



a Saudi Joint Stock Company

**Consolidated Financial Statements for the
Year Ended December 31, 2014**

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

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 (0) 11 282 8400
Fax: +966 (0) 11 293 0880
www.deloitte.com
License No. 96
Head Office: Riyadh

Scope of Audit

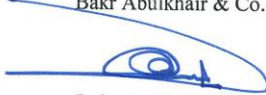
We have audited the accompanying consolidated balance sheet of Saudi Telecom Company (a Saudi joint stock company) (the "Company") and its subsidiaries (collectively referred to as "the Group") as at December 31, 2014, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the accompanying notes 1 to 37 which form an integral part of these consolidated financial statements as prepared by the Group in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2014, 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
Jumada Al Awal 4, 1436H
February 23, 2015



Saudi Telecom Company
(a Saudi Joint Stock Company)
Consolidated Balance Sheet as at December 31, 2014
(Saudi Riyals in thousands)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	3	5,467,121	960,074
Short-term investments	4	14,347,318	16,828,933
Accounts receivable, net	5	8,514,689	7,679,909
Prepayments and other current assets	6	3,515,936	3,161,488
Assets held for sale	34	-	3,540,292
Total current assets		31,845,064	32,170,696
Non-current assets:			
Investments accounted for under equity method and others	7	8,518,937	9,591,925
Investments held to maturity	8	6,787,047	1,687,500
Property, plant and equipment, net	9	38,228,697	38,402,069
Intangible assets, net	10	4,523,073	4,607,753
Other non-current assets	11	966,583	909,852
Total non-current assets		59,024,337	55,199,099
Total assets		90,869,401	87,369,795
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Accounts payable	12	2,070,158	1,039,647
Other credit balances – current	13	3,250,292	2,627,581
Accrued expenses	14	7,786,143	9,131,370
Deferred revenues – current portion		1,698,049	1,227,370
Murabahas – current portion	15	2,014,165	1,560,571
Liabilities directly related to assets held for sale	34	-	4,073,763
Total current liabilities		16,818,807	19,660,302
Non-current liabilities:			
Murabahas – non-current portion	15	5,785,169	6,976,494
Sukuk	16	2,000,000	-
Provision for end of service benefits	17	3,768,489	3,395,451
Other credit balances - non-current	13	1,168,326	1,174,855
Total non-current liabilities		12,721,984	11,546,800
Total liabilities		29,540,791	31,207,102
Equity			
Shareholders' equity:			
Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share	18	20,000,000	20,000,000
Statutory reserve	19	10,000,000	10,000,000
Retained earnings		33,394,473	28,689,090
Other reserves	20	(1,153,101)	(1,031,887)
Reserves directly related to assets held for sale	34	-	372,846
Financial statements' translation differences		(1,819,044)	(1,800,422)
Total shareholders' equity		60,422,328	56,229,627
Non-controlling interest		906,282	494,603
Non-controlling interest recognized and directly related to assets held for sale	34	-	(561,537)
Total equity		61,328,610	56,162,693
Total liabilities and equity		90,869,401	87,369,795

The accompanying notes from 1 to 37 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, 2014
(Saudi Riyals in thousands)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Revenues from services	21	45,825,640	45,604,629
Cost of services	22	<u>(17,670,009)</u>	<u>(18,191,385)</u>
Gross Profit		28,155,631	27,413,244
Operating Expenses			
Selling and marketing expenses	23	(5,928,975)	(6,018,859)
General and administrative expenses	24	(3,166,159)	(2,923,841)
Depreciation and amortization	25	(7,029,907)	(6,378,284)
Impairment losses relating to investments	7, 26	<u>(399,000)</u>	<u>(1,103,608)</u>
Total Operating Expenses		(16,524,041)	(16,424,592)
Operating Income		11,631,590	10,988,652
Other Income and Expenses			
Losses from investments accounted for under equity method	7	(261,088)	(939,823)
Finance costs	27	(146,153)	(143,252)
Commissions		301,269	243,115
Losses resulted from assets held for sale	34	-	(597,867)
Others, net	28	637,803	897,467
Other income and expenses, net		531,831	(540,360)
Net Income before Zakat, Taxes and Non-controlling interest		12,163,421	10,448,292
Provision for zakat and zaxes	29	(774,695)	(230,431)
Net Income before non-controlling Interest		11,388,726	10,217,861
Non-controlling interest' share		(429,236)	(320,794)
Net Income		10,959,490	9,897,067
Basic earnings per share on Operating			
Income in Saudi Riyals		<u>5.82</u>	<u>5.49</u>
Basic earnings/(loss) per share on income from other operations (Other income and expenses) in Saudi Riyals		<u>0.27</u>	<u>(0.27)</u>
Basic earnings per share on net Income in Saudi Riyals		<u>5.48</u>	<u>4.95</u>

The accompanying notes from 1 to 37 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, 2014
(Saudi Riyals in thousands)

	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income before zakat, taxes and non-controlling interests' share	12,163,421	10,448,292
Adjustments to reconcile net income to net cash flow provided from operating activities:		
Depreciation and amortization	7,029,907	6,378,284
Impairment losses related to investments (See Note 7)	399,000	1,103,608
Allowance for doubtful debts	1,293,219	1,374,102
Losses from investments accounted for under the equity method	261,088	939,823
Commissions	(301,269)	(243,115)
Finance costs	146,153	143,252
Losses on foreign currency exchange fluctuation	24,548	5,034
Provision for end of service benefits	410,338	550,335
(Gains)/losses on sale/disposal of property, plant and equipment	(402,722)	530,992
Change in:		
Accounts receivable	(2,306,760)	(1,379,808)
Prepayments and other current assets	391,821	(225,970)
Other non-current assets	(56,731)	26,282
Accounts payable	1,051,536	(1,274,994)
Other credit balances	10,612	(64,012)
Accrued expenses	(1,335,924)	2,094,107
Deferred revenues	446,771	(487,998)
Zakat and taxes paid	(407,042)	(221,823)
Provision for end of service benefits paid	(37,301)	(28,831)
Net cash provided by operating activities	<u>18,780,665</u>	<u>19,667,560</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures	(6,100,145)	(7,427,907)
Intangible assets, net	(616,305)	(181,881)
Investments in equity and others	132,633	(90,626)
Acquisition of a new subsidiary (See Note 35)	40,462	-
Investments held to maturity (See Note 8)	(5,099,547)	-
Short-term investments	2,481,615	(8,158,486)
Proceeds from commissions	264,029	243,115
Proceeds from sale of property, plant and equipment	10,404	6,594
Net cash used in investing activities	<u>(8,886,854)</u>	<u>(15,609,191)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(6,469,730)	(3,997,843)
Murabahas, net	(762,279)	(367,774)
Sukuk issuance (See Note 16)	2,000,000	-
Finance costs paid	(154,755)	(146,725)
Net cash used in financing activities	<u>(5,386,764)</u>	<u>(4,512,342)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,507,047	(453,973)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	960,074	1,614,361
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR – ASSETS HELD FOR SALE (See Note 34)	-	(200,314)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>5,467,121</u>	<u>960,074</u>
Non-cash items:		
Financial statements' translation differences	(18,622)	(952,408)
Other reserves	(121,214)	(425,006)

The accompanying notes from 1 to 37 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, 2014
(Saudi Riyals in thousands)

	<u>Share Capital</u>	<u>Statutory Reserve</u>	<u>Retained Earnings</u>	<u>Other Reserves</u>	<u>Financial Statements' Translation Differences</u>	<u>Reserves relating to Assets Held for Sale</u>	<u>Total Shareholders' Equity</u>	<u>Non-Controlling Interest</u>	<u>Total Equity</u>
Balance at December 31, 2012	20,000,000	10,000,000	22,792,023	(606,881)	(848,014)	-	51,337,128	(151,907)	51,185,221
Net income	-	-	9,897,067	-	-	-	9,897,067	-	9,897,067
Dividends	-	-	(4,000,000)	-	-	-	(4,000,000)	-	(4,000,000)
Other reserves (refer to Note 20)	-	-	-	(425,006)	-	-	(425,006)	-	(425,006)
Reserves relating to assets held for sale	-	-	-	-	-	372,846	372,846	-	372,846
Financial statements translation differences	-	-	-	-	(952,408)	-	(952,408)	-	(952,408)
Non-controlling interests	-	-	-	-	-	-	-	84,973	84,973
Balance at December 31, 2013	20,000,000	10,000,000	28,689,090	(1,031,887)	(1,800,422)	372,846	56,229,627	(66,934)	56,162,693
Net income	-	-	10,959,490	-	-	-	10,959,490	-	10,959,490
Dividends	-	-	(6,500,000)	-	-	-	(6,500,000)	-	(6,500,000)
Other reserves (refer to Note 20)	-	-	-	(121,214)	-	-	(121,214)	-	(121,214)
Reserves relating to assets held for sale	-	-	-	-	-	(372,846)	(372,846)	-	(372,846)
Financial statements translation differences	-	-	-	-	(18,622)	-	(18,622)	-	(18,622)
Non-controlling interests	-	-	-	-	-	-	-	973,216	973,216
Recycling reserves to retained earnings (refer to Note 34)	-	-	245,893	-	-	-	245,893	-	245,893
Balance at December 31, 2014	20,000,000	10,000,000	33,394,473	(1,153,101)	(1,819,044)	-	60,422,328	906,282	61,328,610

The accompanying notes from 1 to 37 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, 2014

1 GENERAL

Saudi Telecom Company (the “Company”) was established as a Saudi Joint Stock Company pursuant to the 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>2014</u>	<u>2013</u>	
Arabian Internet and Communications Services Co. Ltd. (STC Advanced Solutions) (Previously AWAL) - Kingdom of Saudi Arabia	100%	100%	Full Consolidation
Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia	100%	100%	Full Consolidation
VIVA Bahrain (BSCC) – Kingdom of Bahrain	100%	100%	Full Consolidation
Aqalat Company Limited (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	71%	71%	Full Consolidation
Sale Advanced Co. Ltd. – (Sale Co.) - Kingdom of Saudi Arabia	60%	60%	Full Consolidation
Kuwait Telecom Company (VIVA) (KJC) - 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
Contact 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 Company. On March 19, 2014, the sale procedures were completed after obtaining the necessary

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

approvals from the Indonesian regulating authorities. Therefore, starting from the first quarter of year 2014, this company has been disposed off from the group consolidated financial statements (See 2-12 and Note 34).

The table above does not include Safayer Company Ltd., a subsidiary of the Saudi Telecom Group, which was established in 2014. The commercial registration of the company was issued and the share capital was paid in January 2015 (for further clarification refer to page 11), therefore, this company has not been consolidated in the consolidated financial statements.

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 the 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 maintenance of 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.

Arabian Internet and Communications Services Co. Ltd. (STC Advanced Solutions) (Previously AWAL) - Kingdom of Saudi Arabia

The Arabian Internet and Communications Services Co. (a limited liability company) was established in April 2002. The company is engaged in providing internet services, operation of communications projects and transmission and processing of information in the Saudi market. In December 2007, the Saudi Telecom Group acquired 100% of its SR 100 million share capital.

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

Telecom Commercial Investment Company Ltd. – Kingdom of Saudi Arabia

Telecom Commercial Investment Company (a limited liability company) was established in the Kingdom of Saudi Arabia in October 2007 by the Saudi Telecom Company with a share capital of SR 1 million, and which owns 100% of the company's share capital. The company operates in the Saudi market and was established for the purpose of operation and maintenance of telecommunication networks, computer systems' networks and internet networks, maintenance, operation and installation of telecommunication and information technology systems and programs.

VIVA Bahrain (BSCC) – Kingdom of Bahrain

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

Aqalat Limited Company – The Kingdom of Saudi Arabia

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

Public Telecommunication Company "BRAVO" – Kingdom of Saudi Arabia

Public Telecommunication Company "BRAVO" was established in February 2002 in the Kingdom of Saudi Arabia, and the Saudi Telecom Company acquired 100% of its SR 200 million share capital in January 2014 (See Note 35)). This company operates in the electrical business and communication networks, wholesale and retail trade in fixed telecommunications equipment, electrical appliances, import, marketing, installation and maintenance of fixed and mobile telecommunications and information technology licensed devices (See Note 35).

Intigral Holding Company (BSCC) – Kingdom of Bahrain

This company was formed in the Kingdom of Bahrain in 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 acquired 51% of its BHD 28 million share capital (which is equivalent to approximately SR 281 million at the exchange rate as at that date) in June 2009. In December 2011, the Company increased its shareholding interest by 20% to reach 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 in January 2008 and operates in the wholesale and retail trade of recharge card services, telecommunication equipment and devices, computer services, sale and re-sale of all fixed and mobile telecommunication services, and commercial centers' maintenance and operation. The company operates in the Saudi Market with branches in Bahrain and Oman, the Saudi Telecom Company acquired 60% of its SR 100 million share capital in December, 2011.

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

Kuwait Telecom Company (VIVA) (KJC) - Kuwait

In December 2007, the 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 at that date, this company operates in the field of mobile services in the Kuwaiti market, and commenced its commercial operation on December 4, 2008. Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies. Group representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

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

PT Axis Telecom obtained the license to operate a third generation mobile network in Indonesia and it started the commercial provisioning of this service in the first quarter of year 2008 in the Indonesian market. 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 at that date. On April 6, 2011, the Company increased its share for 29.10% to reach 80.10%, and therefore the investment in PT Axis Telecom was re-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. Group has reclassified its investment in PT Axis Telekom as assets held-for-sale as at June 30, 2013.

On March 19, 2014, the Group has completed the sale transaction after receiving all necessary regulatory approvals from the Indonesian authorities (refer to Note 34).

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 Saudi Telecom Company acquired 35% of its USD 3.6 billion share capital of Oger Telecom Company, equivalent to approximately SR 13.5 billion in April 2008 at the exchange rate as at that date.

Binariang GSM Holding - 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 India (Aircel Company) (refer to Notes 7).

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 at that date.

Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia

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

Saudi Telecom Company (a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

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, and 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.

In April 1999, Saudi Telecom Company acquired 36.66% of Arabsat’s USD 500 million share capital (equivalent to approximately SR 1,875 million at the exchange rate as of that date).

Contact Center Company– The Kingdom of Saudi Arabia

Contact Center 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 share capital of SR 4.5 million. In December, 2010, Saudi Telecom Group acquired approximately 50% of its SR 4.5 million share capital (225,001 owned shares out of 450,000 shares).

Safayer Company Ltd. – Kingdom of Saudi Arabia

Safayer Company was established in June 2014 in the Kingdom of Saudi Arabia by the Saudi Telecom Group owning 100% of its SR 100 million share capital. This company operates in the retail and wholesale trade of computer systems and devices, fixed and mobile telecommunication, internet equipment, advertising and publicity material, spare parts, electrical equipment, automatic payment equipment, automatic points of sale equipment, selling of telecommunication operator’s services, establish telecom and sales centers, and services’ sales. The commercial registration was issued on January 14, 2015., therefore, this company has not been consolidated in the consolidated financial statements.

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, 2014.

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, 2013.

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.

Saudi Telecom Company
(a Saudi Joint Stock Company)

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

The significant accounting policies are summarized below:

2-1 Consolidation Basis

Subsidiaries

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

2-2 Period of the consolidated financial statements

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

2-3 Cash and cash equivalents

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

2-4 Accounts receivable

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

2-5 Offsetting of accounts

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

2-6 Allowance for doubtful debts

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

2-7 Inventories

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

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

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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. Repair 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 (if exists) 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

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the costs of operating systems software cannot be identified separately from the associated computer hardware costs, the operating systems software costs are recorded as part of the hardware.

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

2-10 Intangible assets

Goodwill

- Goodwill arises upon the acquisition of stake in subsidiaries. It represents the excess of the cost of the acquisition over the Group's share in the fair value of the net assets of the subsidiary at the date of purchase. When this difference is negative, it is immediately recognized 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 providing the service on a straight line basis over their useful lives or statutory duration, whichever is shorter.

2-11 Impairment of non-current assets

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

2-12 Assets held for sale

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

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

Assets (and disposal groups) classified as held for sale are measured at the lower of its previous

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carrying value or fair value less costs of sale.

2-13 Investments

Investments accounted for under the equity method

a- Investments in joint ventures

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

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

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

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

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

b- Investments in associates

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

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

c- Other investments

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

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

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

2-14 Zakat

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

2-15 Taxes

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

Deferred taxes

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

2-16 Provision for End of service benefits

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

2-17 Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

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

Entities of the Group (translation of financial statements)

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

- Assets and liabilities are translated at the exchange rate prevailing on the balance sheet date.
- Items of shareholders' equity at acquisition (except retained earnings), are translated at the exchange rate prevailing on the acquisition date.
- Changes in the items of shareholders' equity (except retained earnings), are translated at the exchange rate prevailing on the date of occurrence.
- Retained earnings are translated as follows: retained earnings translated at the end of last year plus

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net income for the period as per the translated income statement less declared dividends within the period translated at the exchange 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 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 recorded in shareholders' equity are recognized in the consolidated statement of income as part of the gains or losses on sale.

2-18 Contingent liabilities

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

2-19 Revenue recognition

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

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

2-20 Cost of services

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

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

2-21 Selling and marketing expenses

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

2-22 General and administrative expenses

General and administrative expenses represent all the operating expenses incurred by the Group that cannot be directly linked to the costs of services or selling and marketing expenses. They are expensed

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as incurred when it is not possible to determine the relevant benefiting periods. Otherwise, they are charged to the relevant periods.

2-23 Earnings per share

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

2-24 Financial derivatives

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

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

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

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

2-25 Related parties

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

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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 2014 was 0.53% (2013: 0.85%). Total commissions earned on the balances during the year 2014 amounted to SR 14 million (2013: SR 4 million).

Also, the Group's share in commissions earned by subsidiaries on deposits amounted to SR 3.5 million (2013: SR 4 million).

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Short-term Murabahas	3,580,239	19,891
Collection accounts	1,147,849	833,849
Disbursement accounts	372,580	3,811
Short-term deposits	<u>366,453</u>	<u>102,523</u>
	<u>5,467,121</u>	<u>960,074</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 return during the year 2014 was 1.21% (2013: 1.43%), and the total commissions earned on them during the year 2014 amounted to SR 181 million (2013: SR 167 million).

The Group's share in commissions earned by subsidiaries on deposits amounted to SR 11.6 million (2013: SR 16 million).

5 ACCOUNTS RECEIVABLE, NET

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Billed receivables	9,580,243	7,775,383
Unbilled receivables	<u>812,952</u>	<u>1,096,433</u>
	10,393,195	8,871,816
Allowance for doubtful debts	<u>(1,878,506)</u>	<u>(1,191,907)</u>
	<u>8,514,689</u>	<u>7,679,909</u>

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Balance at January 1	1,191,907	1,041,099
- Additions (refer to Note 23)	<u>1,293,219</u>	<u>1,374,102</u>
	2,485,126	2,415,201
- Bad debts written-off during the year	<u>(606,620)</u>	<u>(1,223,294)</u>
Balance at December 31	<u>1,878,506</u>	<u>1,191,907</u>

(b) Since inception, the Company recognizes revenues from services rendered to particular customers upon

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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 2014 amounted to SR 75 million (2013: SR 60 million), with an annual average of SR 163 million for the fifteen years preceding 2014.

- (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, 2014 and 2013, the net amounts included in the accounts receivable, accounts payable, and accrued expenses balance were as follows:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Accounts receivable, net	<u>2,795,289</u>	<u>2,871,515</u>
Accounts payable and accruals, net	<u>3,109,181</u>	<u>3,052,794</u>

- (d) In accordance with paragraph (7) of the Council of Ministers' Resolution No. 171 referred to in Note (1), and upto the end of the year 2013, the Company used to settle the amounts due to the Government of the Kingdom of Saudi Arabia as government charges against accumulated receivables balances due from various governmental parties for the usage of the Company's rendered services to these parties.(Refer to Note 30).

6 PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consists of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Advances to suppliers	825,403	431,375
Inventories	786,768	1,089,027
Accrued commissions and receivables	578,108	552,607
Deferred expenses	135,711	12,689
Prepaid rents	125,851	199,888
Employees' housing loans - current portion	122,956	125,583
Prepaid insurance	62,189	15,238
Frequency evacuation project	34,754	119,460
Others	<u>844,196</u>	<u>615,621</u>
	<u>3,515,936</u>	<u>3,161,488</u>

“Others” comprise various items, the main ones being refundable deposits and the accrued compensation for the land expropriation (Refer to Note 9).

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7 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS

These investments consist of the following:

(Thousands of Saudi Riyals)	<u>2014</u>		<u>2013</u>	
	<u>Ownership</u>		<u>Ownership</u>	
Investments in associate companies:				
Arab Satellite Communications Organization ("Arabsat") - Kingdom of Saudi Arabia	36.66%	1,564,466	36.66%	1,491,765
Arab Submarine Cables Company Limited. - Kingdom of Saudi Arabia	50%	43,033	50%	34,439
Contact Centers Company- The Kingdom of Saudi Arabia	50%	31,464	50%	21,689
		1,638,963		1,547,893
Investments in joint ventures:				
Binariang GSM Holding - Malaysia	25%	4,564,761	25%	4,255,850
Oger Telecom Ltd. U.A.E.	35%	2,234,390	35%	3,712,740
		6,799,151		7,968,590
Other investments		80,823		75,442
Total investments in equity and other		8,518,937		9,591,925

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

Also, other investments include the Company's investments made during the year 2013 in Saudi Media Measurement Company, which started its operations in early 2014 in the business of providing media measurement for the purpose of supplying the Media Market with correct and authentic information. The Saudi Telecom Company owns 14.15% of its SR 22.5 million share capital which is equivalent to approximately SR 3.2 million. On June 8, 2014, the shareholders agreed to increase the share capital to reach SR 39.8 million. The Saudi Telecom Company will pay its remaining share which amounts to SR 2.4 million after the completion of the legal procedures of increasing the share capital.

In addition, other investments include the Saudi Telecom Company's investment in Virgin Mobil Saudi Consortium (Limited liability Company) which started its operation in 2014 as a mobile virtual network operator in the Kingdom. The Company owns 10% of its SR 20 million share capital.

During the fourth quarter of year 2014, the Group booked an impairment provision on investments amounting to SR 399 million in relation to its investment in Oger Telecom Ltd (resulting from Cell C Company - one of Oger Telecom's subsidiaries).

During the year 2013, the STC Group conducted a review of its foreign investment in Binariang GSM holding group (joint venture), including the manner in which this investment is being managed and how joint control has been effectively exercised. As a result of such review, STC signed an amendment to the shareholders' agreement with other shareholders of Binariang GSM holding group with respect to certain operational matters of the Aircel group. Consequently, it has been concluded that STC group shall stop to account for its investment in Aircel group using the equity method

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effective from the second quarter 2013. This has resulted into STC group reversing its share of losses from Aircel group for the period from April 1, 2013 to September 30, 2013 amounting to SR 795 million. From the total reversed amount mentioned above, the amount pertaining to the period from April 1st to June 30th, 2013 was SR 401 million. Also, 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 Binariang GSM Holding (Resulting from Aircel group, one of the subsidiaries of Binariang GSM Holding).

8 INVESTMENTS HELD TO MATURITY

During the second quarter of year 2014, the Company has 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. The average rate of return on these portfolios during year 2014 was 1.13% and the total realized returns amounted to SR 26 million.

During the fourth quarter of year 2014, the Company invested an amount of SR 1 billion as long term deposits (Murabaha) with an international bank for a five-year term with an annual profit margin of 3%. The total realized return amounted to SR 2.6 million during the year 2014.

During the third quarter of 2014, one of the Group companies invested a balance of Bahraini Dinar (BHD) 10 million equivalent to SR 99.5 million with an international bank as long-term cash deposits (Murabaha) for a period of three years with an annual return of 3.1%. Total realized returns during year 2014 amounted to BHD 135 thousand, equivalent to SR 1.3 million.

In December 2007, the group has an investment in a 10 years Sukuk for an amount of Malaysian Ringgit (MYR) 1,508 Million for a period of 10 years, bearing a coupon of 10.75% (the coupon has been increased by 1.5% to 10.75%, effective from June 29, 2014). The Sukuk investment was financed by a floating rate MYR for a period of 10 years term loan (See Note 15).

At the same time of Sukuk investment and term loan, the underlying Sukuk and loan cash flows (coupons and financing cost only) were hedged for interest rate and foreign exchange risk. Group receives a fixed Sukuk coupon of 5.29% annually, on net of financing cost and hedge basis. Sukuk and term loan principal are naturally hedged as both are denominated in MYR and are recorded in the books at SR1,688 million. This investment is included under the group related parties transactions.

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9 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>2014</u>	<u>2013</u>
<i>Gross book value</i>						
- Balance at January 1	13,504,769	61,216,303	6,011,051	5,789,046	86,521,169	99,455,744
- Acquisition of a subsidiary	-	685,403	35,671	22,936	744,010	-
- Additions	33,689	26,402	42,555	5,991,638	6,094,284	7,710,760
- Transfers	556,780	6,800,223	337,777	(7,694,780)	-	-
- Reclassification as Assets Held for Sale	-	-	-	-	-	(4,223,503)
- Disposals	(262,068)	(1,803,741)	(65,335)	-	(2,131,144)	(16,360,082)
- Foreign currency translation adjustments	<u>104</u>	<u>(79,938)</u>	<u>1,821</u>	<u>(11,511)</u>	<u>(89,524)</u>	<u>(61,750)</u>
Balance at December 31	<u>13,833,274</u>	<u>66,844,652</u>	<u>6,363,540</u>	<u>4,097,329</u>	<u>91,138,795</u>	<u>86,521,169</u>
<i>Accumulated depreciation</i>						
- Balance at January 1	(6,967,557)	(36,992,217)	(4,159,326)	-	(48,119,100)	(59,582,496)
- Acquisition of a subsidiary	-	(446,568)	(35,310)	-	(481,878)	-
- Depreciation	(458,179)	(5,342,608)	(340,779)	-	(6,141,566)	(6,101,384)
- Reclassification as Assets Held for Sale	-	-	-	-	-	1,730,851
- Disposals	119,490	1,619,625	58,068	-	1,797,183	15,822,496
- Foreign currency translation adjustments	<u>(8)</u>	<u>32,997</u>	<u>2,274</u>	<u>-</u>	<u>35,263</u>	<u>11,433</u>
Balance at December 31	<u>(7,306,254)</u>	<u>(41,128,771)</u>	<u>(4,475,073)</u>	<u>-</u>	<u>(52,910,098)</u>	<u>(48,119,100)</u>
Net book value at December 31	<u>6,527,020</u>	<u>25,715,881</u>	<u>1,888,467</u>	<u>4,097,329</u>	<u>38,228,697</u>	<u>38,402,069</u>

(a) Land and buildings above include land of SR 2,143 million as at December 31, 2014 (December 31, 2013: SR 2,208 million).

(b) In accordance with the Royal Decree referred to in Note (1), the ownership of assets had been transferred to the Company as at May 2, 1998. However, the transfer of legal ownership of certain land parcels is still in progress. Land parcels for which legal ownership has been transferred into the Company' name amounted to SR 1,984 million as at December 31, 2014. The transfer of the ownership of the remaining land parcels with a value of SR 198 million is still in progress.

(c) Property, plant and equipment includes fixed assets belonging to certain investee companies which are pledged against bank borrowings for the investees. The Group's share amounted to SR 299 million.

(d) During the year 2014, Saudi Telecom Company has received a resolution from the Ministry of Finance requiring the expropriation of a land owned by the Company covering an area of 1,047,000 square meters and located in Alfaisaliah district in Riyadh. The compensation assessed by the Ministry of Finance amounted to SR 726 million and was collected during the first quarter of year 2015. Since the net book value of the land and buildings established on it is SR 131 million, the company has realized a gain of SR 595 million. However, the Company objected against the compensation amount since the land assessed value is considered to be less than its estimated fair value.

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10 INTANGIBLE ASSETS, NET

Intangible assets include the following as at December 31, 2014:

Kuwait Telecom Company (VIVA) (KJC) – 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 at that date. This company operates in the field of mobile services in the Kuwaiti market, and commenced commercial operation on December 4, 2008. Saudi Telecom Group manages Kuwait Telecom Company (VIVA) and treats its investment in it by using the full consolidation method due to its control over the financial and operating policies as the Group's representation on the board of the Kuwaiti Telecom Company constitutes a majority of the members.

VIVA Bahrain (BSCC) – Kingdom of Bahrain

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

Intangible assets, net consist of the following:

	(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Licenses		3,786,708	4,019,091
Others		<u>736,365</u>	<u>588,662</u>
		<u>4,523,073</u>	<u>4,607,753</u>

11 OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Employees' housing loans		660,453	802,348
Deferred expenses		202,542	975
Others		<u>103,588</u>	<u>106,529</u>
		<u>966,583</u>	<u>909,852</u>

“Other” comprises different items, the main ones being advanced commissions and fees and refundable deposits.

12 ACCOUNTS PAYABLE

Accounts payable consists of the following:

	(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Government charges (refer to Note 5 (d))		848,831	(601,498)
Trade payables		761,761	1,146,483
International operators settlement and others		<u>459,566</u>	<u>494,662</u>
		<u>2,070,158</u>	<u>1,039,647</u>

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13 OTHER CREDIT BALANCES

Other credit balances - current consists of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Provision for zakat and taxes (refer to Note 29)	1,439,579	1,039,127
Accruals for under construction projects' contracts	782,691	758,330
Withholding tax provision	253,123	238,168
Suppliers' retentions	140,278	141,748
Customers' refundable deposits	120,748	138,948
Settlement of seconded employees' entitlements	60,950	60,950
Others	452,923	250,310
	<u>3,250,292</u>	<u>2,627,581</u>

"Others" comprise different items, the main ones being social insurance dues, dividends payable, and current portion of clubs' sponsorship liabilities.

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Deferred revenues – non-current portion	778,337	780,400
Financial derivatives	66,500	135,706
Others	323,489	258,749
	<u>1,168,326</u>	<u>1,174,855</u>

"Others" comprises different items, the main ones being the non-current portion of clubs' sponsorship liabilities and suppliers' retentions.

14 ACCRUED EXPENSES

Accrued expenses consist of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Trade	4,339,852	4,605,072
Employees' accruals	1,257,900	1,099,706
Capital expenditures	986,356	2,578,962
Provision for liabilities and commitments	551,928	462,875
Others	650,107	384,755
	<u>7,786,143</u>	<u>9,131,370</u>

15 MURABAHAS

Murabahas consist of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Current portion	2,014,165	1,560,571
Non-current portion	5,785,169	6,976,494
	<u>7,799,334</u>	<u>8,537,065</u>

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Saudi Telecom Company-The Kingdom of Saudi Arabia

In April 2008, the Company obtained financing facilities in the form of Murabaha deals from several local banks with a maturity period of 120 months. The amounts utilized of the facilities as at December 31, 2014 amounted to SR 9,500 million.

During the third quarter of 2010, the Company obtained short term financing facilities in the form of Murabaha deals from several local banks amounted to SR 1,000 million and the amounts not utilized as at December 31, 2014.

During the third quarter of 2011, the Company obtained financing facilities in the form of Murabaha deals from several local banks with a maturity period of 120 months and an amount of SR 2,250 million which were not utilized as at December 31, 2014.

During the fourth quarter of year 2008, the Company started repayment of the due installments of the financing facilities. Amounts settled as at December 31, 2014 amounted to SR 5,809 million, out of which SR 1,054 million were settled during the year ended December 31, 2014. (2013: SR 4,755 million).

Also, 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 45 basis points and a maturity period of 120 months. The amounts utilized of the facilities as at December 31, 2014 amounted to 1,508 million Malaysian Ringgit (2013: MYR 1,508 million) which is an equivalent of SR 1,688 million as at that date.

- Arabian Internet and Communications Services Co. Ltd. (STC Advanced Solutions) (Previously AWAL) - Kingdom of Saudi Arabia

As at December 31, 2014, the Murabahas and bank facilities granted to Arabian Internet and Communications Services (Awal) amounted to SR 250 million (2013: SR 74 million).

- Kuwait Telecom Company (VIVA) (KJC) - Kuwait

As at December 31, 2014, the Murabahas and bank facilities granted to Kuwait Telecom Company (VIVA) amounted to SR 1,095 million (2013: SR 873 million). In addition, the current portion of the Murabahas and bank facilities for the year 2014 includes Islamic Murabahas amounted to SR 192 million secured against fixed assets.

- VIVA Bahrain (BSCC) – Kingdom of Bahrain

As at December 31, 2014, the Murabahas and bank facilities granted to VIVA Bahrain (BSCC) amounted to SR 1,075 million (2013: SR 1,157 million). In addition, the non-current portion of the Murabahas and bank facilities for the year 2014 includes Islamic Murabahas with an amount of SR 107 million which are secured against fixed assets (2013: SR 110 million).

16 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 December 31, 2014:

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

The Sukuk described above have been issued at the face value without discount or premium. The

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Sukuk is interest bearing and is calculated on the basis of three months (SIBOR) plus 70 basis points margin payable every three months and for a period of 10 years.

17 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>2014</u>	<u>2013</u>
Balance at January 1	3,395,451	2,891,380
Additions during the year	410,338	550,335
Settlements/Adjustments during the year	<u>(37,300)</u>	<u>(46,264)</u>
Balance at December 31	<u>3,768,489</u>	<u>3,395,451</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.

18 SHARE CAPITAL

The Company's capital amounts to SR 20,000 million, divided into 2,000 million fully paid shares at par value of SR 10 each. As at December 31, 2014 and 2013, the Government owned 70% of the Company's shares.

19 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.

20 OTHER RESERVES

Other reserves consists of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Hedging reserves	199,742	232,526
Other reserves	<u>953,359</u>	<u>799,361</u>
	<u>1,153,101</u>	<u>1,031,887</u>

21 REVENUE FROM SERVICES

Revenue from services consists of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Usage charges	27,527,088	27,317,070
Subscription fees	17,283,673	17,110,287
Activation fees	89,332	277,739
Others	<u>925,547</u>	<u>899,533</u>
	<u>45,825,640</u>	<u>45,604,629</u>

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22 COST OF SERVICES

Cost of services consists of the following:

	<u>2014</u>	<u>2013</u>
	(Thousands of Saudi Riyals)	
Access charges	7,259,085	7,620,212
Government charges (*)	4,233,751	4,274,690
Repair and maintenance	2,466,896	2,007,027
Employees' costs	1,883,061	1,838,923
Rent of equipment, property and vehicles	510,438	500,430
Printing of telephone cards and stationery	248,695	61,933
Utilities expenses	190,558	239,534
Others	877,525	1,648,636
	<u>17,670,009</u>	<u>18,191,385</u>

“Others” comprises different items, the main ones being, consultancy, telephone, postage, security and safety expenses.

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

	<u>2014</u>	<u>2013</u>
	(Thousands of Saudi Riyals)	
Commercial service provisioning fees	3,478,364	3,560,831
License fees	274,161	278,183
Frequency spectrum usage fees	481,226	435,676
	<u>4,233,751</u>	<u>4,274,690</u>

	<u>2014</u>	<u>2013</u>
	(Thousands of Saudi Riyals)	
The Company	3,887,189	3,964,360
Other Group companies	346,562	310,330
	<u>4,233,751</u>	<u>4,274,690</u>

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23 SELLING AND MARKETING EXPENSES

Selling and marketing expenses consists of the following:

(Thousands of Saudi Riyals)

	<u>2014</u>	<u>2013</u>
Employees' costs	2,195,224	2,208,765
Doubtful debts expense	1,293,219	1,374,102
Advertising and publicity	673,598	896,991
Sales commissions	334,501	424,896
Repairs and maintenance	304,377	324,873
Consultancy, legal and professional fees	128,163	146,657
Printing of telephone cards and office equipment	136,777	189,652
Others	863,116	452,923
	<u>5,928,975</u>	<u>6,018,859</u>

“Others” comprises various items, the main ones are: rent of equipment, property and vehicles, security and safety, telephone, postage, and courier expenses, utilities expenses, and contact centers administration expenses.

24 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consists of the following:

(Thousands of Saudi Riyals)

	<u>2014</u>	<u>2013</u>
Employees' costs	1,651,532	1,467,318
Repair and maintenance	496,300	324,831
Rent of equipment, property and vehicles	308,208	284,378
Consultancy, legal and professional fees	301,937	273,211
Security and safety expenses	86,706	78,805
Utilities expenses	54,191	69,394
Others	267,285	425,904
	<u>3,166,159</u>	<u>2,923,841</u>

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

25 DEPRECIATION AND AMORTIZATION

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)

	<u>2014</u>	<u>2013</u>
Depreciation	6,141,566	5,891,324
Amortization	888,341	486,960
	<u>7,029,907</u>	<u>6,378,284</u>

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26 IMPAIRMENT LOSSES RELATED TO INVESTMENTS

During the fourth quarter of year 2014, the Group booked an impairment provision on investments amounting to SR 399 million in relation to its investment in Oger Telecom Ltd (resulting from Cell C Company - one of Oger Telecom's subsidiaries). (See Note 7).

During the second quarter of the year 2013, The Group classified its investment in PT Axis Telekom as assets held-for-sale. Accordingly, the group re-measured the net assets related to the investment at fair value and recognized a realized loss of SR 604 million. Therefore, the balance of the Group's investment in that company is zero as at December 13, 2013. (See note 34)

During the first quarter of the year 2013, the Group booked an impairment provision on investments (Goodwill) amounting to SR 500 million in relation to its investment in Aircel group (a subsidiary of Binariang GSM holding group) (See Note 7).

27 FINANCE COSTS

Finance costs composed of the following:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
The Company	68,425	63,911
Other Group companies	77,728	79,341
	<u>146,153</u>	<u>143,252</u>

28 OTHER INCOME AND EXPENSES , NET

Other income and expenses, net consists of the following:

	<u>2014</u>	<u>2013</u>
Miscellaneous revenue	868,869	1,553,676
Gains (Losses) on sale/disposal of property, plant and equipment	402,722	(530,992)
Miscellaneous expenses	(633,788)	(125,217)
	<u>637,803</u>	<u>897,467</u>

Gains/(losses) on sale/disposal of property, plant, and equipment for the year ended December 31, 2014 includes a gain amount of SR 595 million, resulting from the compensation that was assessed against the expropriation of the land owned by the Company located in Alfaisaliah district in Riyadh and the buildings established on it (See Note 9). The increase in miscellaneous expenses include different items, the main one being cost of selling telecommunication devices which amounted to SR 279 million.

During the first quarter of 2013, the Company disposed of fixed assets with a net book value of SR 277 million which resulted from the fixed assets verification project, which was executed. The increment in miscellaneous income for the year ended December 31, 2013 includes items, mainly being an amount of SR 324 million which represents a reversal of the international settlements provision and also an amount of SR 216 million as earned revenues from the projects resulting from the Universal Service Fund related to Authority of Communications and Information Technology.

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29 ZAKAT AND TAXATION PROVISION

(a) Zakat base

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Share capital – beginning of the year	20,000,000	20,000,000
Additions:		
Retained earnings, Statutory reserve and Provisions – Beginning of the year	42,272,856	34,519,990
Borrowings and payables	8,646,102	8,650,422
Adjusted net income	12,693,644	8,292,906
Total shareholders' equity	83,612,602	71,463,318
Deductions:		
Net property and investments	54,154,761	57,883,092
Dividends paid	6,469,730	3,997,843
Deferred expenses and other balances	1,235,801	1,532,463
Total deductions	61,860,292	63,413,398
Difference represents zakat base	21,752,310	8,049,920
Zakat on fully owned ownership companies	543,808	201,248
Add:		
Accrued zakat on sukuk issued during the year	37,500	-
Add: Zakat on partially owned companies	34,403	28,521
Adjustment related to year 2013	158,877	-
Total consolidated zakat expense	774,588	229,769

(b) Zakat provision

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Balance at January 1	1,038,998	1,020,556
Charge for the year	774,588	229,769
Amounts paid during the year	<u>(374,924)</u>	<u>(211,327)</u>
Balance at December 31	1,438,662	1,038,998

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 years 2010 through 2013 has been submitted, but the final zakat assessment has not been issued yet. The Company has received a restricted zakat certificate with validity up to 11/7/1436H (corresponding to 30/4/2015).

(c) Subsidiaries

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

(d) TAX PROVISION

The tax amount shown in the consolidated statement of income represents the Group's share of taxes charged on subsidiaries in accordance with tax laws applicable in their countries. The tax expenses for the year ended on December 31, 2014 amounted to SR 107 thousand (December 31, 2013: SR 662 million) and the balance of the provision as at December 31, 2014 amounted to SR 917 thousand (December 31, 2013: SR 129 thousand).

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30 RELATED PARTY TRANSACTIONS

Government entities in the Kingdom of Saudi Arabia

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

The revenues and expenses related to Governmental entities during year 2014 (including Government charges disclosed in Note 22 above) amounted to SR 5,834 million and SR 3,925 million, respectively (2013: SR 2,979 million and SR 4,014 million, respectively).

Accounts receivable from and accounts payable to Government entities as at December 31, 2014 totaled SR 3,364 million and SR 847 million, respectively. (Amounts receivable from and payable to Government entities during 2013 totaled SR 670 million and SR 169 million, respectively).

Joint ventures and Investments accounted for under the equity method

Transactions and the outstanding balances with joint ventures and investments accounted for under the equity method during the year were not material except for the investment in Sukuk amounting to SR 1,688 (2013: SR 1,688 million) (See Note 8).

Subsidiaries

The related parties transactions with subsidiaries amounted to SR 22,725 million during the year and the outstanding balances were SR 4,368 million as at December 31, 2014 (2013: transactions amounted to SR 20,155 million and the outstanding balances amounted to SR 4,783 million). Noting that all transactions and balances were eliminated at the time of consolidation from the consolidated financial statements.

31 COMMITMENTS AND CONTINGENCIES

Commitments

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments approximated SR 2,880 million as at December 31, 2014 (December 31, 2013: SR 2,478 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, 2014, total rent expense under operating leases amounted to SR 725 million (Year ended December 31, 2013: Amount of SR 703 million).
- (c) Saudi Telecom Company has an investment in a Venture Capital Fund, which is specialized in investing in start-up, small and medium-sized companies working in the field of Information, Communication, and Technology in the Saudi market and other global markets. The Company has committed a total investment in the fund for an amount of USD 50 million out of which USD 25 million has been paid and the remaining will be paid upon the request by the fund manager.

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 4,012 million as at December 31, 2014 which include a letter of guarantee amounting to USD 142 million (equivalent to SR

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533 million) issued in favor of XL Axiata in relation to the disposed subsidiary PT Axis's (See Note 34) 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 PT Axis. In addition, the above balance includes the Group's share of the outstanding letters of guarantee of its investments in the joint venture projects amounting to SR 539 million.

- The group has outstanding letters of credit as at December 31, 2014 amounting to SR 188 million.

32 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 December 31, 2014, 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.

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

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

Currency risk

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

Credit risk

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

Liquidity risk

This is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity is managed by periodically ensuring its availability in

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amounts sufficient to meet any future commitments. The Company does not consider itself exposed to significant risks in relation to liquidity.

33 SEGMENT 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.

The following table shows the information according to the group's main activities for the year ended December 31, 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	28,345,103	4,948,347	12,537,919	(5,729)	45,825,640
Interconnect revenues	1,354,452	8,956,264	1,211,874	-	11,522,590
Interconnect expenses	<u>(5,078,480)</u>	<u>(1,747,944)</u>	<u>(4,696,166)</u>	-	<u>(11,522,590)</u>
Net revenues from services	<u>24,621,075</u>	<u>12,156,667</u>	<u>9,053,627</u>	<u>(5,729)</u>	<u>45,825,640</u>
Depreciation and amortization	3,508,613	2,580,624	704,333	236,337	7,029,907
Net income	5,724,264	(615,910)	6,266,773	(415,637)	10,959,490
Total assets	27,830,933	25,025,049	10,896,492	27,116,927	90,869,401
Total liabilities	14,150,433	7,345,163	3,014,500	5,030,695	29,540,791

The information according to the Group's activities for the year ended December 31, 2013 was as follows:

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	28,591,292	4,881,375	12,117,951	14,011	45,604,629
Interconnect revenues	1,724,586	10,408,376	1,108,325	-	13,241,287
Interconnect expenses	<u>(6,130,436)</u>	<u>(2,104,191)</u>	<u>(5,006,660)</u>	-	<u>(13,241,287)</u>
Net revenue from services	<u>24,185,442</u>	<u>13,185,560</u>	<u>8,219,616</u>	<u>14,011</u>	<u>45,604,629</u>
Depreciation and amortization	3,346,629	2,209,963	633,580	188,112	6,378,284
Net income	3,912,987	532,085	5,672,056	(220,061)	9,897,067
Total assets	29,028,294	23,680,721	7,294,651	27,366,129	87,369,795
Total liabilities	18,220,767	7,438,082	2,698,819	2,849,434	31,207,102

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Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

- 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:

(Thousands of Saudi Riyals)	2014			
	<u>Domestic Operations</u>	<u>International Operations</u>		
	<u>KSA</u>	<u>VIVA Bahrain</u>	<u>Intigral holding company</u>	<u>Kuwait Telecom Company</u>
Operating revenues (*)	42,919,001	1,349,910	387,929	3,078,408
Total assets (**)	101,558,425	2,500,619	466,207	2,742,806

*The financial statements consolidation adjustments relating to the revenues amounted to SR (1,909,608) thousand.

** The financial statements consolidation adjustments relating to the assets amounted to SR (16,398,656) thousand.

(Thousands of Saudi Riyals)	2013			
	<u>Domestic Operations</u>	<u>International Operations</u>		
	<u>KSA</u>	<u>VIVA Bahrain</u>	<u>Intigral holding company</u>	<u>Kuwait Telecom Company</u>
Operating revenues (*)	42,909,349	1,210,370	493,808	2,423,737
Total assets (**)	97,137,576	2,665,533	435,244	2,378,079

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

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

34 ASSETS HELD FOR SALE (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.

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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>

Accruals resulting from the reclassification of assets to held for sale **98,414**

Net liabilities disposed of **631,885**

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

(Thousands of Saudi Riyals)

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.

35 ACQUISITION OF A NEW SUBSIDIARY (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.

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Notes to the Consolidated Financial Statements for the Year Ended December 31, 2014 (continued)

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 was 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.

36 SUBSEQUENT EVENTS

The Board of Directors, in its meeting held on Monday Rabi Awal 28, 1436 H (corresponding to January 19, 2015), proposed interim dividends for the fourth quarter 2014 amounting to SR 2,000 million, at the rate of SR 1 per share, resulting in a total dividend for 2014 of SR 3.50 per share (2013: SR 2.25 per share).

The Board also approved in its meeting held on Monday, Jamada Al-Awal 4, 1436 H (corresponding to February 23, 2015) the consolidated financial statements for 2014.

37 RECLASSIFICATION

For the year ended December 31, 2013, some of the comparative figures have been reclassified to conform with the classification used for the year ended December 31, 2014.