



a Saudi Joint Stock Company

**Consolidated Financial Statements for the
Year Ended December 31, 2012**

Saudi Telecom Company
(a Saudi Joint Stock Company)
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AUDITORS' REPORT

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

Scope of Audit

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

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

Unqualified Opinion

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

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
License No. 101
Rabi Al Thani 10, 1434H
February 20, 2013

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

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	3	5,120,230	6,588,554
Short-term investments	4	8,671,053	2,445,762
Accounts receivable, net	5	9,871,881	8,755,480
Prepayments and other current assets	6	<u>5,129,597</u>	<u>4,177,239</u>
Total current assets		<u>28,792,761</u>	<u>21,967,035</u>
Non-current assets:			
Investments in equity and other	7	2,731,513	2,682,441
Property, plant and equipment, net	8	55,995,322	55,085,184
Intangible assets, net	9	28,140,067	29,317,791
Other non-current assets	10	<u>2,244,611</u>	<u>2,349,329</u>
Total non-current assets		<u>89,111,513</u>	<u>89,434,745</u>
Total assets		<u>117,904,274</u>	<u>111,401,780</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable	11	6,577,581	5,190,003
Other credit balances - current	12	4,012,007	3,666,828
Accrued expenses	13	7,796,460	8,576,456
Deferred revenues – current portion		2,184,886	1,857,994
Murabahas and loans – current portion	14	<u>4,717,314</u>	<u>5,971,814</u>
Total current liabilities		<u>25,288,247</u>	<u>25,263,095</u>
Non-current liabilities:			
Murabahas and loans – non-current portion	14	26,124,199	23,959,617
Provisions for end of service benefits	15	3,448,909	3,062,097
Other credit balances - non-current	12	<u>4,147,566</u>	<u>5,034,653</u>
Total non-current liabilities		<u>33,720,674</u>	<u>32,056,367</u>
Total liabilities		<u>59,008,922</u>	<u>57,319,462</u>
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital			
2,000,000,000 shares, par value SR 10 per share	16	20,000,000	20,000,000
Statutory reserve	17	10,000,000	10,000,000
Retained earnings		22,792,023	19,516,064
Other reserves	18	(606,881)	(1,133,336)
Financial statements' translation differences		<u>(848,014)</u>	<u>(1,474,423)</u>
Total shareholders' equity		51,337,128	46,908,305
Non-controlling interests		<u>7,558,224</u>	<u>7,174,013</u>
Total equity		<u>58,895,352</u>	<u>54,082,318</u>
Total liabilities and equity		<u>117,904,274</u>	<u>111,401,780</u>

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

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

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Revenue from services	19	59,362,589	55,662,079
Cost of services	20	(25,773,291)	(24,333,827)
Gross Profit		<u>33,589,298</u>	<u>31,328,252</u>
Operating Expenses			
Selling and marketing expenses	21	(8,492,475)	(7,424,448)
General and administrative expenses	22	(4,210,035)	(3,878,940)
Depreciation and amortization	23	(9,038,168)	(8,853,844)
Provision for Impairment of non-current assets	24	(640,450)	-
Total Operating Expenses		<u>(22,381,128)</u>	<u>(20,157,232)</u>
Operating Income		<u>11,208,170</u>	<u>11,171,020</u>
Other Income and Expenses			
Cost of early retirement program		(312,585)	(413,529)
Finance costs	25	(2,516,238)	(2,237,858)
Commissions and interest		377,230	449,904
Other, net	26	456,694	(481,184)
Other income and expenses, net		<u>(1,994,899)</u>	<u>(2,682,667)</u>
Net Income before Zakat, Tax and Non-controlling interests		9,213,271	8,488,353
Provision for Zakat	27	(250,597)	(118,002)
Provision for Tax	28	(1,036,594)	(478,845)
Net Income before Non-controlling interests		7,926,080	7,891,506
Non-controlling interests		(650,121)	(162,854)
Net Income		<u>7,275,959</u>	<u>7,728,652</u>
Basic earnings per share on Operating Income (in Saudi Riyals)		<u>5.60</u>	<u>5.59</u>
Losses per share on Other Operations (Other income and expenses) (in Saudi Riyals)		<u>(1.00)</u>	<u>(1.34)</u>
Basic earnings per share on Net Income (in Saudi Riyals)		<u>3.64</u>	<u>3.86</u>

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

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, tax and non-controlling interests	9,213,271	8,488,353
Adjustments to reconcile net income before zakat, tax and non-controlling interests to net cash provided by operating activities:		
Depreciation and amortization	9,038,168	8,853,844
Provision for impairment of non-current assets	640,450	-
Doubtful debts expense	1,614,785	1,346,221
Earnings from investments accounted for under the equity method	(134,180)	(171,273)
Commissions and interest	(377,230)	(449,904)
Finance costs	2,516,238	2,237,858
Losses on foreign currency exchange fluctuations	212,688	1,105,323
Provision for end of service benefits	382,728	381,676
Gains on sale/disposal of property, plant and equipment	(60,515)	(97,968)
Changes in:		
Short-term investments	(6,225,291)	(2,060,620)
Accounts receivable	(2,731,186)	(1,394,343)
Prepayments and other current assets	(952,358)	(623,945)
Other non-current assets	(104,718)	222,337
Accounts payable	1,387,578	(1,846,411)
Other credit balances	(2,629,526)	(1,096,097)
Accrued expenses	764,053	2,518,454
Deferred revenues	298,542	178,406
Zakat paid	(79,404)	(61,754)
Taxes paid	(751,786)	(726,805)
Provision for end of service benefits paid	(145,281)	(314,950)
Adjustments on the provision for end of service	149,365	-
Net cash provided by operating activities	<u>12,026,391</u>	<u>16,488,402</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(8,718,618)	(7,837,438)
Intangible assets, net	(1,015,032)	(1,329,523)
Investments in equity and other	(85,108)	(29,326)
Proceeds from commissions and interest	341,173	457,645
Proceeds from sale of property, plant and equipment	235,039	474,239
Net cash used in investing activities	<u>(9,242,546)</u>	<u>(8,264,403)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(4,002,413)	(4,432,134)
Murabahas and loans, net	910,082	(256,625)
Finance costs paid	(1,544,049)	(1,702,957)
Non-controlling interests	384,211	(1,294,406)
Net cash used in financing activities	<u>(4,252,169)</u>	<u>(7,686,122)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	<u>(1,468,324)</u>	<u>537,877</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>6,588,554</u>	<u>6,050,677</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>5,120,230</u>	<u>6,588,554</u>
Non-cash items		
Financial statements' translation adjustments	626,409	(1,452,352)
Other reserves	526,455	136,079

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

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

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

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

Saudi Telecom Company
(a Saudi Joint Stock Company)
Notes to the Consolidated Financial Statements for the Year Ended December 31, 2012

1 GENERAL

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

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

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

- a- Establish, manage, operate and maintain fixed and mobile telecommunication network and systems.
- b- Deliver, provide, manage and maintain diverse telecom services to customers.
- c- Prepare the required plans and studies to develop, execute and provide telecommunication services from all technical, financial and managerial aspects. In addition, to prepare and execute training plans in the telecom field, provide and obtain consulting services which is directly or indirectly related to its business and activities.
- d- Expand and develop telecom network and systems by utilizing the updated modern machinery and equipment in telecom technology, especially in the field of providing and managing services.
- e- Provide information and technologies and systems that depend on customers’ information including

Saudi Telecom Company (a Saudi Joint Stock Company)

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

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

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

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

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

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

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

Telecom Commercial Investment Company– The Kingdom of Saudi Arabia

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

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

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

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

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

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

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

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

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

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

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

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

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

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

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

Binariang GSM Holding Group – Malaysia

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

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

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

During the year ended 31 December, 2012 The Telecom Authority in India has entailed Aircel Company – Indian Company (one of the subsidiaries of Binariang group) to pay an extra spectrum fees related to three regions, The Group's share of the fees amounted to SR 231 million, Aircel Company is about to appeal in the Indian Supreme Court.

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

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

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

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

Arab Satellite Communications Organization “Arabsat” – The Kingdom of Saudi Arabia

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

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

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

Call Centers Company– The Kingdom of Saudi Arabia

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

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified 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, 2012.

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

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

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

The significant accounting policies are summarized below:

2-1 Consolidation Basis

Subsidiaries

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

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

Investments in joint ventures

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

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

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

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

2-2 Period of the consolidated financial statements

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

2-3 Cash and cash equivalents

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

2-4 Accounts receivable

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

2-5 Offsetting of accounts

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

2-6 Allowance for doubtful debts

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

2-7 Inventories

Inventories, which principally comprise cables, spare parts and consumables, are stated at weighted average cost, net of allowances. Inventory items that are considered an integral part of the network assets, such as emergency spares which cannot be removed from the switches, are recorded within property, plant and equipment. Inventory items held by contractors responsible for upgrading and expanding the network are recorded within 'capital work-in-progress'.

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

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

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:

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

5. Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalized.
6. Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed of / sold assets, and the gains or losses are included in the consolidated statement of income.
7. Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is allocated between the finance charge which is expensed in the current period income and the reduction in the liability under the capital lease.
8. Assets leased under capital leases are depreciated over their estimated useful lives.
9. Assets under concession agreements are depreciated over their estimated useful lives or the contract duration whichever is the shorter.

2-9 Software costs

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

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

2-10 Intangible assets

Goodwill

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

Spectrum rights and Second/Third Generation licenses

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

2-11 Impairment of non-current assets

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

2-12 Investments

Investments accounted for under the equity method (Associates)

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

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

Other investments

Available for sale marketable securities that do not lead to control or significant influence are carried at fair value, the fair value of available for sale securities being based on market value when available. However, if fair value of available for sale securities cannot be determined, due to non-availability of

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an active exchange market or other indexes through which market value can reasonably be determined, cost will be considered as the alternative fair value. Unrealized gains and losses, if significant, are shown as a separate component within equity in the consolidated balance sheet. Losses resulting from permanent declines in fair values below costs are recorded in the consolidated statement of income in the period in which the declines occur.

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

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

2-13 Zakat

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

2-14 Taxes

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

Deferred taxes

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

2-15 Provision for End of service benefits

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

2-16 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

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

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

2-17 Contingent liabilities

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

2-18 Revenue recognition

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

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

2-19 Cost of services

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

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

2-20 Selling and marketing expenses

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

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2-21 General and administrative expenses

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

2-22 Earnings per share

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

2-23 Financial derivatives

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

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

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

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

2-24 Related parties

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

3 CASH AND CASH EQUIVALENTS

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

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

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

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

4 SHORT-TERM INVESTMENTS

The Company invests a part of surplus cash in Murabaha accounts with maturity periods of 91 days or more with several local banks. The average rate of commission on them during the year 2012 was 1.19% (2011: 1.21%). Total commission earned on them during the year 2012 amounted to SR 42 million (2011: SR 3 million).

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

5 ACCOUNTS RECEIVABLE, NET

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

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

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

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

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

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

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

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

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6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consisted of the following:

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

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

7 INVESTMENTS IN EQUITY AND OTHER

These investments consist of the following:

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

Investments in Sukuk and other

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

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

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8 PROPERTY, PLANT AND EQUIPMENT, NET

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

- (a) Land and buildings above include land of SR 2,318 million as of December 31, 2012 (December 31, 2011: SR 2,288 million).
- (b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as of May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company's name amounted to SR 1,929 million as of December 31, 2012. The transfer of the ownership of the remaining land parcels with a value of SR 212 million is still in progress.
- (c) Property, plant and equipment includes fixed assets subject to concession agreements belonging to one of the investees. The Group's share in concession agreements amounted to SR 2,169 million. The ownership of these assets will construe at the end of the agreements period to the government.
- (d) Property, plant and equipment includes fixed assets subject to a mortgage for loans and bank facilities belonging to one of the investees, the Group's share amounted to SR 5,113 million.
- (e) Property, plant and equipment includes fixed assets leased by finance leasing belonging to one of the investees, the Group's share amounted to SR 679 million.
- (f) The Group's share in the movement of accumulated depreciation of investees appears in contrast to its nature as a result of changes in foreign exchange rates used to translate the financial statements of some investee companies.

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9 INTANGIBLE ASSETS, NET

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

Intangible assets, net consists of the following:

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

10 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

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

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

11 ACCOUNTS PAYABLE

Accounts payable consists of the following:

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

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12 OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

(Thousands of Saudi Riyals)	<u>2012</u>	<u>2011</u>
Provision for Zakat and Tax (Refer to Notes 26 & 27)	1,228,722	1,150,634
Suppliers' retentions	228,677	377,526
Withholding tax provisions	592,895	557,819
Customers' refundable deposits	790,981	144,373
Settlement of seconded employees' entitlements	109,741	134,748
Contracts under construction payable	618,181	181,060
Sport clubs sponsoring	79,021	172,500
Others	<u>363,789</u>	<u>948,168</u>
	<u>4,012,007</u>	<u>3,666,828</u>

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

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

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

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

13 ACCRUED EXPENSES

Accrued expenses consists of the following:

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

14 MURABAHAS AND LOANS

Murabahas and loans consist of the following:

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

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Saudi Telecom Company-The Kingdom of Saudi Arabia

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

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

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

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

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

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

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

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

Binariang GSM Holding Group – Malaysia

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

PT Axis Telecom Indonesia – Indonesia - formerly known as NTS

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

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

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

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

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

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15 PROVISIONS FOR END OF SERVICE BENEFITS

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

(Thousands of Saudi Riyals)	<u>2012</u>	<u>2011</u>
Balance at January 1	3,062,097	2,995,371
Additions during the year	382,728	381,676
Adjustments during the year	149,365	0
Settlements during the year	<u>(145,281)</u>	<u>(314,950)</u>
Balance at December 31	<u>3,448,909</u>	<u>3,062,097</u>

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.

16 SHARE CAPITAL

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

17 STATUTORY RESERVE

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

18 OTHER RESERVES

Other reserves consists of the following:

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

19 REVENUE FROM SERVICES

Revenue from services consists of the following:

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

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20 COST OF SERVICES

Cost of services consists of the following:

	(Thousands of Saudi Riyals)	
	<u>2012</u>	<u>2011</u>
Access charges	10,439,956	9,345,651
Government charges (*)	5,576,952	6,270,576
Repairs and maintenance	2,679,240	2,451,908
Employees' costs	2,816,083	2,868,803
Rent of equipment, property and vehicles	1,225,887	1,358,742
Printing of telephone cards and stationery	308,115	233,362
Utilities	659,265	611,279
Others	<u>2,067,793</u>	<u>1,193,506</u>
	<u>25,773,291</u>	<u>24,333,827</u>

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

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

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

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

21 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consists of the following:

	(Thousands of Saudi Riyals)	
	<u>2012</u>	<u>2011</u>
Advertising and publicity	1,675,651	1,394,004
Sales commissions	1,299,363	1,310,916
Employees' costs	2,435,575	1,984,966
Doubtful debts expense	1,614,785	1,346,221
Printing of telephone cards and stationery	191,911	227,856
Repairs and maintenance	190,203	186,613
Others	<u>1,084,987</u>	<u>973,872</u>
	<u>8,492,475</u>	<u>7,424,448</u>

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

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22 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consists of the following:

(Thousands of Saudi Riyals)

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

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

23 DEPRECIATION AND AMORTIZATION

(Thousands of Saudi Riyals)

	<u>2012</u>	<u>2011</u>
Depreciation	7,633,956	7,557,348
Amortization	<u>1,404,212</u>	<u>1,296,496</u>
	<u>9,038,168</u>	<u>8,853,844</u>

24 PROVISION FOR IMPAIRMENT OF NON CURRENT ASSETS

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

(Thousands of Saudi Riyals)

	<u>Oger telecom</u>	<u>Binariang</u>	<u>Total</u>
Properties, plant and equipment	8,429	194,210	202,639
Intangible assets	<u>349,146</u>	<u>88,665</u>	<u>437,811</u>
Total	<u>357,575</u>	<u>282,875</u>	<u>640,450</u>

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

25 FINANCE COSTS

Finance costs composed of:

(Thousands of Saudi Riyals)

	<u>2012</u>	<u>2011</u>
The Company	77,559	89,199
Other Group companies	<u>2,438,679</u>	<u>2,148,659</u>
	<u>2,516,238</u>	<u>2,237,858</u>

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26 OTHER INCOME AND EXPENSES , NET

Other income and expenses, net consist of the following:

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

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

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

27 ZAKAT

(a) Zakat base

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

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

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(b) Zakat provision

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

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

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

(c) Subsidiaries

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

28 TAX PROVISION

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

29 RELATED PARTY TRANSACTIONS

Government entities in the Kingdom of Saudi Arabia

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

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

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

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

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

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30 COMMITMENTS AND CONTINGENCIES

Commitments

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 3,571 million as of December 31, 2012 (December 31, 2011: SR 3,723 million).
- (b) Certain land and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. For the year ended December 31, 2012, total rent expense under operating leases amounted to SR 945 million (Year ended December 31, 2011: SR 1,055 million).
- (c) STC's investment in Venture Capital Fund which specializes in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets, includes that the company should commit an increment in its investment in the fund amounted to SR 141 million upon the request by the fund manager during 3 years starting from its establishment, knowing that the fund has been launched in 2011.

Contingencies

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

- The Group has an outstanding letter of guarantee, the group's share approximated to SR 3,871 million.
- During the year ended 31 December, 2012, The Telecom Authority in India has entailed Aircel Company – Indian Company (one of the subsidiaries of Binariang group) to pay an extra spectrum fees related to three regions, The Group's share of the fees amounted to SR 231 million, Aircel Company is about to appeal in the Indian Supreme Court.

31 FINANCIAL INSTRUMENTS

Fair value

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

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

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

Commission rate risk

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

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Currency risk

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

Credit risk

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

Liquidity risk

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

32 FINANCIAL DERIVATIVES

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

33 SEGMENT INFORMATION

According to the main activities of the Group

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

The main operating segments of the Group comprise:

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

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The following table shows the information according to the group's main activities for the year ended December 31, 2012:

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

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

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

- According to Group operations

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

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

2012

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

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

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2011

(Thousands of Saudi Riyals)	Domestic Operations		International Operations				
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>GDMH</u>	<u>VIVA-Kuwait</u>	<u>PT Axis</u>	<u>OTL</u>	<u>Binarian</u>
Operating revenues	37,479,106	782,941	476,296	1,267,245	567,241	11,152,699	3,936,551
Total assets (*)	78,668,577	1,938,990	504,195	1,698,915	3,636,811	21,351,945	19,957,63

(*) The financial statements consolidation adjustments relating to the assets amounted to SR (16,355,284) thousand.

34 CHANGE OF PROPORTIONATE CONSOLIDATION TO EQUITY METHOD

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

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

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

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

35 SUBSEQUENT EVENTS

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

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

36 RECLASSIFICATION

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