected children and support them by providing the best research and clinical services for them.
- STC was also the first in the Kingdom of Saudi Arabia to open an office for deaf individuals in the Deaf Club in Riyadh. In a humanitarian gesture that demonstrates the attention STC pays to people with special needs in the society, the office provides different services to the club members through employees who are deaf as well.
- STC also looked out for the children of its own employees, for it organized a number of training courses to test (or measure) the general abilities of students in their second and third years in high school, in order to receive high averages enabling them to apply to universities.
- As part of its responsibility towards its employees, the Company organized an internal campaign to raise awareness among them regarding the services offered to them. This was accompanied by a campaign that involved the distribution of a booklet titled “Because You Are Part of Us”, which demonstrates STC’s vested interest in its staff.
- The Company also supported the Child Helpline Program launched by the National Family Safety Program of the Ministry of the National Guard Health Affair. The program aims to prevent domestic violence and provide free consultations to children and young adults below 18 years old. STC raised awareness regarding the program and the participation in the Child Helpline Program Conference through working papers including the technical aspects STC provided to the Helpline, and the other consultative, awareness raising and informative aspects.
- To assert its social responsibility, the Company participated in various

campaigns aiming towards the safety and security of the society. The most notable campaigns include:

- Health and awareness-raising campaigns for non-profit organizations.
- The Correction Campaign of Foreign Workers Status.
- The informative and awareness-raising campaign for pilgrims (the Hajj Awareness Campaign), to raise health awareness among the pilgrims and provide guidelines as to how to perform the Hajj rituals properly.
- Awareness campaign for the preservation of the environment by participating in Earth Day.
- Awareness Campaign for the Gulf Traffic Week, to contribute to raising traffic awareness and putting an end to wrong habits when driving vehicles and using the road.
- Awareness campaign for the GCC Unified Inmates Week, to raise awareness among the society about the importance of caring for inmates so they may become law-abiding and active citizens upon their release.

STC 's performance of its social responsibility stems from the inherent values upon which it builds its strategies, plans and goals. It is considered a pillar in the implementation of the development plans in our beloved country, so we may provide a better life for the individual, their family and their society.

G. Offering Services to the Pilgrims of the Holy Mosque

The expertise and professionalism of STC during Hajj resulted in a season successful beyond comparison.

STC achieved great degrees of success in keeping up with the Hajj season in 1434 Hijri. Traffic indicators for communications and data transfer revealed clear streamlined results for the traffic of telecommunications during the days of pilgrimage in Mecca and the holy shrines. It noted a significant increase in the wired and wireless broadband services, as compared with the same period last year. It also focused on developing the base stations for 3G and 4G networks by increasing their numbers from the previous year and to varying degrees.

King Khaled Center for National Network Control noted a significant increase in the number of international roaming users on its network, especially in the central area of the Holy Mosque, the different areas of Mecca and the holy shrines. STC made its services available at campsites and with the movements of pilgrims and those assisting them, including but not limited to tawaf establishments, domestic campaigns and all governmental and private parties. The significant upgrades STC added to the 3G and 4G networks this year had an important role in raising the capacity of voice and data services, as there was focus on supporting and enhancing the network on roads and passages leading to and from the holy shrines in addition to the mountainous sites. The modern base stations that were established in hundreds to support the mobile networks – with focus on readying the necessary support for the 3G and 4G networks – played a part in the success of the season, despite the developments of the past year, notably the large projects and current expansions in the central area of the Holy Mosque, the holy shrines, and Haramain High Speed Rail project, the Mina towers, and bridges and tunnels.

- **180 Field teams for the service of pilgrims**

Of the employees of STC , five thousand contributed to the service of the pilgrims this year, and provided the company services in Mecca, Madinah, the holy shrines and the main air, sea and land access points. This helped achieve high levels of success in less than a week in mountainous environments with legitimate borders. The Company prepared comprehensive emergency plans for Hajj to counter any emergencies to the network at any time during the week, to serve the pilgrims and those in charge of providing them with services from different sectors, through 180 field teams ready for this very purpose.

- **Mobile network capacity and coverage of the holy mosque expansions**

In the 1434 Hijri Hajj season, STC employed various recent telecommunications developments for the service of its customers among pilgrims as part of its 4G network coverage of Mecca and Madina, providing them with the very best technologies. This step demonstrated STC's leading position in terms of 4G services and their availability in holy shrines for the service of pilgrims and travelers using the networks of STC through the large coverage unique to the Company.

- **Wi-Fi coverage of MENA and international phone circuits**

STC increased the number of international circuits during this Hajj season, and they were divided among four international divisions to increase international traffic, while also providing technical solutions through spreading fiber optic networks. STC also developed the Wi-Fi service in Mena through increasing the coverage area and adding new Wi-Fi hotspots to enable pilgrims to browse the internet for free in the public spaces in holy shrines.

- **STC "My Pilgrimage" application for the service of pilgrims**

The "My Pilgrimage" application provided by STC explains things of interest and Hajj-related information to the pilgrim, including weather information, prayer times and scholar advisory opinions about Hajj matters. The application is the bilingual (English/Arabic).

- **Social role towards pilgrims**

STC continued to be present in important social events, including the Hajj season in which the country boasts hosting around two million pilgrims. STC strived to leave its social mark on such events, through distributing hundreds of thousands of umbrellas and other marketing gifts appropriate for pilgrims and visitors as a souvenir from the country of the Holy Mosque.

Board of Directors

Company

A. The Board of Directors

• Structure of the Board of Directors and Classification 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:

SN.	Name of member	Membership in listed companies	Membership in non-listed companies	Membership Classification		
				Non-Executive	Indep-endent	Dependent
1	Eng. Abdul Aziz A. Alsugair, Chairman of the Board, President of the Executive Committee and President of the Nominations and Compensations Committee.	Saudi Arabian Mining Company (Maaden)	N/A			√
2	Mr. Mohamed Abdullah Al-Kharashi, Vice Chairman of the Board, President of the Auditing Committee and Member of the Executive Committee.	- Saudi Basic Industries Corporation (SABIC) - Saudi Arabian Mining Company (Maaden)	N/A	√		√
3	Dr. Hamad Suleiman Al-Qassumi, Member of the Nominations and Compensations Committee and Member of the Executive Committee.	N/A	N/A	√		√
4	Mr. Muhammad Saleh Ad-Dahham, Member of the Executive Committee and Member of the Investment Committee.	N/A	N/A	√		√
5	Mr. Ibrahim Ali Al-Hassan, Member of the Investment Committee	N/A	N/A	√		√
6	Mr. Abdul Aziz Habdan Al-Habdan, Member of the Nominations and Compensations Committee and Member of the Auditing Committee.	- Banque Saudi Fransi - Saudi Basic Industries Corporation (SABIC)	Allianz Saudi French Cooperative Insurance Comp.	√		√
7	Eng. Muhammad Omran Al-Omran, Member of the Executive Committee	- Al Rajhi Company for Cooperative Insurance - Saudi British Bank	- Saudi Orix Leasing Company - Credit Suisse - Saudi Arabia	√	√	
8	Mr. Mohamed Dhayyan Al Dhayyan, President of the Investment Committee.	N/A	- Al-Qassim Medical Sevices Company - Saudi Specialized Laboratories Company (Motabaqah)	√	√	
9	Mr. Saleh Ali Al-Azal, Member of the Nominations and Compensations Committee and Member of the Investment Committee.	- The Saudi Investment Bank	- Electric Industries Company - Saudi Specialized Laboratories Company	√	√	

B. Members' participation in the Board of Directors' meetings and committees

The period as of 01 / 01 /2013 until the end of 2013 represents the Board of Directors' fifth session. The following table shows the number of Board's meetings and committees as well as the members' attendance. During this period, the Board held sixteen meetings:

SN.	Name of Member	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	Total
		20/1/2013	12/2/2013	20/2/2013	17/3/2013	24/3/2013	6/4/2013	21/4/2013	29/5/2013	14/7/2013	17/7/2013	21/7/2013	25/8/2013	15/9/2013	7/10/2013	29/10/2013	30/12/2013	
1	Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16
2	Mr. Mohamed Abdullah Al-Kharashi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16
3	Mr. Muhammad Saleh Ad-Dahham	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16
4	Mr. Ibrahim Ali Al-Hassan	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√	√	15
5	Dr. Hamad Suleiman Al-Qassumi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16
6	Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	16

SN.	Name of Member	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	Total
		20/1/2013	12/2/2013	20/2/2013	17/3/2013	24/3/2013	6/4/2013	21/4/2013	29/5/2013	14/7/2013	17/7/2013	21/7/2013	25/8/2013	15/9/2013	7/10/2013	29/10/2013	30/12/2013	
7	Eng. Muhammad Omran Al-Omran	X	√	X	√	X	√	√	√	X	√	√	X	√	X	√	√	10
8	Mr. Mohamed Dhayyan Al Dhayyan	√	√	√	√	X	√	√	√	√	√	√	X	√	√	√	√	14
9	Mr. Saleh Ali Al-Azal	√	√	√	√	√	√	X	√	√	√	√	√	√	√	√	√	15

Some members did not attend some of the meetings of the Board of Directors due to special circumstances, or for reasons of travel outside the Kingdom of Saudi Arabia. It should also be noted that the Board of Directors member, Eng. Mohammed Bin Omran al-Omran did not attend the Board's meetings No. 19 and 22 since the agenda in these meetings revolved around the Company's foreign investment in (AXIS Company). Eng. Mohammed Bin Omran al-Omran is also a member of the Board of Directors of SABB bank, one of STC's lenders, and in order to avoid conflicts of interest he did not attend this meeting.

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. Al-Sugair	President
2	H.E. Mr. Mohamed Abdullah Al-Kharashi	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 shall review strategies and estimated annual budgets as well as the Company's local and global activities in the basic and non-basic scopes of activities. It shall approve them by virtue of the powers vested in it by the Board of Directors. It is worth mentioning that the Committee held five meetings during 2013.

SN.	Name	Meeting Number					
		6	7	8	9	10	Total
1	H.E. Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	5
2	H.E. Mr. Mohamed Abdullah Al-Kharashi	√	√	√	√	√	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	√	√	√	√	√	5

Nominations and Compensations Committee		
1	H.E. Eng. Abdul Aziz A. Alsugair	President
2	H.E. Dr. Hamad Suleiman 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 shall review, approve and endorse the design of a suitable employment mechanism. It shall set and review the salary structure in accordance with the market criteria and developments. The Committee shall ensure the fair implementation of this structure in such a way that provides the necessary incentives for the management and the employees to perform their duties efficiently. The Committee shall also review the structure of the Board of Directors, submit recommendations on the required changes, verify the independence of independent members on an annual basis, ensure the lack of any conflict of interest that may arise if a member is also a member in the Boards of Directors of other companies, and review and approve the policy of compensation and rewards to be given to the Board of Directors. The Committee shall approve this policy as a preliminary step before referring it to the Board of Directors. It is worth mentioning that the Committee held fifteen meetings during 2013.

SN.	Name	Meeting Number															
		6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	Total
1	H.E. Eng. Abdul Aziz A. Alsugair	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15
2	H.E. Dr. Hamad Suliman Al-Qassumi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15
3	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15
4	H.E. Mr. Saleh Ali Al-Azal	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	15

The Audit Committee		
1	H.E. Mr. Mohamed Abdullah Al-Kharashi	President
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 shall review the Company's financial and administrative policies and procedures, as well as the procedures for drafting the financial reports and their outputs. The Committee shall also peruse the reports and remarks of the internal audit. It shall issue recommendations to the Board of Directors on the appointment and dismissal of certified public accountants, the determination of their remuneration and the verification of their independence. The Committee shall study the interim and annual financial statements before their submittal to the Board of Directors, express its relevant opinion and provide its guidance. It shall examine the certified accountant's remarks on the financial statements, study the audit plan with the latter and give the relevant remarks. This is in addition to other periodical and regular activities enabling the assessment of the efficiency and effectiveness of control and risk management activities in the Company. It is worth mentioning that the Committee held twelve meetings in 2013.

SN.	Name	Meeting Number												
		8	9	10	11	12	13	14	15	16	17	18	19	المجموع
1	H.E. Mr. Mohamed Abdullah Al-Kharashi	√	√	√	√	√	√	√	√	√	√	√	√	12
2	H.E. Mr. Abdul Aziz Habdan Al-Habdan	√	√	√	√	√	√	√	√	√	√	√	√	12
3	H.E. Mr. Yahya Bin Ali Al-Jabr	√	√	√	√	√	√	√	√	√	X	√	√	11
4	H.E. Dr. Khaled Bin Muhammad Al-Khuwaiter	√	√	√	√	√	√	√	√	√	√	√	√	12

Some members were not able to attend the meetings of the Committee for personal reasons or for being outside the Kingdom of Saudi Arabia.

Investment Committee		
1	H.E. Mr. Mohamed Dhayyan Al Dhayyan	President
2	H.E. Mohammad Bin Saleh Ad-Dahham	Member
3	H.E. Mr. Ibrahim Bin Ali Al-Hassan	Member
4	H.E. Mr. Saleh Ali Al-Azal	Member
5	H.E. Eng. Muhammad Omran Al-Omran*	Member

Duties and Responsibilities:
The Committee shall review the Company's strategic investments in accordance with the Company's strategies. The Committee shall also review and study strategic investment opportunities and issue recommendations on the adequate investments. It is worth mentioning that the Committee held nine meetings during 2013.

SN.	Name	Meeting Number									
		5	6	7	8	9	10	11	12	13	Total
1	H.E. Mr. Mohamed Dhayyan Al Dhayyan	√	√	√	√	√	√	√	√	√	9
2	H.E. Mohammad Bin Saleh Ad-Dahham	√	√	√	√	√	√	√	√	√	9
3	H.E. Mr. Ibrahim Bin Ali Al-Hassan	√	√	√	√	√	√	√	√	√	9
5	H.E. Mr. Saleh Ali Al-Azal	√	√	√	√	√	√	√	√	√	9

* The Board of Directors decided in its 11th meeting held on 08 / 03 / 1434 AH, corresponding to 01 /20 /2013 AD, to approve the resignation request of Engineer Mohammed Bin Omran al-Omran from the Investment Committee. He indicated that he wishes to resign due to time constraints and to the multiplicity of his travels, preventing him from properly attending the Committee's meetings.

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 (natural persons), their wives and minor children.

SN.	Name	Beginning of the year (Summary)		End of the year (Summary)		Net change	% Change
		Number of shares at the beginning of the period	Debt instruments at the beginning of the period	Number of shares at the end of the period	Debt instruments at the end of the period		
1	H.E. Eng. Abdul Aziz A. Alsugair	0	—	0	—	0	0%
2	H.E. Mr. Mohamed Abdullah Al-Kharashi	0	—	0	—	0	0%
3	H.E. Mohammad Bin Saleh Ad-Dahham	0	—	0	—	0	0%
4	H.E. Ibrahim Bin Ali Al-Hassan	0	—	0	—	0	0%
5	H.E. Dr. Hamad Suliman Al-Qassumi	546	—	546	—	0	0%
6	H.E. Mr. Abdul Aziz Habdan Al-Habdan	5,000	—	0	—	5,000	(100%)
7	H.E. Eng. Muhammad Omran Al-Omran	320,920	—	320,920	—	0	0%
8	H.E. Mr. Mohamed Dhayyan Al-Dhayyan	1,433,229	—	1,698,367	—	0	17%
9	H.E. Mr. Saleh Ali Al-Azal	256,880	—	256,880	—	0	0%

Ownership of top executives, their wives and minor children (executive department)

SN.	Director's Name	Beginning of the year (Summary		End of the year (Summary)		Net Change	% Change
		No. of shares at the beginning of the period	Debt instruments at the beginning of the period	No. of shares at the end of the period	Debt instruments at the end of the period		
1	Khaled Bin Hussein Bin Saledh Biyari	2,000	—	2,000	—	0	0%
2	Krishnan R. Kumar	0	—	0	—	0	0%
3	Cenk Ozer Serdar	0	—	0	—	0	0%
4	Abdullah Bin Abdul Rahman Bin Abdullah Al-Zamami	0	—	0	—	0	0%
5	Omar Bin Abdullah Bin Omar Al-Numani	8,501	—	8,501	—	0	0%
6	Amin Bin Fahd Bin Abdul Azizi Al-Sheddi	0	—	0	—	0	0%
7	Saoud Bin Abdul Al-Aziz Bin Mohammad Al-Shumari	0	—	0	—	0	0%
8	Hamud Bin Mohammad Al-Qassir	2933	—	0	—	2933	(100%)
9	Fahd Bin Hassan Bin Said Mashit	0	—	0	—	0	0%
10	Ayman Bin Saleh Bin Suleiman Al-Sahim	0	—	0	—	0	0%
11	Faysal Bin Said Bin Abdullah Al-Saber Al-Hamali	0	—	0	—	0	0%
12	Mazid Bin Naser Bin Mazid Al-Harbi	0	—	0	—	0	0%
13	Khaled Bin Mohammad Bin Hamad Al-Salii	4,000	—	0	—	4,000	(100%)
14	Cyril G. Pourrat	0	—	0	—	0	0%

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:

SN.	Number of Article in the Corporate Governance Regulations	Compliance	Partial compliance	Non-compliance	Explanation
1	Article 3: General Rights of Shareholders	•			
2	Article 4: Facilitation of Shareholders' Exercise of Rights and Access to Information	•			
3	Article 5: Shareholders Rights related to the General Assembly	•			
4	Article 6: Voting Rights	•			
5	Article 7: Dividends Rights of Shareholders	•			
6	Article 8: Disclosure Policies and Procedures	•			
7	Article 9: Disclosure in the Board of Directors' Report	•			
8	Article 10: Main Functions of the Board	•			
9	Article 11: Responsibilities of the Board	•			
10	Article 12: Formation of the Board	•			
11	Article 13: Committees of the Board and their Independence	•			
12	Article 14: Audit Committee	•			
13	Article 15: Nomination and Remuneration Committee	•			
14	Article 16: Meetings and Agenda of the Board	•			
15	Article 17: Remuneration and Indemnification of Board Members	•			
16	Article 18: Conflict of Interest within the Board	•			

F. Internal Control

The Board of Directors hereby acknowledges that the accounting books have been correctly drawn-up, and that the Board does not question STC's ability to continue its business activities. The Board also attests that the Internal Audit System relied on proper bases and its procedures were conducted adequately and efficiently.

The Audit Committee, stemming from the Board, oversees the activities of the Group's internal audits that periodically verify the capability and efficiency of the internal control system in such a way as to provide a continuous assessment of this system and its efficiency. This falls within the scope of the Board's objectives, including in particular, being reasonably convinced of the degree of safety of the design and efficiency of the Company's Internal Audit System. To this end, the Audit Committee held twelve meetings during the fiscal year of 2013, during which it discussed several matters related to the Committee's activities, such as auditing the Company's financial statements, investments, business units, strategic and regulatory affairs, human resources, network and information systems. Such meetings were also attended by Internal Audit officials and other relevant departments within STC. Other issues related to the conduct of business activities in all areas have also been discussed.

G. Internal Audit

Internal Audit is an objective and independent checking and advisory function aimed at improving and adding value to the Company's operations. The Group's internal audit assists the Company in achieving its objectives by providing regular input for the assessment and improvement of the efficiency of risk management, control, and operations subject to the Company's internal audit activity. The Group's Internal Audit System has carried out several periodical and special audits and focused on high-risk activities and functions in order to increase the Company's operations efficiency and profitability. These audits included – for example – auditing policies and procedures relating to procurement, strategic affairs, IT, business units and the financial department. These aimed at reducing income loss and minimizing costs, given that the necessary procedures were taken to follow-up on most of the audit reports' remarks in order to verify that corrective procedures have been undertaken. Moreover, the Internal Audit participates in the auditing of interim and final financial statements and coordinates the activities of external control bodies.

The Distribution of dividends and the recommendations

of the board of directors 2013

A. The Distribution of dividends and the recommendations of the Board of Directors

• The proposed distribution of dividends for 2013

The Board of Directors proposed the distribution of interim dividends of SR 1.50 per share amounting to SR 3,000 million for the first three quarters of the fiscal year 2013. It also recommended the distribution of interim dividends of SR 0.75 per share amounting to SR 1,500 million for the fourth quarter of 2013. Accordingly, the total dividends distributed in 2013 reached SR 4.500 million distributed over SR 2.25 per share, equivalent to 22.5% of the shares' nominal value.

The recommended and approved distributions for 2013 were as follows:

SN.	Description	Total distribution in SR million	Share dividend in SR	Announcement date	Maturity date	Distribution date
1	Cash dividends for Q1 of 2013	1,000	0,50	21/4/2013	24/4/2013	8/5/2013
2	Cash dividends for Q2 of 2013	1,000	0,50	21/7/2013	25/7/2013	15/8/2013
3	Cash dividends for Q3 of 2013	1,000	0,50	29/10/2013	4/11/2013	19/11/2013
4	Cash dividends for Q4 of 2013	1.500	0.75	20/1/2014	2/4/2014	15/4/2014
5	Total dividends	4.500	2.25			

B. The Board Members' and Senior Executives' Bonuses and Compensations

The table below shows the bonuses and fees paid to the Board members for their attendance of Board meetings and committees during the fiscal year ending on 2013 and to the five senior Board members, including the Chairman and the Vice-Chairman for Financial Affairs. The Board recommends the disbursement of SR 200,000 (two hundred thousand Saudi Riyals) to each member as an annual bonus for 2013 in accordance with Article 44 of the by-laws of STC.

Disclosing bonuses and compensations in general (items)

SN.	Description	Executive members	Non-executive/ independent members	Total obtained by five top executives (including the Chairman)
1	Salaries and compensations	240,000	-	8,871,709
2	Allowances	-	837,000	820,750
3	Periodical/annual bonuses	-	3,240,000	2,511,000
4	Incentives	-	-	-
5	Incentives, including other in-kind compensations and privileges paid monthly or annually	-	-	-
6	Total compensation and wage	240,000	4,077,000	12,203,459

C. Declarations of the Board of Directors

STC's Board of Directors hereby acknowledges that:

- The accounting books have been correctly prepared.
- The Board of Directors has no doubt whatsoever regarding the Company's ability to continue its business.
- The Internal Audit System has been established on valid bases and was effectively executed.
- The Consolidated Financial Statements for 2013 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 of any natural person or legal entity owning 5% or more of the Company's issued shares, during 2013.
- The Company has not issued or granted any debt instruments convertible to shares, option rights, subscription rights or similar rights, during 2013.
- The Company has not redeemed, purchased or cancelled any redeemable debt instruments, during 2013.
- There has been no arrangement or waiver agreement whereby any Board Member or Senior Executive waived his right to receive salary or compensation.
- There has been no arrangement or waiver agreement whereby any of the Company's shareholders waived any of his rights to profits.
- STC has not entered into any contracts involving the substantial interests of a Board member, the CEO, Vice-Chairman of Financial Affairs or any person related to them.
- The Company has not granted any cash loan to any Board members or guaranteed a loan contract concluded by any of them with a third party.
- The Board Members, Senior Executives, their wives or minor children have no option or subscription rights.
- No subsequent substantial event has occurred, affecting the safety of the Company's financial position and the outcomes of its operations and which have not been disclosed, except for the announcement of the recommendation to distribute the dividends of the fourth quarter of 2013.
- The Company's external auditor expressed his opinion on the financial statements without any reservations.

D. Recommendations

STC's Board of Directors recommends to the General Assembly:

- To approve the Board's report for the fiscal year ending on 31/12/2013.
- To approve the Company's Auditor Report and the Final Accounting Statements for the fiscal year ending on 31/12/2013.
- To approve the Board's proposal to distribute dividends of SR 0.75 per share amounting to SR 1,500 million (7.5%) of the nominal value of the share, for the fourth quarter of the financial year of 2013, in addition to the dividends of SR 1.50 per share distributed for the first three quarters of 2013. Therefore, the total dividend distributed for the financial year 2013 would be equal to SR 2.25 per share. The shareholders who are registered in the shareholders register in the Securities Depository Center (Tadawul) at the close of trading in the General Assembly shall be entitled to receive the profit dividends of the fourth quarter of 2013. Profits will be disbursed on Tuesday 15/04/2014 AH corresponding to 15/04/2014, and the remaining net profit shall be carried forward to the coming years.
- To approve the appointment of the company's auditor from among those nominated by the Audit Committee and determine his remuneration. The latter shall audit and review the quarterly financial statements for the fiscal year of 2013.
- To approve the issuance of one or more tradable debt instruments including bonds and deeds, or issuing them through an issues program inside or outside the Kingdom, directly or indirectly, and delegating powers to the Board to take all the necessary procedures and acquire

approvals from the concerned parties. The Board shall also determine the time of issuance, as well as the values, size, conditions, structure, uses and settlement methods of such instruments, in addition to any other conditions or provisions, provided that the total value does not exceed the limits identified in the applicable systems. As regards these issues, the Board has the power to enter into contracts, obligations and partnerships with third parties and offer securities, guarantees and collaterals, and it also has the power to delegate any such powers to any person(s), and give them the right to delegate others.

- To approve the disbursement of SR 200,000 as bonus for each member of the Board of Directors for the fiscal year ending on 31/12/2013
- To give quietus to the Board members for the fiscal year ending on 31/12/2013.

Conclusion

The Company's Board of Directors would like to thank God Al-Mighty as well as the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al-Soud, HRH the Crown Prince Salman Bin Abdul Aziz Al Saud, the Second Deputy Prime Minister HRH Prince Muqrin bin Abdulaziz Al-Saud and our wise government. The Company praises their support, care and encouragement in its quest to develop its performance and improve its services. Moreover, the Company's Board of Directors would like to extend its deep appreciation to the company's clients and shareholders for their trust, to all its employees for their dedication and devotion in the performance of their work, and to all the parties who have dealings with it. The Board of Directors emphasizes that the Company will continue to develop its business, in such a way as to meet the clients' needs, achieve the shareholders' aspirations and fulfil social objectives. The Board of Directors would also like to emphasize on the company's leading position in the telecommunications sector in the Kingdom of Saudi Arabia.

Consolidated Financial Statements

for the Year Ended December 31, 2013

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
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AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as "the Group") as of December 31, 2013, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the accompanying notes 1 to 37 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the bylaws of the Company as these relate to the preparation and presentation of these consolidated financial statements.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358
Rabi Al Thani 19, 1435H
February 19, 2014

Consolidated Balance Sheet as at December 31, 2013 (Saudi Riyals in thousands)

	Note	2013	2012 (Restated)
ASSETS			
Current assets:			
Cash and cash equivalents	3	960,074	1,614,361
Short-term investments	4	16,828,933	8,670,447
Accounts receivable, net	5	7,679,909	7,705,006
Prepaid expenses and other current assets	6	3,151,488	3,442,661
		28,620,404	21,432,475
Assets held for sale	33	3,540,292	-
Total current assets		32,160,696	21,432,475
Non-current assets:			
Investments accounted for under equity method & others	7	9,591,925	13,394,050
Investments in sukuk	8	1,687,500	1,687,500
Property, plant and equipment, net	9	38,402,069	39,873,248
Intangible assets, net	10	4,607,753	5,053,784
Other non-current assets	11	909,852	1,063,943
Total non-current assets		55,199,099	61,072,525
Total assets		87,359,795	82,505,000
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	12	2,761,428	4,283,553
Other credit balances - current	13	2,959,389	2,950,735
Accrued expenses	14	7,067,781	6,360,712
Deferred revenues - current portion		1,227,370	1,780,651
Murabahas - current portion	15	1,560,571	1,411,491
		15,576,539	16,787,142
Liabilities related to assets held for sale	33	4,073,763	-
Total current liabilities		19,650,302	16,787,142

Consolidated Balance Sheet as at December 31, 2013 (Saudi Riyals in thousands)

	Note	2013	2012 (Restated)
Non-current liabilities:			
Murabahas - non-current portion	15	6,976,494	9,953,061
Provisions for end of service benefits	16	3,395,451	2,891,380
Other credit balances - non-current	13	1,174,855	1,688,196
Total non-current liabilities		11,546,800	14,532,637
Total liabilities		31,197,102	31,319,779
Equity			
Shareholders' equity			
Authorized, issued and outstanding share capital			
2,000,000,000 shares per value SR 10 per share	17	20,000,000	20,000,000
Statutory reserve	18	10,000,000	10,000,000
Retained earnings		28,689,090	22,792,023
Other reserves	19	(1,031,887)	(606,881)
Financial statements' translation differences		(1,800,422)	(848,014)
		55,856,781	51,337,128
Reserves relating to assets held for sale	33	372,846	-
Total shareholders' equity		56,229,627	51,337,128
Non-controlling interest		494,603	(151,907)
Non-controlling interests recognized and relating to assets held for sale	33	(561,537)	-
Total equity		56,162,693	51,185,221
Total liabilities and equity		87,359,795	82,505,000

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

Consolidated Statement of Income for the Year Ended December 31, 2013 (Saudi Riyals in thousands)

	Note	2013	2012 (Restated)
Revenue from services	20	45,604,629	44,745,076
Cost of services	21	(18,191,385)	(19,483,373)
Gross Profit		27,413,244	25,261,703
Operating Expenses			
Selling and marketing expenses	22	(6,018,859)	(6,095,286)
General and administrative expenses	23	(2,923,841)	(2,893,160)
Depreciation and amortization	24	(6,378,284)	(6,336,702)
Impairment losses relating to investments	25	(1,103,608)	(190,869)
Total Operating Expenses		(16,424,592)	(15,516,017)
Operating Income		10,988,652	9,745,686
Other Income and Expenses			
Losses from investments accounted for under the equity method	7	(939,823)	(2,002,774)
Finance costs	26	(143,252)	(677,714)
Commissions and interest		190,184	114,037
Losses resulted from assets held for sale	33	(597,867)	-
Other, net	27	950,398	198,608
Other income and expenses, net		(540,360)	(2,367,843)
Net income before Zakat, Taxes and Non-controlling interests		10,448,292	7,377,843

Consolidated Statement of Income for the Year Ended December 31, 2013 (Saudi Riyals in thousands)

	Note	2013	2012 (Restated)
Provision for Zakat and Taxes	28	(230,431)	(214,982)
Net Income before Non-controlling interests		10,217,861	7,162,861
Non-controlling interests		(320,794)	113,098
Net income		9,897,067	7,275,959
Basic earnings per share on operating income (in Saudi Riyals)		5.49	4.87
Basic losses per share on income from other operations (Other income and expenses) (in Saudi Riyals)		(0.27)	(1.18)
Basic earnings per share on net income (in Saudi Riyals)		4.95	3.64

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

Consolidated Statement of Cash Flows for the Year Ended December 31, 2013 (Saudi Riyals in thousands)	2013	2012 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before zakat, taxes and non-controlling interests	10,448,292	7,377,843
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	6,378,284	6,336,702
Impairment losses related to investments	1,103,608	190,869
Allowance for doubtful debts	1,374,102	1,480,969
Losses from investments accounted for under the equity method	939,823	2,002,774
Commissions and interest	(190,184)	(114,037)
Finance costs	143,252	677,714
Losses on foreign currency exchange fluctuations	5,034	152,539
End of service benefits	550,335	375,153
Losses on sale/disposal of property, plant and equipment	530,992	41,327
Change in:		
Accounts receivable	(1,379,808)	(2,338,929)
Prepaid expenses and other current assets	(215,970)	(1,124,484)
Other non-current assets	26,282	158,293
Accounts payable	(1,077,641)	1,638,052
Other credit balances	267,796	280,108
Accrued expenses	1,469,973	(1,429,387)
Deferred revenues	(487,998)	242,604
Zakat and taxes paid	(221,823)	(80,730)
End of service benefits paid	(28,831)	(144,563)
Net cash provided by operating activities	19,635,518	15,722,817

Consolidated Statement of Cash Flows for the Year Ended December 31, 2013 (Saudi Riyals in thousands)	2013	2012 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,427,907)	(6,141,731)
Intangible assets, net	(181,881)	(490,264)
Investments in equity and other	(90,626)	(46,875)
Short-term investments	(8,158,486)	(6,226,487)
Proceeds from commissions and interest	190,184	94,910
Proceeds from sale of property, plant and equipment	6,594	7,979
Net cash used in investing activities	(15,662,122)	(12,802,468)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,997,843)	(4,002,413)
Murabahas, net	(367,774)	(779,682)
Finance costs paid	(146,725)	(224,154)
Non-controlling interests	84,973	17,582
Net cash used in financing activities	(4,427,369)	(4,988,667)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(453,973)	(2,068,318)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,614,361	3,682,679
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR - ASSETS HELD FOR SALE (refer to note 33)	(200,314)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	960,074	1,614,361
Non-cash items:		
Financial statements' translation differences	(952,408)	626,409
Other reserves	(425,006)	526,455

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

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

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

1. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

Telecom Commercial Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia on October 2007 for the purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of systems, communications software and information technology. The Company is operating in the Saudi market and STC 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 STC owns 100% of its BHD 75 million share capital which is equivalent to approximately SR 746 million at the exchange rate as at that date. This company operates in the field of all mobile telecommunication services, international telecommunications, broadband and other related services in the Bahraini market, and commenced its commercial operation on March 3, 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Binariang GSM Holding Group – Malaysia**

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

Binariang Holding has other investments in telecommunications companies which operate in India (Aircel company) and Indonesia (PT Axis Telecom). (refer to Notes 7 and 33)

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies used for the preparation of the consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the audited consolidated financial statements for the year ended December 31, 2012, except for the accounting policy relating to the investments in joint ventures which is effective from January 1, 2013 (refer to 2-13). In addition, new accounting policy relating to non-current assets held for sale was applied (refer to 2-12).

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

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

The significant accounting policies are summarized below:

2-1 Consolidation Basis

Subsidiaries

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

2-2 Period of the consolidated financial statements

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

2-3 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 separately. When such an exercise is impractical, the allowance is based on groups or categories of inventory items, taking into consideration the items which may require significant reduction in their value.

2-8 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 computer hardware costs, the operating systems software costs are recorded as part of the hardware.
4. Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
5. Software training which is related to computer software and data-conversion costs are expensed as incurred.

2-10 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 Assets held for sale

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

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

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

2-13 Investments

Investments accounted for under the equity method

a. Investments in joint ventures

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

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

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

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

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

b. Investments in associates

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

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

Other investments

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

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

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

2-14 Zakat

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

2-15 Taxes

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

Deferred taxes

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

2-16 Provision for end of service benefits

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

2-17 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

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

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

2-18 Contingent liabilities

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

2-19 Revenue recognition

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

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

2-20 Cost of services

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

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

2-21 Selling and marketing expenses

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

2-22 General and administrative expenses

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

2-23 Earnings per share

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

2-24 Financial derivatives

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

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

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

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

2-25 Related parties

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

3. CASH AND CASH EQUIVALENTS

The Company invests a part of surplus cash in Murabaha deals with maturity periods of 90 days or less with several local banks. The average rate of commission on them during the year 2013 was 0.85% (2012: 1.04%). Total commissions earned on them during the year 2013 amounted to SR 4 million (2012: SR 50 million).

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

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

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

4. SHORT-TERM INVESTMENTS

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

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

5. ACCOUNTS RECEIVABLE, NET

a. Accounts receivable on December 31 consisted of the following:

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

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

(Thousands of Saudi Riyals)	2013	2012 (Restated)
Balance at January 1	1,041,099	729,936
- Additions (refer to Note 22)	1,374,102	1,480,969
	2,415,201	2,210,905
- Bad debts written-off	(1,223,294)	(1.169.806)
Balance at December 31	1,191,907	1,041,099

b. Since inception, the Company recognizes revenues from services rendered to particular customers upon collection where collectability is highly uncertain. The Company is currently pursuing the collection of these revenues. Uncollected billed revenues from these customers for the year 2013 amounted to SR 60 million (2012: SR 83 million), with an annual average of SR 188 million for the thirteen years preceding 2013.

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

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

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

6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

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

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

7. INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

These investments consist of the following:

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

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

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

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

8. INVESTMENTS IN SUKUK

Sukuk represents the Group's share in sukuk investment, which was undertaken by one of the Group's entities on December 2007 amounting to SR 1,688 million and maturing in 10 years. The commission margin rate is equal to Kuala Lumpur Inter-Bank Offered Rate ("KLIBOR") plus 0.45%. This financing is a part of related party transactions within the Group. (refer to Note 29).

9. PROPERTY, PLANT AND EQUIPMENT, NET

(Thousands of Saudi Riyals)	Lands & Buildings	Telecom Network & Equipment	Other Assets	Capital Works in Progress	Total 2013	Total 2012 (Restated)
Gross book value						
• Balance at January 1	13,611,897	74,667,740	5,471,248	5,704,859	99,455,744	93,763,414
• Additions	1,017	64,303	42,060	7,603,380	7,710,760	6,141,731
• Transfers	527,441	6,474,848	370,767	(7,373,056)	-	-
• Reclassification as Assets Held for Sale (***)	(11,193)	(3,986,734)	(84,949)	(140,627)	(4,223,503)	-
• Disposals (*)	(75,621)	(15,848,510)	(435,951)	-	(16,360,082)	(150,078)
• Re-classification	(548,598)	(100,591)	649,189	-	-	-
• Foreign currency translation adjustments	(174)	(54,753)	(1,313)	(5,510)	(61,750)	(299,323)
Balance at December 31	13,504,769	61,216,303	6,011,051	5,789,046	86,521,169	99,455,744

(Thousands of Saudi Riyals)	Lands & Buildings	Telecom Network & Equipment	Other Assets	Capital Works in Progress	Total 2013	Total 2012 (Restated)
Accumulated depreciation						
• Balance at January 1	(6,768,591)	(48,655,431)	(4,158,474)	-	(59,582,496)	(53,917,326)
• Depreciation (**)	(486,715)	(5,264,720)	(349,949)	-	(6,101,384)	(5,860,590)
• Reclassification as Assets Held for Sale (***)	265	1,661,310	69,276	-	1,730,851	-
• Disposals (*)	61,597	15,354,881	406,018	-	15,822,496	100,772
• Re-classification	225,885	(98,738)	(127,147)	-	-	-
• Foreign currency translation adjustments	2	10,481	950	-	11,433	94,648
Balance at December 31	(6,967,557)	(36,992,217)	(4,159,326)	-	(48,119,100)	(59,582,496)
Net book value at December 31	6,537,212	24,224,086	1,851,725	5,789,046	38,402,069	39,873,248

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

b. In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as at May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,937 million as at December 31, 2013. The transfer of the ownership of the remaining land parcels with a value of SR 204 million is still in progress.

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

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

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

(***) Refer to Note 33.

10. INTANGIBLE ASSETS, NET

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

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

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

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

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

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

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

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

Intangible assets, net consist of the following:

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

11. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

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

"Others" comprise different items, the main ones being advanced commissions and fees and refundable deposits.

12. ACCOUNTS PAYABLE

Accounts payable consist of the following:

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

13. OTHER CREDIT BALANCES

Other credit balances - current consist of the following:

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

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

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

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

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

14. ACCRUED EXPENSES

Accrued expenses consist of the following:

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

15. MURABAHAS

Murabahas consist of the following:

(Thousands of Saudi Riyals)	2013	2012 (Restated)
Current portion	1,560,571	1,411,491
Not-current portion	6,976,494	9,953,061
	8,537,065	11,364,552

- **STC - The Kingdom of Saudi Arabia**

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

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

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

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

During the fourth quarter of year 2008, the Company started repayment of the due installments of the financing facilities. Amounts settled as at December 31, 2013 amounted to SR 4,755 million, of which SR 1,054 million were settled during the year ended December 31, 2013. (2012: SR 3,701 million)

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

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

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

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

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

As at December 31, 2013, the Murabahas and bank facilities granted to

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

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

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

16. PROVISIONS FOR END OF SERVICE BENEFITS

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

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

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

17. SHARE CAPITAL

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As at December 31, 2013 and 2012, the Government owned 70% of the Company's shares.

18. STATUTORY RESERVE

As per the Company's Articles of Association, 10% of net income is appropriated as statutory reserve until such reserve equals 50% of issued share capital. This reserve is not available for distribution to the Company's shareholders. Based on the approval of the Ordinary General Assembly of Shareholders at its meeting on Rabi Thani 23, 1432H corresponding to March 28, 2011 it was approved to stop the transfer when it reached the formal limit.

19. OTHER RESERVES

Other reserves consist of the following:

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

20. REVENUE FROM SERVICES

Revenue from services consists of the following:

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

21. COST OF SERVICES

Cost of services consists of the following:

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

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

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

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

(Thousands of Saudi Riyals)	2013	2012 (Restated)
The Company	3,964,360	4,061,351
Other Group companies	310,330	509,178
	4,274,690	4,570,529

22. SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

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

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

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

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

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

24. DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	2013	2012 (Restated)
Depreciation	**5,891,324**	5,860,590
Amortization	**486,960**	476,112
	6,378,284	6,336,702

25. PROVISION FOR IMPAIRMENT OF NON CURRENT ASSETS

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

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

26. FINANCE COSTS

Finance costs composed of the following:

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

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

27. OTHER INCOME AND EXPENSES, NET

Other income and expenses, net, consist of the following:

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

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

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

28. ZAKAT AND TAXATION PROVISION

a. Zakat Base

(Thousands of Saudi Riyals)	2013	2012
Share capital – beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings, Statutory reserve and Provisions – beginning of the year	34,519,990	31,729,995
Borrowings and payables	8,650,422	9,179,838
Adjusted net income	8,292,906	9,671,872
Total shareholders' equity	71,463,318	70,581,705
Deductions:		
Net property and investments	57,883,092	55,771,932
Dividends paid	3,997,843	4,002,413
Deferred expenses and other balances	1,532,463	1,460,720
Total deductions	63,413,398	61,235,065
Difference represents zakat base	8,049,920	9,346,640
Zakat on fully owned ownership companies	201,248	233,666
Add: Zakat on partially owned companies	28,521	16,931
Total consolidated zakat expense	229,769	250,597
b. Zakat provisions:		
Balance at January 1	1,020,556	849,363
Charge for the year	229,769	250,597
Amounts paid during the year	(211,327)	(79,404)
Balance at December 31	1,038,998	1,020,556

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

c. Subsidiaries

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

d. Tax provision

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

29. RELATED PARTY TRANSACTIONS

Government Entities in the Kingdom of Saudi Arabia

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

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

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

Joint ventures and Investments accounted for under the equity method

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

Subsidiaries

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

30. COMMITMENTS AND CONTINGENCIES

Commitments

a. The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 2,478 million as at December 31, 2013 (December 31, 2012: SR 3,060 million).

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

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

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

Contingencies

- The Company, in the ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Company's financial position nor on the results of its operations as reflected in these interim consolidated financial statements.
- The Group has outstanding letters of guarantee amounting to SR 2,883 million as at December 31, 2013.

31. FINANCIAL INSTRUMENTS

Fair value

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

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

- Fair values of shares in active markets rely on fair market values.
- Fair value of government bonds and loans rely on discounted cash flows.

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

Commission rate risk

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

Currency risk

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

Credit risk

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

Liquidity risk

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

32. SEGMENT INFORMATION

According to the main activities of the Group

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

The main operating segments of the Group comprise of the following:

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

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

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

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

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

According to Group Operations

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

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

2013				
(In Thousands of Saudi Riyals)	Domestic Operations	International Operations		
	KSA	STC Bahrain	Intigral Holding Company	Kuwait Telecom Company
Operating revenues (*)	42,909,349	1,210,370	493,808	2,423,737
Total assets (**)	97,127,576	2,665,533	435,244	2,378,079

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

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

2012 (Restated)					
(Thousands of Saudi Riyals)	Domestic Operations	International Operations			
	KSA	STC Bahrain	Intigral holding company	Kuwait Telecom Company	PT Axis Telecom
Operating revenues (*)	41,587,688	991,668	585,646	1,832,475	935,029
Total assets (**)	86,760,061	2,469,641	413,277	1,687,586	3,756,165

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

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

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

33. ASSETS HELD FOR SALE

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

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

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

	(Thousands of Saudi Riyals)
Assets Held for Sale	
Property, plant and equipment, net	2,492,652
Intangible assets, net	181,570
Prepayments and other current assets	507,144
Cash and cash equivalents	200,314
Other	158,612
	3,540,292

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

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

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

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

34. CHANGE FROM THE PROPORTIONATE CONSOLIDATION TO EQUITY METHOD

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

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

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

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

35. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES

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

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

36. SUBSEQUENT EVENTS

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

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

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

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

37. RECLASSIFICATION

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


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