



a Saudi Joint Stock Company

**Interim Consolidated Financial Statements
For the Three and Six-Month Periods Ended June 30, 2014
(Unaudited)**

**Second Quarter
2014**

Saudi Telecom Company
(a Saudi Joint Stock Company)
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Periods Ended June 30, 2014 (Unaudited)

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LIMITED REVIEW REPORT

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

Scope of Review

We have reviewed the accompanying interim consolidated balance sheet of Saudi Telecom Company (a Saudi Joint Stock Company) (the "Company") and its subsidiaries (collectively referred to as the "Group") as at June 30, 2014 and the related interim consolidated statement of income for the three and six months periods then ended and the interim consolidated statement of cash flows for the six months period then ended and the accompanying notes which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements are the responsibility of the Company's management and have been prepared and presented to us with all the information and explanations which we requested.

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

Review Result

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

Deloitte & Touche
Bakr Abulkhair & Co.



Bakr A. Abulkhair
License No. 101
Ramadan 23, 1435
July 20, 2014



Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Balance Sheet as of June 30, 2014 (Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		1,487,314	2,175,345
Short-term investments		17,457,279	11,485,763
Accounts receivable, net		8,661,265	8,835,704
Prepayments and other current assets		2,863,931	2,933,687
Assets held for sale	18	-	3,540,292
Total current assets		<u>30,469,789</u>	<u>28,970,791</u>
Non-current assets:			
Investments accounted for under equity method and others	3	9,778,941	11,186,520
Investments held to maturity	4	5,687,500	1,687,500
Property, plant and equipment, net	5	38,520,004	36,199,366
Intangible assets, net	6	4,570,643	4,348,073
Other non-current assets		870,574	1,001,149
Total non-current assets		<u>59,427,662</u>	<u>54,422,608</u>
Total assets		<u>89,897,451</u>	<u>83,393,399</u>
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable		2,666,534	3,601,673
Other credit balances – current		3,166,835	2,501,982
Accrued expenses		8,264,583	6,728,186
Deferred revenues – current portion		1,165,249	1,669,202
Murabahas – current portion	7	1,834,926	1,425,167
Liabilities directly related to assets held for sale	18	-	4,073,763
Total current liabilities		<u>17,098,127</u>	<u>19,999,973</u>
Non-current liabilities:			
Murabahas – non-current portion	7	6,544,774	7,290,950
Sukuk	8	2,000,000	-
Provision for end of service benefits		3,652,123	3,221,389
Other credit balances - non-current		1,175,325	1,139,148
Total non-current liabilities		<u>13,372,222</u>	<u>11,651,487</u>
Total liabilities		<u>30,470,349</u>	<u>31,651,460</u>
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		10,000,000	10,000,000
Retained earnings		31,129,267	23,770,933
Other reserves		(1,066,904)	(1,045,112)
Reserves directly related to assets held for sale		-	372,846
Financial statements' translation differences		(1,348,383)	(1,126,708)
Total shareholders' equity		<u>58,713,980</u>	<u>51,971,959</u>
Non-controlling interests		713,122	331,517
Non-controlling interests recognized and directly related to assets held for sale		-	(561,537)
Total equity		<u>59,427,102</u>	<u>51,741,939</u>
Total liabilities and equity		<u>89,897,451</u>	<u>83,393,399</u>

The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Income for the Three and Six-Month Periods Ended
June 30, 2014 (Unaudited)
(Saudi Riyals in thousands)

	<u>Note</u>	<u>Three Months ended</u>		<u>Six Months ended</u>	
		<u>June 30</u>		<u>June 30</u>	
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues from services		11,722,004	11,433,474	22,504,895	22,907,355
Cost of services	9	(4,698,478)	(4,699,691)	(9,270,030)	(9,679,108)
Gross Profit		<u>7,023,526</u>	<u>6,733,783</u>	<u>13,234,865</u>	<u>13,228,247</u>
Operating Expenses					
Selling and marketing expenses	10	(1,487,205)	(1,319,003)	(2,696,719)	(2,736,610)
General and administrative expenses	11	(856,314)	(707,876)	(1,567,760)	(1,451,006)
Depreciation and amortization	12	(1,718,547)	(1,511,855)	(3,343,143)	(3,127,639)
Impairment losses relating to investment	3, 18	-	(603,608)	-	(1,103,608)
Total Operating Expenses		<u>(4,062,066)</u>	<u>(4,142,342)</u>	<u>(7,607,622)</u>	<u>(8,418,863)</u>
Operating Income		<u>2,961,460</u>	<u>2,591,441</u>	<u>5,627,243</u>	<u>4,809,384</u>
Other Income and Expenses					
Gain (losses) from investments accounted for under equity method		41,218	(717,534)	(66,247)	(1,233,758)
Finance costs		(34,021)	(46,523)	(69,641)	(68,829)
Commissions		57,512	34,842	124,795	84,453
Losses resulted from assets held for sale	18	-	(597,867)	-	(597,867)
Others, net	13	(2,774)	265,280	205,429	190,186
Other income and expenses, net		<u>61,935</u>	<u>(1,061,802)</u>	<u>194,336</u>	<u>(1,625,815)</u>
Net Income before Zakat, Taxes and Non-controlling interests		3,023,395	1,529,639	5,821,579	3,183,569
Provision for Zakat and Taxes	14	(107,741)	(52,626)	(396,207)	(112,387)
Net Income before Non-controlling interests		2,915,654	1,477,013	5,425,372	3,071,182
Non-controlling interests' share		(112,306)	(48,066)	(231,088)	(92,272)
Net Income		<u>2,803,348</u>	<u>1,428,947</u>	<u>5,194,284</u>	<u>2,978,910</u>
Basic earnings per share on Operating Income in Saudi Riyals					
		<u>1.48</u>	<u>1.30</u>	<u>2.81</u>	<u>2.40</u>
Basic earnings (loss) per share on income from other operations (Other income and expenses) in Saudi Riyals					
		<u>0.03</u>	<u>(0.53)</u>	<u>0.10</u>	<u>(0.81)</u>
Basic earnings per share on net Income in Saudi Riyals					
		<u>1.40</u>	<u>0.71</u>	<u>2.60</u>	<u>1.49</u>

The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements.

Saudi Telecom Company
(a Saudi Joint Stock Company)
Interim Consolidated Statement of Cash Flows for the Six-Month Periods Ended June 30,
2014 (Unaudited)
(Saudi Riyals in thousands)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before zakat, taxes and non-controlling interests' share	5,821,579	3,183,569
Adjustments to reconcile net income to net cash flow provided from operating activities:		
Depreciation and amortization	3,343,143	3,127,639
Impairment losses related to investments (See Note 3)	-	1,103,608
Allowance for Doubtful debts	536,556	553,167
Losses from investments accounted for under the equity method	66,247	1,233,758
Commissions	(124,795)	(84,453)
Finance costs	69,641	68,829
(Losses) Gains on foreign currency exchange fluctuation	(938)	18,056
Provision for end of service benefits	268,370	365,991
Losses on sale/disposal of property, plant and equipment	49,925	328,193
Change in:		
Accounts receivable	(1,696,673)	(1,714,668)
Prepayments and other current assets	307,547	1,831
Other non-current assets	39,278	(65,016)
Accounts payable	(73,869)	(237,396)
Other credit balances	(61,642)	(810,800)
Accrued expenses	1,219,704	1,048,419
Deferred revenues	(85,935)	(42,322)
Zakat and taxes paid	(372,290)	(17,319)
Provision for end of service benefits paid	(25,085)	(18,549)
Net cash provided by operating activities	<u>9,280,763</u>	<u>8,042,537</u>
Capital expenditures	(2,788,575)	(2,098,606)
Intangible assets, net	(343,295)	(169,946)
Investments in equity and other	57,014	3,996
Acquisition of a new subsidiary (See Note 19)	40,462	-
Investments held to maturity (See Note 4)	(4,000,000)	-
Short-term Investments	(628,346)	(2,815,316)
Proceeds from commissions and interest	115,655	50,408
Proceeds from sale of property, plant and equipment	7,639	16,583
Net cash used in investing activities	<u>(7,539,446)</u>	<u>(5,012,881)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2,996,462)	(1,998,165)
Murabahas, net	(156,427)	(201,744)
Sukuk Issuance (See Note 8)	2,000,000	-
Finance costs paid	(61,188)	(68,449)
Net cash used in financing activities	<u>(1,214,077)</u>	<u>(2,268,358)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	527,240	761,298
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	960,074	1,614,361
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD—ASSETS HELD FOR SALE (See Note 18)	-	<u>(200,314)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>1,487,314</u>	<u>2,175,345</u>
Non-cash items:		
Financial statements' translation differences	452,039	(288,562)
Other reserves	(35,017)	(55,512)
The accompanying notes from 1 to 21 form an integral part of the interim consolidated financial statements		

Saudi Telecom Company
(a Saudi Joint Stock Company)
Notes to the Interim Consolidated Financial Statements for the Three and Six-Month
Periods Ended June 30, 2014 (Unaudited)

1 GENERAL

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

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

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

<u>Company’s Name</u>	<u>Ownership %</u>		<u>Treatment</u>
	<u>June 30,</u>		
	<u>2014</u>	<u>2013</u>	
Arabian Internet and Communications Services Co. Ltd. (Awal) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
STC Bahrain (VIVA) (BSCC) – Kingdom of Bahrain	100%	100%	Full Consolidation
Aqalat Limited Company (Establishing, Owning and managing of Real Estate) – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Public Telecommunication Company “BRAVO” – Kingdom of Saudi Arabia	100%	-	Full Consolidation
Intigral Holding Company (BSCC) – Kingdom of Bahrain (Previously: Gulf Digital Media Holding Company)	71%	71%	Full Consolidation
Sale for Distribution and Communication Co. Ltd. – (Sale Co.) - Kingdom of Saudi Arabia	60%	60%	Full Consolidation
Kuwait Telecom Company (VIVA) - Kuwait	26%	26%	Full Consolidation
PT Axis Telekom Indonesia - Indonesia Republic	-	80.10%	*
Oger Telecom Ltd. - U.A.E.	35%	35%	Equity Method
Binariang GSM Holding - Malaysia	25%	25%	Equity Method
Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia	50%	50%	Equity Method
Arab Satellite Communications Organization (“Arabsat”) - Kingdom of Saudi Arabia	36.66%	36.66%	Equity Method
Call Centers Company – Kingdom of Saudi Arabia	50%	50%	Equity Method

* Starting from the second quarter 2013, this investment was accounted for as assets held for sale. On September 26, 2013, the group signed an agreement to sell its full share of PT Axis Telekom to XL

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Company. On March 19, 2014, the sale procedures were completed after obtaining the necessary approvals from the Indonesian regulating authorities. Therefore, and starting from the first quarter of year 2014, this company has been disposed off from the group consolidated financial statements (See 2-13 and Note 18)

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements are prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants. The interim consolidated financial statements of the Group include the financial statements of the Company, its subsidiaries, associates and joint ventures for the period ended June 30, 2014.

The significant accounting policies used for the preparation of the interim consolidated financial statements mentioned below are in conformity with the accounting policies detailed in the interim audited consolidated financial statements for the year ended December 31, 2013.

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

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

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

2-2 Period of the interim consolidated financial statements

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

2-3 Interim results

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

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

2-4 Cash and cash equivalents

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

2-5 Accounts receivable

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

2-6 Offsetting of accounts

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

2-7 Allowance for doubtful debts

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

2-8 Inventories

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

The Group creates an allowance for obsolete and slow-moving inventories, based on a study of the usage of the major inventory categories separately. When such an exercise is impractical, the allowance

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is based on groups or categories of inventory items, taking into consideration the items which may require significant reduction in their value.

2-9 Property, plant and equipment and depreciation

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

The principal bases used for valuation are as follows:

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

2 Except for what is mentioned in paragraph (1) above, property, plant and equipment acquired by the Group are recorded at historical cost.

3 Cost of the network comprises all expenditures up to the customer connection point, including contractors' charges, direct materials and labor costs up to the date the relevant assets are placed in service.

4 Property, plant and equipment, excluding land, are depreciated using the straight line method over the following estimated useful lives of assets:

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

5 Repair and maintenance costs are recognized as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which cases they are capitalized.

6 Gains and losses resulting from the disposal / sale of property, plant and equipment are determined by comparing the proceed with the book value of the disposed-off / sold assets, and the gains and losses are included in the interim consolidated statement of income.

7 Leases of property, plant and equipment where the Group transfers substantially all benefits and risks of ownership are classified as capital leases. Capital leases are capitalized at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. Each lease payment is to be allocated between the finance charge which is expensed in the current period and the reduction in the liability amount under the capital lease.

8 Assets leased under capital leases are depreciated over their estimated useful lives.

9 Assets under concession agreements (if any) are depreciated over their useful lives or the contract period whichever is shorter.

2-10 Computer software costs

1) Costs of operating systems and application software purchased from the vendor are capitalized if they meet the capitalization criteria, which include productivity enhancement or a noticeable increase in the useful life of an asset. These costs are amortized over the estimated period for which the benefits will be received.

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- 2) Internally developed operating systems software costs are capitalized if they meet the capitalization criteria, which include the dedication of a defined internal work group to develop the software and the ability to readily identify related costs. These costs are amortized over the estimated period for which the benefits will be received.
- 3) Internally developed application software costs are recognized as expenses when incurred. When the costs of operating systems software cannot be identified separately from the associated computer hardware costs, the operating systems software costs are recorded as part of the hardware.
- 4) Subsequent additions, modifications or upgrades of software programs, whether operating or application packages, are expensed as incurred.
- 5) Computer software training and data-conversion costs are expensed as incurred.

2-11 Intangible assets

Goodwill

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

Spectrum rights and licenses to provide various telecommunication services

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

2-12 Impairment in value of non-current assets

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

2-13 Assets held for sale

Assets and disposal groups classified as held for sale are measured by the carrying amount or fair value less costs to sell, whichever is lower. 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 probability 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 requirements

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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.

2-14 Investments

Investments accounted for under the equity method

a- Investments in joint ventures

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

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

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

The Group used to account for and consolidate its investments in joint ventures in its 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 its investments in joint ventures by using the equity method, retroactively, as per the accounting standard No. 16 (accounting for investment under equity method) issued by the Saudi Organization for Certified Public Accountants.

b- Investments in associates

Associates are those corporations or other entities on which the Group exercises significant influence, but which it does not control, generally accompanying a shareholding of 20% to 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 investments on acquisition at cost, and are 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 company'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 objectively 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, if significant. 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 decline occurs.

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

2-15 Zakat

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

2-16 Taxes

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

Deferred taxes

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

2-17 Provision for end of service benefits

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

2-18 Foreign currency transactions

Functional and presentation currency

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

These interim consolidated financial statements are presented in Saudi Riyals.

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

- Items of shareholders' equity (except for retained earnings) are translated at the exchange rate prevailing on the acquisition date.
- Assets and liabilities are translated using the exchange rate prevailing at the reporting date.

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- Retained earnings are translated as follows: Retained earnings translated at the end of prior year plus interim net income for the interim period as per the translated interim consolidated statement of income less declared dividends within the period translated at the exchange rate prevailing on the date of declaration.
- Interim consolidated statement of income items are translated using the weighted average exchange rate for the period. Material gains and losses are translated at the exchange 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 previously recorded in shareholders' equity are recognized in the interim consolidated statement of income as part of the gains or losses on sale.

2-19 Contingent liabilities

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

2-20 Revenue recognition

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

- Charges billed in advance are deferred and recognized over the period in which the services are rendered.
- Unbilled service revenues are recognized in the period to which it relates.
- Service revenue is recognized upon collection when collectability is highly uncertain.

2-21 Cost of services

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

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

2-22 Selling and marketing expenses

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

2-23 General and administrative expenses

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

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2-24 Earnings per share

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

2-25 Financial derivatives

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

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

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

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

2-26 Related parties

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

3 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

Investments accounted for under equity method and other comprise the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Investments accounted for under equity method:		
Associates	1,576,249	1,508,287
Joint Ventures	<u>8,134,158</u>	<u>9,646,685</u>
Total investments accounted for under equity method	9,710,407	11,154,972
Other investments	<u>68,534</u>	31,548
	<u>9,778,941</u>	<u>11,186,520</u>

During the year 2013, the Group conducted a review of its foreign investment in BGSM holding group (joint venture), including the manner in which this investment is being managed and how joint control

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has been effectively exercised. As a result of such review, Saudi Telecom Company signed an amendment to the BGSM shareholders' agreement with other shareholders of BGSM Group with respect to its operational rights of the Aircel group (a subsidiary of Binariang GSM Holding Group). Consequently, it has been concluded that the group shall stop to account for its investment in Aircel group using the equity method effective from the second quarter 2013. As a result of this, and during the fourth quarter of the year 2013, the Group has reversed its share of Aircel's losses for the period from April 1st, 2013 to September 30th, 2013 which amounted to SR 795 million. From the total reversed amount, the amount pertaining to the period from April 1st to June 30th, 2013 was SR 401 million.

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

4 Investments held to maturity

During the second quarter of 2014, the company established diversified investing portfolios with several local and international banks with an amount of SR 4 billion for a period that does not exceed five years and with full capital protection.

Also, the group has a Sukuk investment held by one of its subsidiaries in December 2007. The finance term is for 10 years and the amount is SR 1,688 million. The profit margin is on the basis of the KLIBOR "Kuala Lumpur Interbank Offered Rates" plus 0.45%. This finance is included in the group related parties transactions.

5 Property, Plant, and Equipment, Net

During the second quarter of 2014, Saudi Telecom Company has received a resolution from the Ministry of Finance requiring the expropriation of land owned by the company and located in Alfaisaliah neighborhood in Riyadh. The land is covering an area of 1,047,000 square meters and its book value is SR 105,250,473. The land is owned by Saudi Telecom as recorded in the land title number 8/195 and dated 2\1\1425 H. The financial effect for the expropriation will be calculated when the company receives the resolution with the compensation amount from the Ministry of Finance.

6 INTANGIBLE ASSETS, NET

Intangible assets as at June 30, 2014 include the following:

Kuwait Telecom Company (VIVA) (KSCC) – Kuwait

In December 2007, Saudi Telecom Company acquired 26% of the KD 50 million share capital of Kuwait Telecom Company (VIVA), equivalent to approximately SR 687 million at the exchange rate prevailing that date. This company operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on December 4, 2008. The Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies, as the Group's representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

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

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

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Licenses	3,902,511	4,116,402
Others	<u>668,132</u>	<u>231,671</u>
	<u>4,570,643</u>	<u>4,348,073</u>

7 MURABAHAS

Murabahas consist of:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Current portion	1,834,926	1,425,167
Non-current portion	<u>6,544,774</u>	<u>7,290,950</u>
	<u>8,379,700</u>	<u>8,716,117</u>

The non-current portion of murabahas facilities includes murabahas amounting to SR 107 million that are secured against mortgage of one of the subsidiary's fixed assets (STC Bahrain).

8 SUKUK

During the second quarter of year 2014, the company approved a Sukuk issuance program with a maximum amount of SR 5 billion. The first tranche has been issued as described in the following as at 30 June 2014:

<u>Issuance type</u>	<u>Issuance Date</u>	<u>Sukuk Face Value</u>	<u>Issuance Total Value</u>	<u>Maturity Date</u>
Telecom Sukuk	9 June 2014	SR 1 Million	SR 2 Billion	9 June 2024

The Sukuk described above have been issued at the face value without discount or premium. The Sukuk is interest bearing and is calculated on the basis of three months (SAIBOR) plus 70 basis points margin payable every three months.

9 COST OF SERVICES

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>Three-Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
External networks' usage charges	1,963,063	1,739,019	3,981,097	3,869,930
Government charges (*)	1,071,425	1,010,454	2,108,503	2,113,845
Repair and maintenance	574,045	497,564	1,289,589	1,105,979
Employees' costs	530,899	498,103	998,979	1,011,003
Rents of equipment, property and vehicles	127,667	113,416	239,465	309,400
Printing of telephone cards and office equipment	20,500	7,493	42,893	26,225
Premises expenses	50,155	42,921	114,326	120,103
Others	<u>360,724</u>	<u>790,721</u>	<u>495,178</u>	<u>1,122,623</u>
	<u>4,698,478</u>	<u>4,699,691</u>	<u>9,270,030</u>	<u>9,679,108</u>

These statements were originally prepared in Arabic and the Arabic version should prevail.

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“Others” comprises various items, the main ones are: consultancy, telecommunication expenses, postage, linking, and security and safety expenses.

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

(Thousands of Saudi Riyals)	<u>Three-Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Commercial service provisioning fees	874,141	919,334	1,725,476	1,760,132
License fees	68,189	72,914	134,587	141,760
Frequency Spectrum fees	129,095	18,206	248,440	211,953
	<u>1,071,425</u>	<u>1,010,454</u>	<u>2,108,503</u>	<u>2,113,845</u>

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
The Company	982,437	1,049,020	1,929,366	1,999,257
Other Group companies	88,988	(38,566)	179,137	114,588
	<u>1,071,425</u>	<u>1,010,454</u>	<u>2,108,503</u>	<u>2,113,845</u>

10 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Advertising and publicity	117,159	151,140	223,366	363,826
Sales commission	289,231	73,950	395,726	188,707
Employees' costs	558,019	595,578	1,070,103	1,131,310
Allowance for doubtful debts	277,347	265,600	536,556	553,167
Printing of telephone cards and office equipment	41,035	55,728	73,350	118,053
Repair and maintenance	58,981	67,373	128,200	149,400
Others	145,433	109,634	269,418	232,147
	<u>1,487,205</u>	<u>1,319,003</u>	<u>2,696,719</u>	<u>2,736,610</u>

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

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11 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u> <u>2014</u>	<u>2013</u>	<u>June 30,</u> <u>2014</u>	<u>2013</u>
Employees' costs	444,702	353,142	864,526	737,849
Repair and maintenance	111,170	58,474	195,376	143,609
Rents of equipment, property and vehicles	53,426	80,605	114,106	149,058
Consultancy, legal and professional fees	72,548	56,269	103,884	130,052
Premises expenses	12,331	15,927	30,421	33,295
Others	162,137	143,459	259,447	257,143
	<u>856,314</u>	<u>707,876</u>	<u>1,567,760</u>	<u>1,451,006</u>

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

12 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u> <u>2014</u>	<u>2013</u>	<u>June 30,</u> <u>2014</u>	<u>2013</u>
Depreciation	1,512,635	1,413,963	2,951,782	2,935,059
Amortization	205,912	97,892	391,361	192,580
	<u>1,718,547</u>	<u>1,511,855</u>	<u>3,343,143</u>	<u>3,127,639</u>

13 OTHER INCOME AND EXPENSES - OTHERS, NET

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

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Six-Months ended</u>	
	<u>June 30,</u> <u>2014</u>	<u>2013</u>	<u>June 30,</u> <u>2014</u>	
Miscellaneous revenues	351,717	493,864	673,075	818,839
Losses on sale/disposal of property, plant and equipment	(50,569)	(54,725)	(49,925)	(328,193)
Miscellaneous expenses	(303,922)	(173,859)	(417,721)	(300,460)
	<u>(2,774)</u>	<u>265,280</u>	<u>205,429</u>	<u>190,186</u>

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

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14 PROVISION FOR ZAKAT AND TAXES

The zakat return for the year 2013 was prepared during the first quarter of 2014 and it resulted in an additional provision amounting to SR 159 million. The increase was mainly due to the material increase in the retained earnings and the significant decrease in investments' balances.

15 COMMITMENTS AND CONTINGENCIES

Commitments

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 2,151 million as at June 30, 2014 (June 30, 2013: SR 3,003 million).
- (b) Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. The total rent expense under operating leases for the second quarter and six month periods ended June 30th, 2014 are SR 192 million and SR 349 million respectively (the second quarter and six month periods ended June 30th, 2013 amounted to SR 259 million and SR 498 million respectively).
- (c) Saudi Telecom Company has an investment in Venture Capital Fund, which is specialized in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets. It requires that the company should commit an increment in its investment in the fund for the amount of SR 94 million upon the request by the fund manager during 3 years starting from its establishment, noting that the fund has been established in year 2011.

Contingencies

- The Company, in its 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 3,359 million as at June 30, 2014 which include a letter of guarantee amounting to USD 144 million (equivalent to SR 540 million) issued in favor of XL Axiata in relation to PT Axis (Note 18) value added tax (VAT) pending case with the Indonesian tax authorities. Based on existing facts and technical tax opinions obtained, the result of the pending case is expected to be in favor of Axis.
- The group has outstanding letters of credit as at 30 June 2014 amounting to SR 193 million.

16 FINANCIAL INSTRUMENTS

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amount for all financial instruments do not differ materially from its fair value as at June 30, 2014 and 2013, which is as follows:

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

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

Commission rate risk

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

Currency risk

Currency risk 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 enters into hedging agreements where possible to reduce the foreign currency exchange rates risk. The official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

Credit risk

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

Liquidity risk

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

17 SEGMENTAL INFORMATION

- According to the main activities of the Group

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

The main operating segments of the Group comprise:

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

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The following table shows the information according to the Group's main activities for the six month period ended June 30, 2014:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	14,259,109	2,427,456	5,818,330	-	22,504,895
Interconnect revenues	718,543	4,663,886	582,604	-	5,965,033
Interconnect expenses	<u>(2,587,107)</u>	<u>(920,093)</u>	<u>(2,457,833)</u>	-	<u>(5,965,033)</u>
Net revenues from services	<u>12,390,545</u>	<u>6,171,249</u>	<u>3,943,101</u>	-	<u>22,504,895</u>
Depreciation and amortization	1,778,194	1,156,102	307,623	101,224	3,343,143
Net income	3,242,913	(293,562)	3,020,635	(775,702)	5,194,284
Total assets	26,426,533	23,740,419	7,701,444	32,029,055	89,897,451
Total liabilities	13,421,845	7,031,840	2,813,342	7,203,322	30,470,349

The following table shows the information according to the Group's activities for the six month period ended June 30, 2013 as follows:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	14,765,042	2,425,069	5,580,770	136,474	22,907,355
Interconnect revenues	848,334	5,421,335	536,910	-	6,806,579
Interconnect expenses	<u>(3,424,398)</u>	<u>(1,031,159)</u>	<u>(2,351,022)</u>	-	<u>(6,806,579)</u>
Net revenue from services	<u>12,188,978</u>	<u>6,815,245</u>	<u>3,766,658</u>	<u>136,474</u>	<u>22,907,355</u>
Depreciation and amortization	1,644,491	1,078,191	305,571	99,386	3,127,639
Net income	2,086,792	296,121	2,893,608	(2,297,611)	2,978,910
Total assets	28,051,856	23,801,878	7,925,748	23,613,917	83,393,399
Total liabilities	18,585,783	5,945,949	2,474,327	4,645,401	31,651,460

- According to Group operations

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

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

2014

(Thousands of Saudi Riyals)	<u>Domestic Operations</u>		<u>International Operations</u>	
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral Holding Company</u>	<u>Kuwait Telecom Company</u>
Revenues from services (*)	20,881,597	675,536	180,980	1,509,235
Total assets (**)	97,587,325	2,725,896	499,465	2,664,751

(*)The financial statements consolidation adjustments relating to the revenues from services amounted to SR (742,453) thousand.

(**)The financial statements consolidation adjustments relating to the assets amounted to SR (13,579,986) thousand.

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2013

(Thousands of Saudi Riyals)	<u>Domestic Operations</u>		<u>International Operations</u>	
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral Holding Company</u>	<u>Kuwait Telecom Company</u>
Revenues from services (*)	21,469,108	586,300	257,930	1,088,787
Total assets (**)	90,728,955	2,441,268	450,647	2,095,022

(*)The financial statements consolidation adjustments relating to the revenues from services amounted to SR (494,770) thousand.

(**)The financial statements consolidation adjustments relating to the assets amounted to SR (12,322,493) thousand.

18 DISPOSAL OF PT AXIS TELECOM INDONESIA

During the second quarter of year 2013, the Group has reclassified its investment in the subsidiary, PT Axis Telekom as assets held-for sale. According to this classification, the group re-measured the net assets related to the investment at fair value and recognized realized losses of SR 604 million.

On September 26, 2013, the Group signed an agreement to sell its entire share in PT Axis Telekom (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 in which the sales proceeds shall be used to repay Axis's main lenders and other creditors

On March 19, 2014, the Group has completed the sale transaction after receiving all necessary regulatory approvals from the Indonesian authorities.

A) The main categories of the disposed 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
Prepaid expenses and other current assets	507,144
Cash and cash equivalents	200,314
Others	<u>158,612</u>
	<u>3,540,292</u>

Liabilities directly related to the assets held for sale

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

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Accruals resulting from the reclassification of assets to held for sale	<u>98,414</u>
Net liabilities disposed of	<u>631,885</u>

B) Gains or losses resulting from disposal of PT Axis during first quarter 2014:

	<u>(Thousands of Saudi Riyals)</u>
Consideration received through STC group	-
Net liabilities disposed off	631,885
Non-controlling interests related to net liabilities disposed off	(561,537)
Additional balances settled by the group during first quarter 2014	(135,723)
Gains of recycling reserves resulting from the change of translation differences and to hedge to income statement	68,556
Net gains on disposal (recorded under other income and expenses)	<u>3,181</u>

In addition, a balance of SR 246 relating to PT Axis other remaining reserves was recycled to retained earnings upon disposal.

19 PUBLIC TELECOMMUNICATION COMPANY LIMITED “BRAVO”

On October 31, 2013, Saudi Telecom Group signed an Agreement with Wataniya International FZ, a limited liability company, and Al Wataniya Gulf Telecommunications Company Holding Company (collectively referred as the Other Party) whereby full ownership of Public Telecommunication Company Limited “BRAVO”, a Saudi Arabian limited liability company, shall be transferred to Saudi Telecom Company, against the settlement of all its dues, as it has been agreed that other Party will pay an amount of SR 244 million in addition to transfer all of Bravo assets to STC.

Bravo is one of the telecommunication companies operating in the Kingdom through the Build Operate Transfer (BOT) agreement with STC for 15 years contract. BRAVO commenced its operations in year 2005 to provide Push To Talk wireless communication service using iDEN technology operating on the SMR800 frequency band.

On January 30, 2014, the ownership transfer of Bravo Company to the Saudi Telecom Company has been completed after obtaining the approval from the regulatory authorities.

The carrying value of Bravo net assets amounting to SR 381 million at purchase date were acquired against the remaining outstanding balances due to STC Group of SR 202 million, resulting into an excess amount of SR 179 million recorded as a provision subject to fair value determination of net assets acquired. The fair value of acquired net assets will be determined based on the price purchase allocation expected to be completed within a year from the acquisition date.

20 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Sunday 23 Ramadan 1435H (According to Um Alqura calendar) (corresponding to 20 July 2014), approved the interim consolidated financial statements for the Second quarter of 2014 and approved interim dividends amounting to SR 1,500 million, at the rate of SR 0.75 per share.

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21 COMPARATIVE FIGURES

For the period ended June 30, 2013, some of the comparative figures have been reclassified to conform with the classification used for the period ended June 30, 2014.