



**a Saudi Joint Stock Company**

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

**Third Quarter  
2014**

**Saudi Telecom Company**  
**(a Saudi Joint Stock Company)**  
**Index to the Interim Consolidated Financial Statements for the Three and Nine-Month**  
**Periods Ended September 30, 2014 (Unaudited)**

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## LIMITED REVIEW REPORT

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

### Scope of Review

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

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

### Review Result

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

Deloitte & Touche  
Bakr Abulkhair & Co.



Bakr A. Abulkhair  
License No. 101  
Muharram 3, 1436  
October 27, 2014

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

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents		5,416,803	943,929
Short-term investments		15,119,766	15,396,191
Accounts receivable, net		9,567,085	8,358,925
Prepayments and other current assets		3,299,769	3,548,777
Assets held for sale	18	<u>-</u>	<u>3,540,292</u>
<b>Total current assets</b>		<b><u>33,403,423</u></b>	<b><u>31,788,114</u></b>
<b>Non-current assets:</b>			
Investments accounted for under equity method and others	3	9,305,512	9,268,575
Investments held to maturity	4	5,687,500	1,687,500
Property, plant and equipment, net	5	38,566,117	36,037,129
Intangible assets, net	6	4,522,072	4,585,551
Other non-current assets		<u>919,005</u>	<u>954,087</u>
<b>Total non-current assets</b>		<b><u>59,000,206</u></b>	<b><u>52,532,842</u></b>
<b>Total assets</b>		<b><u>92,403,629</u></b>	<b><u>84,320,956</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable		2,553,655	2,999,931
Other credit balances – current		3,455,154	2,657,553
Accrued expenses		8,772,728	6,027,551
Deferred revenues – current portion		1,671,957	1,457,909
Murabahas – current portion	7	1,885,262	1,427,907
Liabilities directly related to assets held for sale	18	<u>-</u>	<u>4,073,763</u>
<b>Total current liabilities</b>		<b><u>18,338,756</u></b>	<b><u>18,644,614</u></b>
<b>Non-current liabilities:</b>			
Murabahas – non-current portion	7	6,276,830	7,268,730
Sukuk	8	2,000,000	-
Provision for end of service benefits		3,720,504	3,297,874
Other credit balances - non-current		<u>1,060,649</u>	<u>1,222,733</u>
<b>Total non-current liabilities</b>		<b><u>13,057,983</u></b>	<b><u>11,789,337</u></b>
<b>Total liabilities</b>		<b><u>31,396,739</u></b>	<b><u>30,433,951</u></b>
<b>Equity</b>			
<b>Shareholders' equity:</b>			
Authorized, issued and outstanding share capital: 2,000,000,000 shares, par value SR 10 per share		20,000,000	20,000,000
Statutory reserve		10,000,000	10,000,000
Retained earnings		33,001,013	26,156,518
Other reserves		(1,173,140)	(1,040,653)
Reserves directly related to assets held for sale		-	372,846
Financial statements' translation differences		<u>(1,633,236)</u>	<u>(1,443,781)</u>
<b>Total shareholders' equity</b>		<b>60,194,637</b>	<b>54,044,930</b>
Non-controlling interests		812,253	403,612
Non-controlling interests recognized and directly related to assets held for sale		<u>-</u>	<u>(561,537)</u>
<b>Total equity</b>		<b><u>61,006,890</u></b>	<b><u>53,887,005</u></b>
<b>Total liabilities and equity</b>		<b><u>92,403,629</u></b>	<b><u>84,320,956</u></b>

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

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

	<u>Note</u>	<u>Three Months ended</u> <u>September 30</u>		<u>Nine Months ended</u> <u>September 30</u>	
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues from services		11,754,606	11,426,846	34,259,501	34,334,201
Cost of services	9	<u>(4,133,726)</u>	<u>(4,233,485)</u>	<u>(13,403,756)</u>	<u>(13,912,593)</u>
<b>Gross Profit</b>		<u>7,620,880</u>	<u>7,193,361</u>	<u>20,855,745</u>	<u>20,421,608</u>
<b>Operating Expenses</b>					
Selling and marketing expenses	10	<u>(1,441,017)</u>	<u>(1,569,834)</u>	<u>(4,137,736)</u>	<u>(4,306,444)</u>
General and administrative expenses	11	<u>(769,886)</u>	<u>(648,425)</u>	<u>(2,337,646)</u>	<u>(2,099,431)</u>
Depreciation and amortization	12	<u>(1,869,855)</u>	<u>(1,597,708)</u>	<u>(5,212,998)</u>	<u>(4,725,347)</u>
Impairment losses relating to investment	3, 18	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,103,608)</u>
<b>Total Operating Expenses</b>		<u>(4,080,758)</u>	<u>(3,815,967)</u>	<u>(11,688,380)</u>	<u>(12,234,830)</u>
<b>Operating Income</b>		<u>3,540,122</u>	<u>3,377,394</u>	<u>9,167,365</u>	<u>8,186,778</u>
<b>Other Income and Expenses</b>					
Losses from investments accounted for under equity method	3	<u>(27,072)</u>	<u>(393,192)</u>	<u>(93,319)</u>	<u>(1,626,950)</u>
Finance costs		<u>(39,050)</u>	<u>(32,764)</u>	<u>(108,691)</u>	<u>(101,593)</u>
Commissions		<u>58,919</u>	<u>44,245</u>	<u>183,714</u>	<u>128,698</u>
Losses resulted from assets held for sale	18	<u>-</u>	<u>-</u>	<u>-</u>	<u>(597,867)</u>
Others, net	13	<u>149,606</u>	<u>551,677</u>	<u>355,035</u>	<u>741,863</u>
<b>Other income and expenses, net</b>		<u>142,403</u>	<u>169,966</u>	<u>336,739</u>	<u>(1,455,849)</u>
<b>Net Income before Zakat, Taxes and Non-controlling interests</b>		<u>3,682,525</u>	<u>3,547,360</u>	<u>9,504,104</u>	<u>6,730,929</u>
Provision for Zakat and Taxes	14	<u>(207,429)</u>	<u>(56,185)</u>	<u>(603,636)</u>	<u>(168,572)</u>
<b>Net Income before Non-controlling interests</b>		<u>3,475,096</u>	<u>3,491,175</u>	<u>8,900,468</u>	<u>6,562,357</u>
Non-controlling interests' share		<u>(103,350)</u>	<u>(105,590)</u>	<u>(334,438)</u>	<u>(197,862)</u>
<b>Net Income</b>		<u>3,371,746</u>	<u>3,385,585</u>	<u>8,566,030</u>	<u>6,364,495</u>
<b>Basic earnings per share on Operating Income in Saudi Riyals</b>					
		<u>1.77</u>	<u>1.69</u>	<u>4.58</u>	<u>4.09</u>
<b>Basic earnings (loss) per share on income from other operations (Other income and expenses) in Saudi Riyals</b>					
		<u>0.07</u>	<u>0.08</u>	<u>0.17</u>	<u>(0.73)</u>
<b>Basic earnings per share on net Income in Saudi Riyals</b>					
		<u>1.69</u>	<u>1.69</u>	<u>4.28</u>	<u>3.18</u>

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

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

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before zakat, taxes and non-controlling interests' share	9,504,104	6,730,929
<b>Adjustments to reconcile net income to net cash flow provided from operating activities:</b>		
Depreciation and amortization	5,212,998	4,725,347
Impairment losses related to investments (See Note 3)	-	1,103,608
Allowance for Doubtful debts	847,573	1,039,485
Losses from investments accounted for under the equity method	93,319	1,626,950
Commissions	(183,714)	(128,698)
Finance costs	108,691	101,593
Losses on foreign currency exchange fluctuation	14,052	7,091
Provision for end of service benefits	345,959	447,912
Losses on sale/disposal of property, plant and equipment	47,069	367,481
Change in:		
Accounts receivable	(2,913,510)	(1,724,207)
Prepayments and other current assets	(128,291)	(613,258)
Other non-current assets	(9,153)	(17,953)
Accounts payable	(186,748)	(839,352)
Other credit balances	(66,038)	110,968
Accrued expenses	1,724,714	422,529
Deferred revenues	420,726	(255,537)
Zakat and taxes paid	(397,275)	(221,781)
Provision for end of service benefits paid	(34,134)	(23,986)
<b>Net cash provided by operating activities</b>	<u>14,400,342</u>	<u>12,859,121</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(4,456,960)	(3,434,083)
Intangible assets, net	(516,419)	49,403
Investments in equity and other	110,823	(41,191)
Acquisition of a new subsidiary (See Note 19)	40,462	-
Investments held to maturity (See Note 4)	(4,000,000)	-
Short-term Investments	1,709,167	(6,725,744)
Proceeds from commissions	160,069	118,756
Proceeds from sale of property, plant and equipment	8,240	16,583
<b>Net cash used in investing activities</b>	<u>(6,944,618)</u>	<u>(10,016,276)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(4,496,732)	(2,998,840)
Murabahas, net	(389,026)	(210,260)
Sukuk Issuance (See Note 8)	2,000,000	-
Finance costs paid	(113,237)	(103,863)
<b>Net cash used in financing activities</b>	<u>(2,998,995)</u>	<u>(3,312,963)</u>
<b>NET INCREASE\ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	4,456,729	(470,118)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	960,074	1,614,361
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD—ASSETS HELD FOR SALE (See Note 18)</b>	-	(200,314)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>5,416,803</u>	<u>943,929</u>
<b>Non-cash items:</b>		
Financial statements' translation differences	167,186	(605,641)
Other reserves	(141,253)	(51,054)

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

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**(a Saudi Joint Stock Company)**

**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month Periods Ended September 30, 2014 (Unaudited)**

**1 GENERAL**

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

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

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

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

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

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

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

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

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

## **2 SIGNIFICANT ACCOUNTING POLICIES**

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

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

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



**Saudi Telecom Company**  
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**Notes to the Interim Consolidated Financial Statements for the Three and Nine-Month**  
**Periods Ended September 30, 2014 (Unaudited)**

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

**The significant accounting policies are summarized below:**

**2-1 Consolidation basis**

**Subsidiaries**

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

**2-2 Period of the interim consolidated financial statements**

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

**2-3 Interim results**

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

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

**2-4 Cash and cash equivalents**

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

**2-5 Accounts receivable**

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

**2-6 Offsetting of accounts**

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

**2-7 Allowance for doubtful debts**

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

**2-8 Inventories**

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

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

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

**2-9 Property, plant and equipment and depreciation**

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

The principal bases used for valuation are as follows:

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

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

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

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

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

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

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

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

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

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

**2-10 Computer software costs**

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

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

**2-11 Intangible assets**

**Goodwill**

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

**Spectrum rights and licenses to provide various telecommunication services**

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

**2-12 Impairment in value of non-current assets**

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

**2-13 Assets held for sale**

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

When the Group is committed to a plan of sale involving loss of control of a subsidiary, all assets and liabilities of this subsidiary must be classified as held for sale assets when meeting the requirements

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listed above, regardless of whether the Group will retain a non-controlling interest share in its previous subsidiary after the sale.

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

## **2-14 Investments**

### **Investments accounted for under the equity method**

#### **a- Investments in joint ventures**

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

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

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

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

The International Accounting Standards Board issued IFRS 11 on May 12, 2011 as a replacement of IAS 31, which cancelled the application of the proportionate consolidation method and replaced it with the equity method of accounting instead starting from January 1, 2013. Accordingly, the Group, starting from year 2013, has accounted for its investments in 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 20% to 50% of the voting rights. Significant influence is the power to participate in the financial and operating policies of the associates but not the power to exercise control over those policies.

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

### **Other investments**

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

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

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

**2-15 Zakat**

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

**2-16 Taxes**

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

**Deferred taxes**

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

**2-17 Provision for end of service benefits**

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

**2-18 Foreign currency transactions**

**Functional and presentation currency**

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

These interim consolidated financial statements are presented in Saudi Riyals.

**Transactions and balances**

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

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

**Entities of the Group (translation of financial statements)**

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

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

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- Retained earnings are translated as follows: Retained earnings translated at the end of prior year plus interim net income for the interim period as per the translated interim consolidated statement of income less declared dividends within the period translated at the exchange rate prevailing on the date of declaration.
- Interim consolidated statement of income items are translated using the weighted average exchange rate for the period. Material gains and losses are translated at the exchange rate prevailing on the date of their occurrence.
- All resulting exchange differences, if material, are recognised as a separate component of shareholders' equity.

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

**2-19 Contingent liabilities**

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

**2-20 Revenue recognition**

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

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

**2-21 Cost of services**

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

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

**2-22 Selling and marketing expenses**

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

**2-23 General and administrative expenses**

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

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**2-24 Earnings per share**

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

**2-25 Financial derivatives**

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

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

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

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

**2-26 Related parties**

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

**3 INVESTMENTS ACCOUNTED FOR UNDER EQUITY METHOD AND OTHERS**

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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
<b>Investments accounted for under equity method:</b>		
Associates	1,591,405	1,500,172
Joint Ventures	<u>7,646,806</u>	<u>7,691,668</u>
<b>Total investments accounted for under equity method</b>	<b>9,238,211</b>	<b>9,191,840</b>
<b>Other investments</b>	<u>67,301</u>	<u>76,735</u>
	<u><b>9,305,512</b></u>	<u><b>9,268,575</b></u>

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

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

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

#### **4 Investments held to maturity**

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

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

#### **5 Property, Plant, and Equipment, Net**

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

#### **6 INTANGIBLE ASSETS, NET**

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

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

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

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

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



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

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Licenses	3,844,474	4,077,069
Others	<u>677,598</u>	<u>508,482</u>
	<u>4,522,072</u>	<u>4,585,551</u>

**7 MURABAHAS**

Murabahas consist of:

(Thousands of Saudi Riyals)	<u>2014</u>	<u>2013</u>
Current portion	1,885,262	1,427,907
Non-current portion	<u>6,276,830</u>	<u>7,268,730</u>
	<u>8,162,092</u>	<u>8,696,637</u>

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

**8 SUKUK**

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

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

The Sukuk described above have been issued at the face value without discount or premium. The Sukuk is interest bearing and is calculated on the basis of three months (SAIBOR) plus 70 basis points margin payable every three months and for a period of 10 years.

**9 COST OF SERVICES**

Cost of services consists of the following:

(Thousands of Saudi Riyals)	<u>Three-Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
External networks' usage charges	1,629,368	1,746,769	5,610,465	5,616,699
Government charges (*)	1,059,227	1,070,166	3,167,730	3,184,011
Repair and maintenance	551,943	442,500	1,841,532	1,548,479
Employees' costs	417,155	344,188	1,416,134	1,355,191
Rents of equipment, property and vehicles	124,108	100,230	363,573	409,630
Printing of telephone cards and office equipment	129,088	7,577	171,981	33,802
Premises expenses	40,939	59,965	155,265	180,068
Others	<u>181,898</u>	<u>462,090</u>	<u>677,076</u>	<u>1,584,713</u>
	<u>4,133,726</u>	<u>4,233,485</u>	<u>13,403,756</u>	<u>13,912,593</u>

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

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

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

(Thousands of Saudi Riyals)	<u>Three-Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Commercial service provisioning fees	871,078	893,877	2,596,554	2,654,009
License fees	69,782	68,143	204,369	209,903
Frequency Spectrum fees	118,367	108,146	366,807	320,099
	<u>1,059,227</u>	<u>1,070,166</u>	<u>3,167,730</u>	<u>3,184,011</u>

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
The Company	971,971	958,547	2,901,337	2,957,804
Other Group companies	87,256	111,619	266,393	226,207
	<u>1,059,227</u>	<u>1,070,166</u>	<u>3,167,730</u>	<u>3,184,011</u>

**10 SELLING AND MARKETING EXPENSES**

Selling and marketing expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Advertising and publicity	261,163	233,515	484,529	597,341
Sales commission	58,508	124,224	454,234	312,931
Employees' costs	557,744	512,307	1,627,847	1,643,617
Allowance for doubtful debts	311,017	486,318	847,573	1,039,485
Printing of telephone cards and office equipment	26,804	25,342	100,154	143,395
Repair and maintenance	65,775	74,208	193,975	223,608
Others	160,006	113,920	429,424	346,067
	<u>1,441,017</u>	<u>1,569,834</u>	<u>4,137,736</u>	<u>4,306,444</u>

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

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**11 GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Employees' costs	<b>358,425</b>	335,768	<b>1,222,951</b>	1,073,617
Repair and maintenance	<b>138,310</b>	69,345	<b>333,686</b>	212,954
Rents of equipment, property and vehicles	<b>124,855</b>	73,624	<b>238,961</b>	222,682
Consultancy, legal and professional fees	<b>72,705</b>	39,618	<b>176,589</b>	169,670
Premises expenses	<b>8,536</b>	18,472	<b>38,957</b>	51,767
Others	<b>67,055</b>	111,598	<b>326,502</b>	368,741
	<b><u>769,886</u></b>	<u>648,425</u>	<b><u>2,337,646</u></b>	<u>2,099,431</u>

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

**12 DEPRECIATION AND AMORTIZATION**

Depreciation and amortization consist of the following:

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Depreciation	<b>1,512,864</b>	1,458,426	<b>4,464,646</b>	4,393,485
Amortization	<b>356,991</b>	139,282	<b>748,352</b>	331,862
	<b><u>1,869,855</u></b>	<u>1,597,708</u>	<b><u>5,212,998</u></b>	<u>4,725,347</u>

**13 OTHER INCOME AND EXPENSES - OTHERS, NET**

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

(Thousands of Saudi Riyals)	<u>Three Months ended</u>		<u>Nine-Months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Miscellaneous revenues	<b>421,633</b>	567,133	<b>1,094,708</b>	1,375,007
Gains/(Losses) on sale/disposal of property, plant and equipment	<b>2,857</b>	(39,288)	<b>(47,069)</b>	(367,481)
Miscellaneous expenses	<b>(274,884)</b>	23,832	<b>(692,604)</b>	(265,663)
	<b><u>149,606</u></b>	<u>551,677</u>	<b><u>355,035</u></b>	<u>741,863</u>

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

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#### **14 PROVISION FOR ZAKAT AND TAXES**

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

#### **15 COMMITMENTS AND CONTINGENCIES**

##### **Commitments**

- (a) The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to SR 2,289 million as at September 30, 2014 (September 30, 2013: SR 3,839 million).
- (b) Certain lands and buildings, for use in the Group's operations, are leased under operating lease commitments expiring at various future dates. The total rent expense under operating leases for the third quarter and nine month periods ended September 30, 2014 are SR 182 million and SR 531 million respectively (the third quarter and nine month periods ended September 30, 2013 amounted to SR 57 million and SR 555 million respectively).
- (c) Saudi Telecom Company has an investment in Venture Capital Fund, which is specialized in investing in emerging, small and medium-sized companies working in the fields of Communications and Information Technology in the Saudi market and other global markets. It requires that the company should commit an increment in its investment in the fund for the amount of SR 94 million upon the request by the fund manager during 3 years starting from its establishment, noting that the fund has been established in year 2011.

##### **Contingencies**

- The Company, in its ordinary course of business, is subject to proceedings, lawsuits and other claims. However, these matters are not expected to have a material impact neither on the Company's financial position nor on the results of its operations as reflected in these interim consolidated financial statements.
- The Group has outstanding letters of guarantee amounting to SR 3,442 million as at September 30, 2014 which include a letter of guarantee amounting to USD 144 million (equivalent to SR 540 million) issued in favor of XL Axiata in relation to PT Axis (Note 18) value added tax (VAT) pending case with the Indonesian tax authorities. Based on existing facts and technical tax opinions obtained, the result of the pending case is expected to be in favor of Axis.
- The group has outstanding letters of credit as at September 30, 2014 amounting to SR 188 million.

#### **16 FINANCIAL INSTRUMENTS**

##### **Fair value**

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

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

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

**Commission rate risk**

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

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management monitors fluctuations in foreign currency exchange rates and enters into hedging agreements when needed to reduce the foreign currency exchange rates risk. The official currency of the Group is the Saudi Riyal, the base currency dealing by the Group and its price is currently fixed with a minor margin against the U.S. dollar.

**Credit risk**

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

**Liquidity risk**

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

## **17 SEGMENTAL INFORMATION**

**- According to the main activities of the Group**

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

The main operating segments of the Group comprise:

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

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

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	21,367,941	3,629,957	9,256,650	4,953	34,259,501
Interconnect revenues	1,041,979	6,817,342	899,020	-	8,758,341
Interconnect expenses	<u>(3,859,454)</u>	<u>(1,325,735)</u>	<u>(3,573,152)</u>	-	<u>(8,758,341)</u>
Net revenues from services	<u>18,550,466</u>	<u>9,121,564</u>	<u>6,582,518</u>	<u>4,953</u>	<u>34,259,501</u>
Depreciation and amortization	2,735,036	1,771,038	538,797	168,127	5,212,998
Net income	4,718,349	(231,280)	4,495,936	(416,975)	8,566,030
Total assets	29,111,073	24,544,451	10,831,289	27,916,816	92,403,629
Total liabilities	13,932,944	7,175,733	3,226,434	7,061,628	31,396,739

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

(Thousands of Saudi Riyals)	<u>GSM</u>	<u>PSTN</u>	<u>DATA</u>	<u>Un-allocated /adjusted</u>	<u>TOTAL</u>
Revenue from services	21,689,920	3,556,314	8,824,721	263,246	34,334,201
Interconnect revenues	1,281,723	8,018,374	824,998	-	10,125,095
Interconnect expenses	<u>(4,834,892)</u>	<u>(1,563,866)</u>	<u>(3,726,337)</u>	-	<u>(10,125,095)</u>
Net revenue from services	<u>18,136,751</u>	<u>10,010,822</u>	<u>5,923,382</u>	<u>263,246</u>	<u>34,334,201</u>
Depreciation and amortization	2,485,330	1,627,651	471,252	141,114	4,725,347
Net income	2,703,651	619,719	4,327,886	(1,286,761)	6,364,495
Total assets	27,732,604	22,894,941	7,874,916	25,818,495	84,320,956
Total liabilities	18,616,863	5,792,772	2,532,365	3,491,951	30,433,951

**- According to Group operations**

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

**The following table shows the segmental information according to Group operations during the Nine month period ended September 30:**

**2014**

(Thousands of Saudi Riyals)	<u>Domestic Operations</u>		<u>International Operations</u>	
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral Holding Company</u>	<u>Kuwait Telecom Company</u>
Revenues from services (*)	31,996,372	1,011,616	261,757	2,282,884
Total assets (**)	100,637,687	2,790,253	429,958	2,869,304

(\*)The financial statements consolidation adjustments relating to the revenues from services amounted to SR (1,293,128) thousand.

(\*\*)The financial statements consolidation adjustments relating to the assets amounted to SR (14,323,573) thousand.

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2013

(Thousands of Saudi Riyals)	<u>Domestic Operations</u>	<u>International Operations</u>		
	<u>KSA</u>	<u>STC-Bahrain</u>	<u>Intigral Holding Company</u>	<u>Kuwait Telecom Company</u>
Revenues from services (*)	32,037,005	904,749	403,809	1,712,179
Total assets (**)	94,196,263	2,541,508	410,852	2,312,814

(\*)The financial statements consolidation adjustments relating to the revenues from services amounted to SR (723,541) thousand.

(\*\*)The financial statements consolidation adjustments relating to the assets amounted to SR (15,140,481) thousand.

## 18 DISPOSAL OF PT AXIS TELECOM INDONESIA

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

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

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

### A) The main categories of the disposed investment's assets and liabilities are as follows:

(Thousands of Saudi Riyals)

#### Assets Held for Sale

Property, plant and equipment, net	2,492,652
Intangible assets, net	181,570
Prepaid expenses and other current assets	507,144
Cash and cash equivalents	200,314
Others	<u>158,612</u>
	<b><u>3,540,292</u></b>

#### 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>
	<b><u>4,073,763</u></b>

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

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

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

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

**19 PUBLIC TELECOMMUNICATION COMPANY LIMITED “BRAVO”**

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

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

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

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

**20 SUBSEQUENT EVENTS**

The Board of Directors, in its meeting held on Monday 3 Muharram 1436H (According to Um Alqura calendar) (corresponding to October 27, 2014), approved the interim consolidated financial statements for the Third Quarter of 2014 and approved interim dividends amounting to SR 2,000 million, representing SR 1 on each outstanding share.



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**21 COMPARATIVE FIGURES**

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