

Annual Report  
2013

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





Custodian of the Two Holy Mosques  
**King Abdullah Bin Abdulaziz Al Saud**





His Royal Highness Prince  
**Salman Bin Abdulaziz Al Saud**  
Crown Prince, Deputy Premier and Minister of Defense



His Royal Highness Prince  
**Muqrin Bin Abdulaziz Al Saud**  
Deputy Crown Prince, Second Deputy Premier, Advisor and  
Special Envoy of the Custodian of the Two Holy Mosques



**Khalid I. Alrabiah**  
Chairman



**Abdulrahman M. Al Mofadhi**  
Vice Chairman



**Abdulaziz A. Al Helaissi**  
Member



**Dr. Fahad A. Abuhimed**  
Member



**Abdulrahman Y. Al Yahya**  
Member



**Ahmad A. Alkhateeb**  
Member



**Ali A. Al Gwaiz**  
Member



**Dr. Sami M. Baroum**  
Member



**Yasir O. Al Rumayyan**  
Member







## Saudi Stock Exchange

Annual and Board of Directors' Reports  
For the year ended December 31, 2013



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## Chairman's Statement

It gives me great pleasure, on behalf of the Board of Directors, myself and the executive management of the Saudi Stock Exchange Company ("the Company"), to present the Annual Report of the Company's activities for the fiscal year ending 31st December 2013.

I would like to highlight in brief the achievements and positive developments made by the Company in the fiscal year 2013G, particularly the matters relating to the enhancement of operational efficiency and capabilities of the Company, improvement of its service levels and diversification of its products as part of its quest to achieve its objectives as provided for in the Capital Market Law ("The law"). These achievements and developments will result in a higher efficiency of the capital market in general and stronger leading position among regional capital markets.

In the performance of its strategy adopted in 2011, the company aims to be of high operational and financial efficiency and to contribute to the development of the capital market by focusing on a set of objectives, mainly the development and enhancement of the capabilities of its human resources and technical infrastructure represented by its automated systems, expansion and diversification of assets, products and services offered and improvement of the quality thereof, growing of its customer base by attracting new customers so as to ensure a sustainable growth. Furthermore, the company continued to implement its strategic plan for upgrading and diversifying its service base. Under this plan, a new service, Acquisition Offers Acceptance, within Tadawulaty platform as well as the trading of securities of Tradable Rights category. The company began to reap the fruits of the strategy for diversification of income streams and consequently the Company's income from other non-trading activities increased this year by 7%.

In its quest to enhance its efficiency and capabilities, the company signed this year an agreement with Nasdaq OMX to upgrade the trading systems and provide the necessary technical support thereto for many years after operation. The company continued also to attract qualified national human resources and implemented a number of programs, courses workshops and specialized symposiums in collaboration with a number of specialized centers and institutions in and out of the Kingdom in order to boost the efficacy of its staff and to cope with the latest developments in the fields of its activity. The company also negotiated cooperation agreements with a number of regional and international stock exchanges to exchange information and skills and to cooperate therewith to augment the efficiency and capabilities of the company and its staff members.

As part of its efforts to boost the efficiency of the capital market and its participants, the company launched an automated disclosure system in order to enhance the level of transparency in the capital market. This is an automated integrated system which enables issuers of listed securities to disclose information, news and financial results on the Company's electronic site. On the other hand, the company held the third conference for families owned companies in cooperation with the Chamber of Commerce in the Eastern Province to raise the awareness of these companies of the advantages and



merits of listing and the provision of all related information. This conference was attended by a distinguished group of families owned companies and interested parties. In terms of provision of support and technical assistance to the authorized persons, the Company continued its unlimited support to these persons in all fields so as to enable them to overcome all problems and obstacles encountered.

In the course of activating its mission as defined in the rules, which both the Capital Market Authority and the Company, are keen to achieve, the Company participates in the higher committee formed by the Capital Market Authority to activate the Company's mission as stated in the Capital Market Law and also participates in the different technical work teams formed between the Authority and the Company.

The Company gives a special attention to the consolidation of the corporate governance. To this effect, the board of directors adopted a special program to upgrade the governance of the company in line with an approved time schedule to develop and optimize the policies, criteria and environment of governance at the company.

It is my pleasure to express my appreciation of the distinguished and sincere efforts made by the Chairman and members of the Board whose term ended by 2013 for the achievements made during their term in the Board membership including the achievements made this year. I wish also to thank the Company's staff members for their sincere efforts and loyalty in serving the Company and achieving its objectives.

Special recognition is also due to the Chairman of the Capital Market Authority, the Authority's Board and all concerned departments for the support they offered to the Company and which contributed to the interest of the capital market and the enhancement of the Company's efficiency and achievement of its objectives.

Finally, I take this opportunity to express my great appreciation and heartiest thanks on behalf of the Board of Directors of the Saudi Stock Exchange Company, myself and staff members to the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz, His Royal Highness Prince Salman Bin Abdulaziz, Crown Prince and Deputy Premier and Minister of Defense, and His Royal Highness Prince Muqrin Bin Abdulaziz, Second Crown prince and Second Deputy Premier and to our prudent government for the unlimited support extended by them to the Company in order to achieve its objectives and perform its role perfectly. I also pray Allah to preserve our beloved country, its security and prosperity under its prudent leadership.

**Khalid Bin Ibrahim Alrabiah**  
Chairman



## CEO's Statement to Shareholders

I am honored to write you this statement after the end of my first six months at the Saudi Stock Exchange. It is a privilege to have joined this great company, and vital component of our national economy, at a time of such renewed promise for our future prospects.

### **2013 has been an exceptional year...**

2013 was, by all accounts, an exceptional year in the history of the Saudi Stock Exchange. The regulatory environment around us has shifted at a rapid pace; the global capital market ecosystem has also continued to evolve, driven by fundamental adjustments to securities regulations which are set to impact investors, securities exchanges and clearing houses in multiple jurisdictions around the world. Advancements in products, services and technologies in regional and international markets, coupled with the rising needs and expectations of our capital market stakeholders have also required us to take a closer look at our priorities to ensure that we can meet these growing expectations as we go forward.

### **with some key achievements...**

- **Market Development:** From a market development standpoint, 2013 represented a breakthrough year for the Saudi capital market in light of the listing and trading of the first derivative instrument on our platform in the form of Right Entitlements.
- **Technology and Infrastructure:** From a technology and infrastructure standpoint, we entered into an agreement with NASDAQ OMX to upgrade our trading engine to X-Stream INET, the latest in trading technology; which, when deployed in mid-2015, is expected to provide our clients with cutting edge performance, and position us well to execute the strategic developments planned for the next 5 years.
- **Human Resources:** Internally we reassessed our employee value proposition and launched a number of initiatives in line with an approved overall strategy focused on enhancing all employee value drivers over the next 24 months.
- **Relations with Regional and International Organizations:** During the course of the year we were also successful in signing Memorandums of Understanding with the Abu Dhabi Securities Exchange and Bahrain Bourse to strengthen ties and cooperation in areas of mutual interest, including the development of products, services, and markets.

### **but it has also been a year of normalization...**

The Saudi Stock Exchange enjoyed a very strong year in 2012, recording a five year high in trading value of SAR1.93 trillion; ranking us the number one exchange in the world in terms of annual change in trading value (+76%), according to the World Federation of Exchanges, and number two in terms of annual change in number of transactions conducted (+65%).

It is fair to say that 2013 has been a year of normalization; with stock market trading activity reverting to a more viable trajectory than that observed in 2012. Indeed trading value declined by 29 percent from the high recorded in 2012 to settle at a more sustainable SAR1.37 trillion in 2013.

The impact of this decline in trading value on overall revenues has been noticeable; revenues have declined by 21% in 2013, mainly as a result of our high degree of dependence on trading commissions, which represent around 71% of our total revenues.

Operating income declined by 53% in 2013 compared to 2012 partially because of a 10% increase in general and administrative expenses, but mainly because of our fixed cost structure which is insensitive to the level of trading activity.

Although SAR66.6m of income from investments (non-operating income) softened the negative impact on the bottom line, net profit nevertheless suffered a decline of 37 percent over the year.

Despite the fall in trading activity, revenues from non-trading related services have continued to grow in 2013, registering growth of 6.9% versus 2012, mainly due to growth from our market information, and basic registration services.

#### **Positioning Ourselves for the Future...**

The coming period will mark an exciting transformational chapter in the history of the Saudi Stock Exchange as we work with the Capital Market Authority to begin to activate and embrace the full scope of responsibilities and authorities prescribed on us by virtue of the Capital Market Law. We believe that these responsibilities will allow the Exchange to be more active and effective in the development of our capital market ecosystem.

#### **Our optimism is fuelled by the significant opportunities we see ahead...**

I am passionate about the strength of our existing platform and the robust foundation it provides for significant innovation and market development. We will continue to build on its strengths while we drive tomorrow's business knowing that reaching out to customers and diversification to new products, services and markets will be instrumental to our future growth and prosperity.

Activating our legal responsibility to take a leading role in establishing listing conditions for various types of securities will be instrumental in facilitating the expansion of our product range and our evolution into a diversified multi-product/multi-market/multi-client platform comprising foreign listings, fund listings, warrants, and institutional products and markets.

Enhancing the penetration of our existing offerings in index creation and licensing, asset registration and servicing, and issuer and member services will support many of our diversification objectives. These efforts will be augmented with pursuits of possible opportunities in asset administration, custody, and investor relations.

We also believe that we can build tremendous value by leveraging and expanding the core capabilities of our platform to offer truly integrated end-to-end holistic solutions to all market stakeholders.

#### **We continue to have tremendous support...**

We consider ourselves fortunate to have the patronage of our Board of Directors, who continue to support us as we pursue new and exciting opportunities for growth. It is also a privilege to serve with my team at the Saudi Stock Exchange as we continue to work diligently and tirelessly to achieve our objectives of honoring our national mandate.

#### **We will always focus on our mandate...**

As we move forward, we will continue to remind ourselves that the Saudi Stock Exchange sits as both the national securities exchange and sole securities depository in the Kingdom; fully aware that the Capital Market Law has honored us with the privilege of being the exclusive gateway to the Saudi capital market, and a major artery to the heart of our economy.

The value we create for ourselves must therefore always be aligned with the value we create for our nation. This is the exciting journey that lies ahead.

**Adel Bin Saleh Al Ghamdi**  
Chief Executive Officer

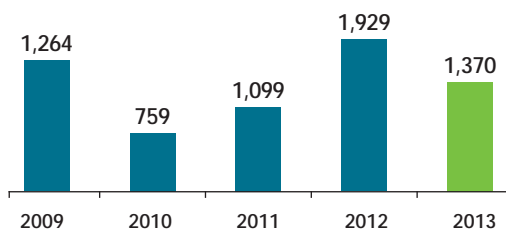


## Financial Highlights

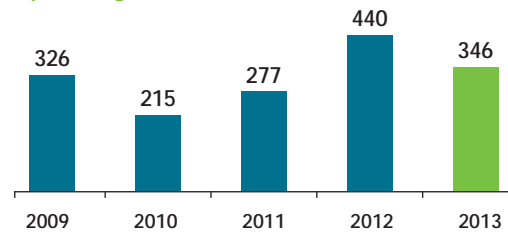
Financial Summary (SAR million)	2013	2012	Change (%)
Operating Revenues	346	440	-21.40%
Total Costs	260	256	1.60%
Operating Income	86	184	-53.30%
Other Income	66	59	11.90%
Net Income	152	243	-37.40%
EBITDA	175	276	-37.60%
Earnings Per Share	1.27	2.03	-37.40%
Dividends Per Share	0.75	0.75	0.00%

Key Financial Indicators	2013	2012	Change (%)
Gross Profit Margin	55.30%	63.80%	-13.10%
Operating Profit Margin	24.80%	41.80%	-40.70%
Net Profit Margin	44.10%	55.30%	-20.20%
Return on Capital	12.70%	20.30%	-37.40%
Return on Equity	4.80%	8.00%	-40.00%
Dividend payout ratio	59.20%	37.00%	59.90%

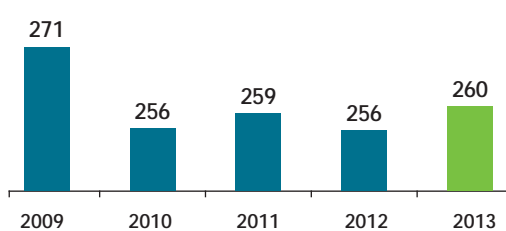
Value Traded (SAR billions)



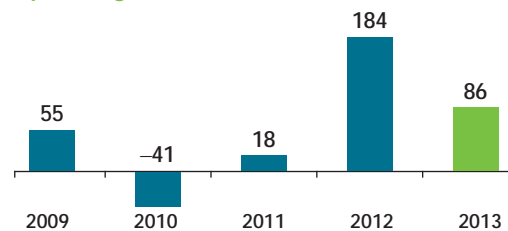
Operating Revenues (SAR millions)



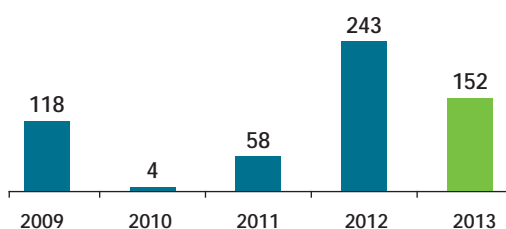
Total Costs (SAR millions)



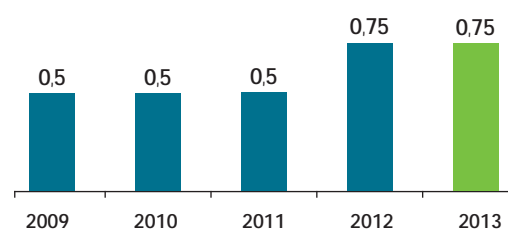
Operating Income (SAR millions)



Net Income (SAR millions)



Dividends Per Share (SAR)

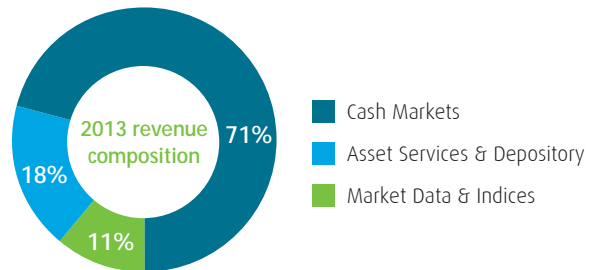


## Our Business at a Glance

The Saudi Stock Exchange generates revenues from three business divisions, namely:

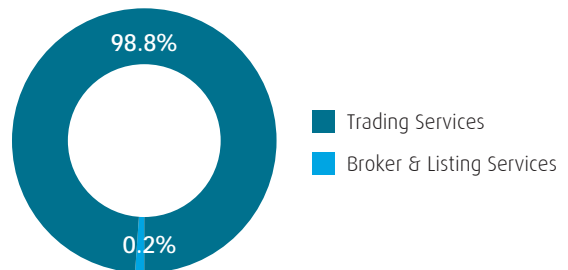
- Cash Markets
- Asset Services & Depository
- Market Data & Indices

The Cash Markets business is by far the greatest contributor to our top line, comprising 71 percent of our overall operating revenues in 2013.



### Cash Markets

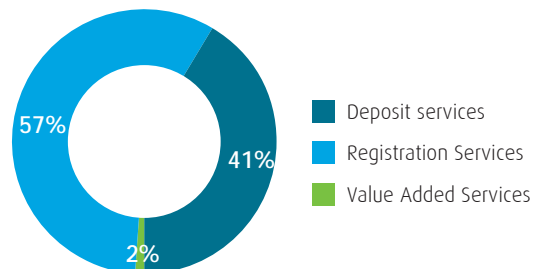
Cash Markets handles all services related to trading of securities; this entails the continuous operation of the market, including the trading of all local shares, sukuk, and exchange-traded funds (ETFs) listed on the Saudi Stock Exchange, by means of an integrated automated system. These services range from enabling issuers to list their securities to facilitating issuers' disclosure of information. Cash Markets also manages the exchange members' relationship, which includes trader registration and certification of the order management systems.



### Asset Services and Depository

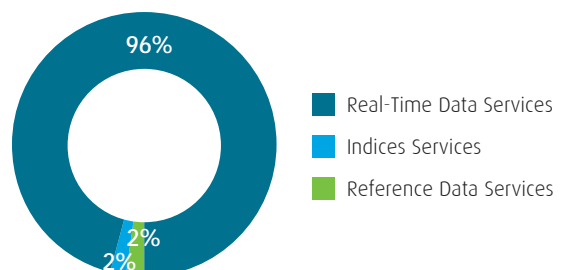
Asset Services and Depository handles all services related to the deposit of securities traded in the market and the transfer, settlement, clearing, and registration of securities. The division also offers services such as increase or decrease of capital, merger and acquisition procedures, providing reports pertinent to the shareholders' register, General Meetings, Assembly management, and maintenance of shareholders registers for listed and unlisted joint-stock companies.

Additional services are offered through (Tadawulaty), including the recording of full details of investors' portfolios, electronic voting, and the Tawasul facility, which enables companies to communicate with their shareholders.



### Market Data and Indices

Market Data and Indices handles all services related to the development of financial information products such as real-time data, reference and historical data, and creation of indices. The division also manages the licensing of market information usage and distribution to market members, indices providers, and data vendors.



## Directors' Report to the General Assembly

### Dear Shareholders (Public Investment Fund),

The Board of Directors of the Saudi Stock Exchange (Tadawul) is pleased to present the Annual Report on the Company's performance and financial results for the year 2013. The report covers key achievements during the year, as well as significant developments in the Company's operations and their impact on net income. Overall, the Company continued to execute its strategy by implementing operating plans that focus on the enhancement of its organizational and operational capabilities.

## 1 Principal Activities

The Company's activities include the provision and management of securities trading services, providing settlement and clearing services of securities, depository and registration of securities ownership, and dissemination of securities information. The Company may engage in other related activities to meet its objectives as specified in the Capital Market Law.

## 2 Financial Results

The Company's revenues amounted to SAR (346) million in 2013, compared to SAR (440) million in 2012, a decrease of (21%) while total operating income amounted to SAR (86) million and declined by (53%) compared to the previous year's SAR (184) million.

Net profit amounted to SAR (152) million compared to SAR (243) million in 2012, a drop of (37%). The decline in revenues is attributable to the (28%) reduction in the daily average trading value to SAR (5.5) billion from SAR (7.7) billion.

Operating income from non-trading commissions increased by (7.0%), a result of the Company's strategy to diversify its sources of income.

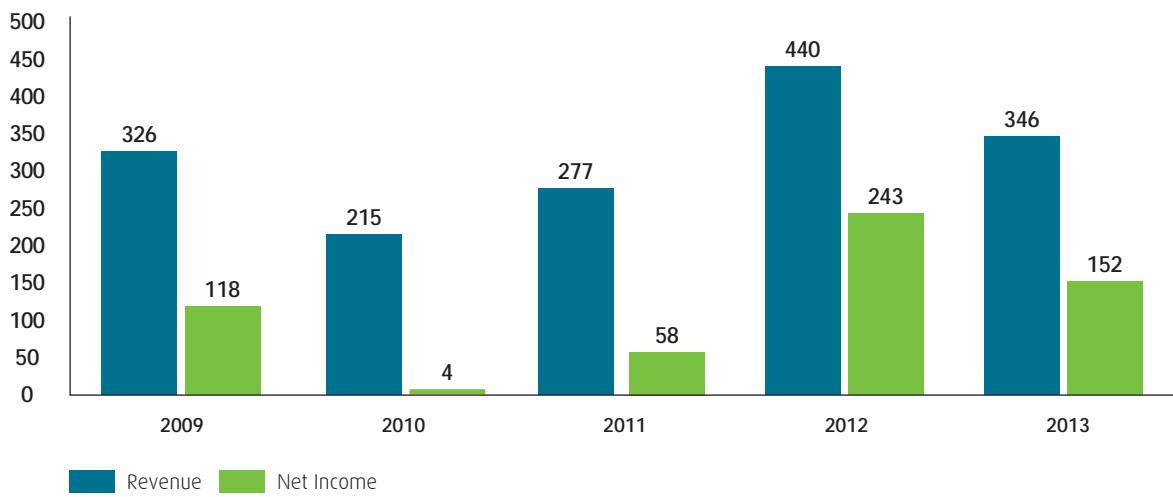
The following tables show the main items of the balance sheet and statement of income for the previous five years:

Financial Position	SAR millions				
	2013	2012	2011	2010	2009
Current assets	1,661	2,068	2,516	1,723	1,759
Non-current assets	1,666	1,094	445	1,259	1,256
<b>Total assets</b>	<b>3,327</b>	<b>3,162</b>	<b>2,961</b>	<b>2,982</b>	<b>3,015</b>
Current liabilities	69	61	58	86	69
Non-current liabilities	71	50	43	37	31
<b>Total liabilities</b>	<b>140</b>	<b>111</b>	<b>101</b>	<b>123</b>	<b>100</b>
Capital	1,200	1,200	1,200	1,200	1,200
Reserves	1,361	1,345	1,321	1,315	1,315
Retained earnings	542	495	336	344	401
Gains and unrealized losses from the revaluation of securities	84	11	2	–	–
<b>Total shareholders' equity</b>	<b>3,187</b>	<b>3,051</b>	<b>2,859</b>	<b>2,859</b>	<b>2,916</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,327</b>	<b>3,162</b>	<b>2,961</b>	<b>2,982</b>	<b>3,015</b>

Income Statement	2013	2012	2011	2010	2009
Revenue	346	440	277	215	326
Total costs	260	256	259	256	271
<b>Operating income</b>	<b>86</b>	<b>184</b>	<b>18</b>	<b>(41)</b>	<b>55</b>
Other income	66	59	40	45	63
<b>Net Income</b>	<b>152</b>	<b>243</b>	<b>58</b>	<b>4</b>	<b>118</b>

The accompanying graphs reflect the earnings, net income, and costs for 2009-2013:

Revenue and net income from 2009 to 2013 (SAR millions)



Breakdown of costs 2009 to 2013 (SAR millions)



### 3 Corporate Strategy

In 2011, the Board of Directors approved the Company's strategic plans that seek to achieve higher operating and financial efficiencies, with a special focus on the development of the Saudi capital market. To become more financially efficient, the strategic plans focused on diversifying revenue streams through the execution of four key drivers.

#### 1. Diversification of asset classes:

The main objective is to offer investors a diversified range of asset classes that appeal to different types of investors. The Exchange currently covers Equities, Sukuks, and Exchange-Traded Funds. We will continue to explore opportunities to introduce new asset classes that cater to our clients' needs.

#### 2. Expansion of product range:

Providing investors with the right mix of products has always been a top priority. We recently launched Tradable Rights and Tender Offers, and are at the development stage with more new opportunities designed to give our customers enhanced value and service.

#### 3. Reaching out to new customers:

To continue strengthening our market, we are placing special emphasis on attracting new customers. The Saudi stock market includes local and foreign resident investors, and from outside the Kingdom's boundaries we have GCC investors as well other foreign investors who participate through SWAP agreements.

#### 4. Expansion of services:

Another main priority is to excel in offering clients value-added services that provide additional functionality when dealing with the Exchange. We have worked to identify the needs of our investors, members, and issuers, as well as data vendors and index developers. We will continue to enhance trading and post-trade satisfaction, while creating additional value from our market information services. Reaching out to unlisted issuers, in 2013 Tadawul launched new registration and custody services for unlisted companies, as well as creating index services and automated billing for information providers.

In implementing these strategies, Saudi Stock Exchange has worked to build basic support resources that act as enablers for business growth. These include:

- Strengthening organizational and commercial capabilities by upgrading product development, marketing, and human resources. Enhancing brand and marketing strategies, in parallel with greater investment in our people and organizational structure.
- To improve Tadawul's technical capabilities, its various automated systems, risk management, and strategic planning, we are upgrading our trading platform and enhancing risk management frameworks.

Tadawul regularly reviews its strategic plan. This includes the control of objectives, their measurement, and reprioritization. In this context, the priorities in 2014 will be:

**A. Commercial capabilities and human resources**

Concentrating on brand and marketing capabilities; reviewing governance and disclosure policies in line with best practice; and investing in human resources to ensure that Tadawul is one of the best places to work in Saudi Arabia and the region.

**B. Risk management**

Reviewing and enhancing policies and procedures to ensure the integrity of the market and its participants, while adhering to the highest international standards of fairness and transparency.

**C. Upgrade of trading engine**

Having signed an agreement with NASDAQ OMX to upgrade the present trading engine to X-Stream INET, the latest in trading technology, Tadawul expects to provide clients with cutting-edge performance and to be well-positioned to execute the strategic developments planned for the next five years.

**D. Assuming full responsibilities as defined in the Capital Market Law**

As part of our efforts to activate the full responsibilities set out in the Capital Market Law (CML), the Capital Market Authority (CMA) has formed a joint steering committee with the Saudi Stock Exchange, chaired by the Vice-Chairman of the CMA, to guide implementation of the appropriate directives.

The joint steering committee began to operate during 2013. It reviewed the provisions of the CML and outlined measures that will be subject to transition and activation. Working groups from the CMA and Tadawul have been formed to detail the scope and application of these measures, develop an implementation plan, and submit their recommendations to the steering committee.

## 4 Key projects and achievements in 2013

### A. Agreement with NASDAQ OMX to upgrade the Exchange's trading platform:

Since inception, the Saudi Stock Exchange has been very keen to provide the latest in cutting edge technologies and systems to the market and its participants. . The objective is to meet the market and investors' needs. In this context, an agreement was signed with NASDAQ OMX, the leader in trading systems worldwide, in order to upgrade the present trading system (SAXESS) to (X-Stream INET) in the beginning of 2014. The new system features rapid performance of deals and high capacity as well as diversified products which cope with the development plans of the Saudi Stock Exchange.

### B. Launch of Tender Offer service on the Tadawulaty platform

In collaboration with the CMA, Tadawul launched the Tender Offer service, which enables investors - individual or corporate - to submit acquisition offers for the equity of listed companies. The service also enables shareholders to accept or reject such offers electronically through their accounts with Tadawulaty.

### C. Introduction of Tradable Rights Framework:

TADAWUL launched a service which offers registered shareholders during capital increases the option to subscribe or sell their subscription rights in full or partially during a trading period. This service also gives other "unregistered" investors the option to buy rights from registered shareholders during the trading period for them to subscribe in the capital increase.

### D. Launch of electronic disclosure system

Tadawul launched the first stage of an interactive multi-usage system (IFSAH) for preparation and disclosure of financial results and news from listed companies on the Tadawul website. This was carried out in collaboration with listed companies in a bid to optimize market efficiency and effectiveness, and to ensure the full technical readiness of all participants before the official launch. Testing of the system was preceded by a number of workshops for all companies where the features and benefits were highlighted and participants urged to interact. The IFSAH system was launched officially in the second quarter of 2013.



#### **E. Tadawul recognized as the best Stock Exchange in the Middle East 2013**

The Saudi Stock Exchange was ranked 'Best Stock Exchange MENA 2013' in the annual awards presented by the London-based Capital Finance International magazine.

#### **F. Maintaining ISO 20000 for IT services and ISO 9001 for quality controls**

An IT Governance Section was set up to review the services provided and submit periodic reports on the IT Division's performance. The aim was to create policies and standards that would support the quality of IT services. The effectiveness of the work is evident from IT passing the exams by an independent external auditor on IT policies and procedures, and receiving ISO 20000 certification for the fourth successive year. IT also passed the ISO 9001 quality standard audit for the second year.

#### **G. ISO 27001 certificate for information security for second consecutive year**

For the second year running, Tadawul maintained ISO 27001 certification for information security. This certificate is recognized as a globally accredited endorsement of the quality of information security and protection. Tadawul passed the auditing process by the British Standards Institute, an independent non-profit international organization and one of the parties authorizing ISO certification worldwide. The auditor made a number of field visits and interviewed staff to ensure adherence to the ISO standard.

#### **H. Launch of new Tadawul apps for iPad and iPhone**

The rapid growth of smartphone usage gives a unique opportunity to communicate with customers. Tadawul therefore launched a new version of its iOS for iPads and iPhones that enables users to display information and indices from the Stock Market, as well as market news and company announcements. The app helps the user to easily follow up news and market developments. Tadawul also plans to optimize the app for other platforms such as Android and Windows 8.

#### **I. Memoranda of understanding with stock exchanges**

Tadawul signed agreements with the Abu Dhabi Securities Exchange and the Bahrain Bourse to strengthen ties and cooperation in areas of mutual interest, including the development of products, services, and markets.

#### **J. Organized the second annual investor relations workshop**

In collaboration with the Middle East Investor Relations Society, Tadawul organized an investor relations workshop in Al-Khobar, attended by representatives of 28 listed companies. Such workshops form part of Tadawul's initiative to enable investor relations practitioners to operate competently and to encourage adoption of best practice in investor relations.

#### **K. Forum on taking private family businesses public**

Under the auspices of the chairman of the CMA and in collaboration with the Chamber of Commerce and Industry in the Eastern Province, a forum was held in Dammam for converting family companies to joint-stock companies. The Forum aimed to review the role of transformation in maintaining the continuity of the companies and their success, growth, and development under current economic challenges to becoming joint-stock entities.

The event was attended by a large number of directors, executives and other interested parties. Previous experience and work papers on family company conversion were presented, including the various methods available and the main benefits and challenges encountered.

#### **L. Launch of investor guide on the Tadawul website**

An Investor's Guide was launched on the Tadawul website as part of continuing efforts to raise investor awareness. The guide contains educational materials on investment in capital markets in general and investment products in particular. It gives instructions for opening investment portfolios, explains investment terms and expressions, and highlights the regulations of the CMA and how to abide by them.

The guide also contains a series of video workshops presented by the CMA to raise investor awareness. In view of the importance of investors' opinions of the capital market, a tool has been provided to enable customers to present recommendations or complaints.

## 5 Business Sectors and Allocation of Income\*

Tadawul income is generated from three sectors - Cash Markets, Asset Services and Depository, and Market Data and Indices.

Business sector	(SAR millions)	
	2013	2012
Cash Markets	247	348
Asset Services and Depository	61	59
Market Data and Indices	38	33
<b>Total</b>	<b>346</b>	<b>440</b>

\* All Tadawul income is generated inside Saudi Arabia.

### 1. Cash Markets

Cash Market Division makes tremendous efforts to increase its business activities through development and innovation of products and services, and to foster strong principles of fairness and transparency within the capital market. The division was keen to achieve efficiency in management and market development, and to apply efficient technology to optimize the level of performance. The division is also active in attracting listings, and dealing with related parties to raise issuers' awareness of the importance and benefits of listings. The Division also sought to diversify investor categories by launching more opportunities and investment tools.

5 new companies were listed on the Exchange in 2013, bringing the total number to 161. The total market value of listed companies increased by 25% to SAR 1,752.6 billion.

By year-end, revenues from trading commission amounted to SAR 247 million, compared to SAR 348 million the previous year, a decline of 29 percent due to the reduction in average daily trading value. In 2013 the average trading value amounted to SAR 5.5 billion compared to SAR 7.7 billion in 2012, a decrease of 28%.

### 2. Asset Services and Depository

The Asset Services and Depository Division is entrusted with the execution of transactions relating to deposit, transfer, settlement, clearing, and registration of ownership of securities traded on the Exchange. It also offers other services such as increase or decrease of capital, merger and acquisition, and reports relating to the shareholders' register.

The Division also provides support services for the management of general assemblies, electronic voting, maintenance of the share register for unlisted companies, and supervision of services to customers through the Tadawulaty platform.

The number of investors registered with Tadawulaty increased by 50% to 110,930. Electronic voting and management of general assemblies increased by 41%; custody and registration services for closed joint-stock companies by 182% compared to the previous year's 31 companies; and income from services rose to SAR 61 million from SAR 59 million in 2012 with increased by 3%.

### 3. Market Data and Indices

The Market Data and Indices Division caters for the development and enforcement of strategies and policies relating to market information, taking into consideration the best practices adopted in advanced markets.

This sector is one of the main sources of the income generated from the development of financial information products and services. The Division caters for licensing the distribution and usage of Tadawul information, as well as licensing the establishment of indices for arbitrage companies, information providers, index developers, financial institutions, and local and global asset managers.

Licensing is granted under agreements similar to those applicable at developed stock exchanges, subject to conditions that protect the rights of the Exchange in respect of the distribution and offering of such information. Responsibilities also include the updating and maintenance of all Tadawul indices and traded funds indices, and the preparation of financial and statistical reports for the Saudi stock market published on our website.

In 2013 the Division developed reference data, and began work on financial analytics products and tick data. These will be launched in the coming period. The number of Instant Information subscribers increased by 8.0%, from 103,000. Division income amounted to SAR 38 million, up 15% on the previous year's SAR 33 million.

## 6 Financial investments

### A. Securities

The investment Division manages the cash surplus of the Company's operations through an investment portfolio, seeking to achieve optimum returns by controlling the levels of risk as stipulated in the Company's strategy.

The Division expects to diversify and increase investment asset types in terms of an asset allocation plan adopted by the Board of Directors. During the year, competitive investment returns were achieved compared to benchmarks for the type of assets selected.

Investing in securities	(SAR millions)	
	2013	2012
Murabaha - short-term	75	955
Investments held to maturity - current portion	1,519	1,069
Investments available for sale	342	211
Investments held to maturity - the non-trader	1,200	752
<b>Total</b>	<b>3,136</b>	<b>2,987</b>

## **B. Investment in associates**

Tadawul Real Estate Company (a limited liability company) is the owner of Tadawul's head office building at King Abdullah Financial District. The Saudi Stock Exchange owns 20% (SAR 84 million) of Tadawul Real Estate Company's capital.

## **7 Information technology**

The Information Technology Division is responsible for providing systems and technology infrastructure. The Division also provides technical support to users of all automated systems within international quality control standards.

To achieve its ambitions for raising capabilities and performance, the Division developed a special strategy for information technology, focusing on four key objectives:

- Fulfill requirements for effective business units
- Upgrade the quality of technical services
- Provide effective technical solutions
- Reduce operational costs

The Division has also established a special section for IT governance, which sets policies and criteria to ensure the highest quality of services and reports on Division performance.

## **8 Human resources**

The Human Resources Division has an essential role in achieving the Company's strategies by investing in human capital. The Division continues to develop and strengthen the capabilities of staff to enable them to excel and innovate, and continues to expand the management of skills, learning, development, and services.

'Commercial capabilities and human resources' was a top priority in the Company's 2013 objectives, pursued through independent studies and staff feedback. As a result, the Human Resources Division initiated a comprehensive 24-month strategy that deals with crucial issues such as remuneration, leadership, policies, and processes. The human resources strategy covers more than 50 projects and initiatives - all aimed to enhance the value of staff as well as the policies and procedures in place.

## **9 Risk and compliance**

The Risk and Compliance Division protects the Company's interests against all internal and external risks, and provides support to businesses and support units as well as to senior management in taking decisions and implementing processes. It also reviews and formulates risk rules and policies, and ensures their compliance.

In 2013, the Division sought to achieve efficiency and best practices in risk management systems, as well as ensuring that business activities and operations achieved a proper balance between return and risk. The framework of risk sectors depends on sound principles of risk management, organizational structure, and risk control and measurement operations. The function of the Risk Division is independent from operations, and the existence of more than one Risk Committee enhances its role. The Risk Review Committee is an executive committee headed by the Chief Executive Officer and meets periodically to follow up on the levels of risk at the Company.

The Primary Risk Management Committee, which represents the Board of Directors, comprises three members from the Board and one independent member. This committee supervises the Company's Risk Division and adopts risk management policies. Among the major types of risk overseen are:

#### Operational risk

The Risk Division developed its strategy for management of operational risk by setting a comprehensive framework backed by sound policies and procedures - in particular, by adopting a rigorous policy for self-assessment of risks, and providing control features that can identify the risks arising in respect of Tadawul products, activities, and operations. Major risk indicators measure the levels of risk related to the activities of any given function. The adoption of such indicators will assist in the measurement and control of risk management strategies, as well as in the identification and rectification of weaknesses.

Rules have been set for periodic reports on the appropriate response to risks and their mitigation. Work is in progress to develop the operating framework for fraud and corruption risk management, in collaboration with specialist consultants. During the year, workshops were held with the concerned Divisions to raise awareness and to evaluate the efficiency of control systems.

#### Information security risk

In terms of risk relating to information security, the Risk Division upgraded control systems as part of its efforts to strengthen the capabilities of such systems, and to develop a risk-control based methodology that enables full capability to adopt global best practice for management of operational risk. Tadawul uses automated systems to track suspicious activities and to counter electronic attacks. Despite the recent increase in the number of electronic attacks on other national sites, Tadawul was able to repel many such attacks on its infrastructure and websites. Tadawul also maintained ISO 27001 certification for information security for the second successive year.

#### **Business continuity risk**

The Risk Division reviews business continuity as part of its annual plan through a number of main phases, including: preparing and implementing strategies for maintaining continuity of the Exchange's business and major activities; full documentation of the procedures, criteria, policies, and means required for implementation; fostering public awareness of the importance of such plans and making them part of the work culture; training staff and work teams to implement such plans; and carrying out periodic testing and continuous evaluation to ensure effective implementation.

#### **Compliance risk**

The Legislation and Compliance Division constitutes an important defense line at the Company. One of the most important achievements during the year was the development of an anti-money laundering and terrorism finance policy, approved by the Board of Directors. The Division is in the process of establishing compliance policies and plans.

#### **Legal risk**

The Legal Division is responsible for providing legal opinions and support to all the Exchange's businesses, protecting the Company against all legal risks and defending its interests.

The Division played an essential role in 2013 by providing legal opinions, and formulating and reviewing many documents and legal contracts. These included matters relating to the Tadawulaty service and negotiation with NASDAQ OMX regarding the agreement for upgrading and maintenance of the automated trading system, as well as follow-up on a series of legal cases.

#### **Financial risk**

Income from trading commission constitutes a major part of the Company's revenues and is variable in nature. Part of the Company's strategy is to increase other non-trading operational income to mitigate the effects of market fluctuation.

### **10 Social responsibility**

Tadawul contributed to a number of workshops and international economic conferences, the most important being the Euromoney Saudi Arabia Conference 2013. The Company also sponsored awareness and training programs for pre-graduation university students. Program content covered an introduction to the market rules and regulations and available investment tools. The Company also provides support to professional societies such as the Saudi Organization for Certified Public Accountants.

## 11 Corporate Governance

Being fully aware of the importance of governance, and in observing the principles of disclosure and transparency, Tadawul sought the assistance of a consulting firm to carry out a comprehensive study of all rules and regulations approved by the CMA and governance best practice, with a view to establishing a clear work plan for the coming period.

### A. Disclosures relating to the Board of Directors and senior executives

A/1. Names, classification, date joining, other board memberships

No.	Board of directors	Membership in Board of Directors	Appointment date	Representative of	Membership in other companies (listed or private)
1	Mr. Taha A. Al-Kuwaiz	Chairman	19 Nov 2007	Licensed brokerage firms	Derayah Financial Corporation Company (Chairman), Saudi Kayan (Member), Bank AlJazira (Chairman).
2	Mr. Mansour S. Al Maiman	Vice Chairman	19 Nov 2007	Ministry of Finance	SAR Company (Chairman), Tadawul Real Estate Company (Chairman), NCB (Chairman), NCB Capital (Chairman), Sanabil Company (Member), Ma'aden Company (Member).
3	Dr. Sami M. Baroum	member	25 Jan 2011	Listed companies	Arabian Cement Company (member).
4	Mr. Abdullah A. Al-Hamoudi *	member	19 Nov 2007	Ministry of Commerce and Industry	SABIC (Member).
5	Dr. Abdulrahman A. Al-Hamidy	member	19 Nov 2007	Saudi Arabian Monetary Agency	SABIC (Member).
6	Mr. Ahmed A. Al-Khateeb	member	19 Nov 2007	Licensed brokerage firms	Jadwa Investment (Member), Saudi Research and Marketing (Member), Aramco Company (Member), Abdulmohsen Alhokair group (member).
7	Mr. Bisher M. Bakheet	member	25 Jan 2011	Licensed brokerage firms	Bakheet Investment Group (Chairman).
8	Mr. Abdulrahman Y. Al-Yahya	member	19 Nov 2007	Licensed brokerage firms	SALIC Company (Member), Osool Capital Company (Chairman).
9	Eng. Saud M. Al-Daweesh *	member	19 Nov 2007	Listed companies	NA
10	Dr. Fahad A. Abuhimed **	member	19 May 2013	Ministry of Commerce and Industry	Baitek Real Estate Company (member).
11	Mr. Khalid I. Alrabiah **	member	19 May 2013	Listed companies	NA

\* Ended their membership in the Board of Directors, dated May 19, 2013.

\*\* Have been appointed members of the Council at its third session and that on May 19, 2013.

NOTE: The re-formation of the Board of Directors in accordance with the decision of Council of Ministers No.: (94) and the date of 12 Rabi' Awal 1435H, corresponding to January 13, 2014, They are:

Mr. Khalid I. Alrabiah (Chairman)  
Mr. Abdulrahman M. Al Mofadhi (Vice Chairman)  
Mr. Abdulaziz A. Al Helaissi (Member)  
Dr. Fahad A. Abuhimed (Member)  
Mr. Abdulrahman Y. Al-Yahya (Member)

Mr. Ahmed A. Al-Khateeb (Member)  
Mr. Ali A. Al Gwaiz (Member)  
Dr. Sami M. Baroum (Member)  
Mr. Yasir O. Al Rumayyan (Member)



A/2. Board meetings attendance

Name	1st meeting 24-2-2013	2nd meeting 30-5-2013	3rd meeting 24-7-2013	4th meeting 22-10-2013	5th meeting 11-12-2013
Mr. Taha A. Al-Kuwaiz	√	√	√	√	√
Mr. Mansour S. Al Maiman	√	√	√	√	√
Dr. Abdulrahman A. Al-Hamidy	√	√	√	√	√
Mr. Ahmed A. Al-Khateeb	√	√	√	√	√
Mr. Abdulrahman Y. Al-Yahya	√	√	√	√	√
Mr. Bisher M. Bakheet	√	√	√	√	√
Dr. Sami M. Baroum	√	√	√	√	√
Mr. Khalid I. Alrabiah	not appointed yet	√	√	√	√
Dr. Fahad A. Abuhimed	not appointed yet	√	√	√	√
Eng. Saud M. Al-Daweesh	X	membership ended	**	**	**
Mr. Abdullah A. Al-Hamoudi	√	membership ended	**	**	**

A/3. Board members' compensation

Name	committee meetings compensation	membership annual compensation	2012 profit Bonus	Total
Mr. Taha A. Al-Kuwaiz	21,000	200,000	88,000	309,000
Mr. Mansour S. Al Maiman	27,000	200,000	88,000	315,000
Dr. Abdulrahman A. Al-Hamidy	27,000	200,000	88,000	315,000
Mr. Ahmed A. Al-Khateeb	24,000	200,000	88,000	312,000
Mr. Abdulrahman Y. Al-Yahya	30,000	200,000	88,000	318,000
Mr. Bisher M. Bakheet	27,000	200,000	88,000	315,000
Dr. Sami M. Baroum	18,000	200,000	88,000	306,000
Mr. Khalid I. Alrabiah	15,000	100,000	–	115,000
Dr. Fahad A. Abuhimed	6,000	100,000	–	106,000
Eng. Saud M. Al-Daweesh	3,000	100,000	88,000	191,000
Abdulrahman A. Al-Hamoudi	3,000	100,000	88,000	191,000
<b>Total</b>	<b>201,000</b>	<b>1,800,000</b>	<b>792,000</b>	<b>2,793,000</b>

#### A/4. Senior executives' compensation

Compensation type	Total amount
Salaries	6,248,919
Annual bonus and other compensations	1,829,176
<b>Total</b>	<b>8,078,095</b>

\* Represents compensations of the top five senior executive including the Chief Executive Officer and the Director General of Finance and Support Services.

#### B. Board Committees

The Company has five Board subsidiary committees that comprise Directors and independent members with related skills and experience. Each committee has its terms of reference, which sets its powers and operational framework:

##### B/1. Executive Committee

The executive committee periodically reviews the Company's business strategies, operation plans, and performance. The committee has five members:

Name	1st meeting 13-1-2013	2nd meeting 18-2-2013	3rd meeting 9-7-2013	4th meeting 9-9-2013	5th meeting 17-11-2013
Mr. Taha A. Al-Kuwaiz	√	√	√	√	√
Mr. Mansour S. Al Maiman	√	√	√	√	√
Dr. Sami M. Baroum	√	√	√	√	√
Mr. Abdulrahman Y. Al-Yahya	√	√	√	√	√
Mr. Khalid I. Alrabiah	not appointed yet	not appointed yet	√	√	√
Mr. Abdullah A. Al-Hamoudi	√	X	membership ended	**	**

#### B/2. Audit Committee

The Audit Committee reviews the financial and operational policies and procedures of the Company, as well as, the internal audit reports and observations. It also assesses the efficiency and effectiveness efficacy of control activities, and reviews and discusses the annual and quarterly statements. The committee has four members as follows:

Name	1st meeting 10-2-2013	2nd meeting 26-5-2013	3rd meeting 25-7-2013	4th meeting 1-12-2013
Dr. Abdulrahman A. Al-Hamid	√	√	√	√
Mr. Ahmed A. Al-Khateeb	√	√	√	√
Sulaiman A. Alsakran - independent member	√	√	√	√
Abdulrahman I. Alhumaid - independent member	√	√	X	√

#### B/3. Risk Management Committee

The Risk Management Committee reviews risk management policies and strategies and their development. It also seeks to cope with the rapid developments and increased challenges that may arise in respect of risk management, and periodically reports to the Board. The committee has five members:

Name	1st meeting 10-3-2013	2nd meeting 3-6-2013	3rd meeting 14-7-2013	4th meeting 3-11-2013	5th meeting 10-12-2013
Mr. Ahmed A. Al-Khateeb	√	√	√	√	√
Eng. Saud M. Al-Daweesh	√	membership ended	**	**	**
Mr. Bisher M. Bakheet	√	√	√	√	√
Dr. Fahad A. Abuhimed	not appointed yet	not appointed yet	√	√	√
Ibraheem A. Alqadi - independent member	√	√	√	√	√

#### B/4. Investment Committee

The Investment Committee reviews investment policies, and studies investment opportunities and their compliance with the Company's strategy. It also follows up and assesses present and future investments by the Company and submits its recommendations to the Board of Directors. The Committee has four members:

Name	1st meeting 10-1-2013	2nd meeting 16-4-2013	3rd meeting 23-7-2013	4th meeting 10-9-2013	5th meeting 1-12-2013
Dr. Abdulrahman A. Al-Hamid	√	√	√	√	√
Mr. Mansour S. Al Maiman	√	√	√	√	X
Mr. Abdulrahman Y. Al-Yahya	√	√	√	√	√
Mr. Bisher M. Bakheet	√	√	√	√	√

#### B/5. Remuneration and Nomination Committee

The Remuneration and Nomination Committee reviews the efficiency and performance of the Board committees and executive management. It also reviews annual incentives and awards for Company staff, and submits its recommendations to the Board of Directors. The Committee has three members:

Name	1st meeting 17-7-2013	2nd meeting 11-12-2013
Mr. Taha A. Al-Kuwaiz	√	√
Dr. Sami M. Baroum	√	√
Mr. Khalid I. Alrabiah	√	√

#### C. Compliance with the Corporate Governance Regulations issued by CMA (as per form No. 8) for 2013:

(Tadawul) is a Saudi closed joint-stock company, fully owned by the Public Investment Fund. In view of its nature and Articles of Association, some of the Governance Articles do not apply:

No.	Article number in accordance with Corporate Governance Regulations	Total Numbers of Paragraph	Articles fully implemented	Articles partially implemented	Articles not implemented	No. of articles that are not applicable	Reasons for Non or Partial implemented
1	Article 3 and Paragraph (a) of Article 4: General Rights of Shareholders and Facilitation of Shareholders' Exercise of Rights and Access to Information	6	6				
2	Paragraph (b) of Article 4: Facilitation of Shareholders' Exercise of Rights and Access to Information	3	3				
3	Article 5: Shareholders Rights Related to the General Assembly	10	9			1	
4	Article 6: Voting Rights	3	2			1	
5	Article 7: Dividends Rights of Shareholders	2	2				
6	Article 8: Policies and Procedures Related to Disclosure	1	1				
7	Article 9: Disclosure in the Board of Directors' Report	8	8				
8	Article 10: Main Functions of the Board	6	5			1	
9	Article 11: Responsibilities of the Board	9	8			1	
10	Article 12: Formation of the Board	11	11				
11	Article 13: Committees of the Board	3	3				
12	Article 14: Audit Committee	3	3				
13	Article 15: Nomination and Remuneration Committee	3	3				
14	Article 16: Meetings of the Board	4	4				
15	Article 17: Remuneration and Indemnification of Board Members	1	1				
16	Article 18: Conflict of Interest within the Board	3	3				
17	Article 43: Disclosure in Board of Directors Report (The Listing Rules)	24	24				
	<b>Total</b>	<b>100</b>	<b>96</b>			<b>4</b>	

#### D. Dividend distribution policy

The Company's policy for distribution of annual net income is based on the provisions of its Articles of Association and the availability of liquidity to meet liabilities and strategic projects. Annual net profits (after deduction of all overheads and expenses) will be:

- 10% of net profits allocated to the statutory reserve. The Assembly General Meeting may suspend this allocation once this reserve equals half the paid-up capital.
- The Assembly General Meeting - at the Board's recommendation - may allocate a percentage of the net profits for other special reserves.
- Of the remainder, a first payment equal to 5% of paid-up capital will be allocated to shareholders.
- After these allocations, a percentage of the remainder (to be determined by the General Assembly, provided such percentage does not exceed 0.5% of net profits) will be allocated as bonus for the Board of Directors, and the remainder will be distributed to shareholders as an additional profit-share or transferred to retained earnings.

The recommended dividend distributions for 2013 were:

Article	SAR thousands
Net income for the year of 2013	152,429
Reserve(10%) of the net income as statutory reserve	(15,243)
Dividend (5% of the capital)	(60,000)
Proposed Members Bonus	(382,5)
Dividend (additional)	(30,000)
The remaining carry forward to the retained earnings	46,803

#### E. Related party transactions

Tadawul conducted transactions with related parties in the Public Investment Fund (shareholder), as well as with other companies where some Tadawul Board members hold directorships. The terms of such transactions were conducted at arm's length with normal commercial debtors and creditors.

Major transactions and related amounts up to 31 December, 2013 were:

Article	SAR millions	
	2013	2012
Trading Fees	175	256
Other Services	30	32
Data lines	5	5
Electricity	1	1
Compensation and allowance of the Board of Directors	3	3
Additional Income of indirect costs	-	9
Investments in managed portfolios un-restricted	105	75
The outstanding balance of the Tadawul Real Estate Company	0,54	0,52

#### F. Loans

The Company did not obtain any loans.

#### G. Acknowledgments

The Company acknowledges that:

- The 2013 financial statements were properly prepared and maintained.
- The internal control system was prepared on a sound and proper basis and is reviewed annually to ensure its effectiveness.
- There are no substantive doubts concerning the Company's ability to continue operating.
- There was no deviation from the Accounting Standards issued by the Saudi Organization for Certified Public Accountants. There were no material comments by the auditors on the Company's 2013 financial statements.

#### H. Regulatory payments to Government departments

Article	SAR millions	Description
CMA share of revenue operating	346	What is paid or charged to the period in accordance with the decision issued by the Capital Market Authority with respect to the financial charges, which represents (50%) of operating revenues
Dividends	90	What is paid or charged to the credit period as dividends to the owner (Public Investment Fund)
Social insurance contributions	13	What is paid or charged to the period, according to the provisions of the social security system in Saudi Arabia
Withholding tax	1	What is paid or charged to the period, according to the provisions of the Department of Zakat and Income.
Total	450	

#### I. Regulatory and supervisory penalties

No penalties were imposed on the Company.

#### J. Annual audit of the effectiveness of internal control procedures

The Internal Audit Division submits periodic reports to the Audit Committee on operational, administrative, and financial reviews that are carried out to ensure the effectiveness of internal control systems in protecting the Company's assets, assessing business risks, and measuring the efficiency of performance. These reviews did not reflect any major weakness in the internal control system. The system is also reviewed by the Company's external auditors as part of checking the annual financial statements, minutes of Audit Committee meetings, and Internal Audit Division reports.

**Board recommendations to the General Assembly:**

1. To approve the Board statement on the operations of Tadawul for the fiscal year ended 31 December, 2013.
2. To approve the financial statements and final accounts of Tadawul for the fiscal year ended on 31 December, 2013 and the auditors' report for the same period.
3. To discharge the liability of the Directors of the Board of the Saudi Stock Exchange Company for the fiscal year ended 31 December, 2013.
4. To approve the Board recommendation to distribute dividends to shareholders for the fiscal year ended 31 December 2013 at SAR 0.75 (75 halalas) per share and 7.5% of the capital.
5. To approve the payment of SAR 382,500 as bonus for the Board of Directors for the fiscal year ended 31 December, 2013.
6. To approve the Board recommendation for appointment of the Company's auditors for 2014 from the list of nominated auditors.

## Conclusion

The Board of Directors expresses its appreciation to the Custodian of the Two Holy Mosques, the Crown Prince, and our prudent Government for the support extended to the Company in its development and optimization of performance and services.

Thanks are also due to the Company's clients and related parties, as well as to the regulatory and supervisory authorities, for the role they have played in the Company's success.

Finally, the Board expresses its gratitude to all staff for their loyalty and devotion in performing their duties. We look forward to providing excellent services that meet the needs of all parties dealing with the Saudi Stock Exchange.







## Saudi Stock Exchange

Auditors' Report and Financial Statements  
For the year ended December 31, 2013

## Auditors' Report

To the Shareholders  
Saudi Stock Exchange Company (Tadawul)  
(Saudi closed Joint Stock Company)  
Riyadh, Kingdom of Saudi Arabia

### Scope of Audit

We have audited the accompanying balance sheet of Saudi Stock Exchange Company (Tadawul) - a Saudi closed joint stock company (the "Company") as at December 31, 2013, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended, and notes 1 to 31 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations which are required. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the 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 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 principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

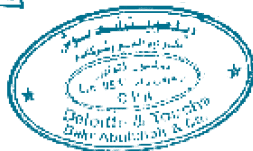
### Unqualified Opinion

In our opinion, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with the 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 financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdoum  
License No. 358  
25 May, 2014



Saudi Stock Exchange Company (Tadawul)  
(A Saudi Closed Joint Stock Company)

### Balance Sheet

As at December 31, 2013 (Saudi Riyals)

	Notes	December 31, 2013	December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	110,940,239	967,053,978
Held to maturity investments	4 (a)	1,519,052,728	1,068,596,577
Accounts receivable, net	5	6,281,735	10,133,976
Prepaid expenses and other assets	8	24,013,918	21,765,943
Due from a related party	6	539,982	516,597
<b>Total current assets</b>		<b>1,660,828,602</b>	<b>2,068,067,071</b>
<b>Non-current assets</b>			
Available for sale investments	4 (b)	341,616,672	210,517,041
Held to maturity investments	4 (c)	1,200,000,000	752,000,000
Investment in an associate	9	83,950,218	84,000,000
Projects under progress	10	6,040,019	368,863
Property and equipment, net	11	34,679,599	47,070,927
<b>Total non-current assets</b>		<b>1,666,286,508</b>	<b>1,093,956,831</b>
<b>TOTAL ASSETS</b>		<b>3,327,115,110</b>	<b>3,162,023,902</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable	13	29,740,832	20,233,123
Balance due to Capital Market Authority	14	7,635,931	8,374,787
Accrued expenses and other liabilities	15	31,786,556	32,831,412
<b>Total current liabilities</b>		<b>69,163,319</b>	<b>61,439,322</b>
<b>Non-current liabilities</b>			
Provision for end-of-service benefits	16	49,279,664	49,703,067
Provision for specific obligations	17	21,914,680	-
<b>Total non-current liabilities</b>		<b>71,194,344</b>	<b>49,703,067</b>
<b>TOTAL LIABILITIES</b>		<b>140,357,663</b>	<b>111,142,389</b>
<b>Shareholders' equity</b>			
Share capital	1	1,200,000,000	1,200,000,000
Statutory reserve	18	246,551,914	231,308,987
General reserve	19	1,114,180,214	1,114,180,214
Change in fair value of available for sale investments	4 (b)	83,963,706	10,517,041
Retained earnings		542,061,613	494,875,271
<b>Total shareholders' equity</b>		<b>3,186,757,447</b>	<b>3,050,881,513</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>3,327,115,110</b>	<b>3,162,023,902</b>

The accompanying notes form an integral part of these financial statements

Saudi Stock Exchange Company (Tadawul)  
(A Saudi Closed Joint Stock Company)

**Statement of Income**

For the year ended December 31, 2013 (Saudi Riyals)

	Notes	For the year ended December 31, 2013	For the year ended December 31, 2012
Operating revenues	20	345,905,156	440,283,033
Operating costs	21	(154,722,043)	(160,366,686)
Gross income		191,183,113	279,916,347
General and administrative expenses	22	(105,276,447)	(95,667,906)
Income from main operations		85,906,666	184,248,441
Other revenues, net	23	66,572,385	59,013,089
Share in net loss of an associate	9	(49,782)	–
<b>NET INCOME FOR THE YEAR</b>		<b>152,429,269</b>	<b>243,261,530</b>
Earnings per share from:	25		
Income from main operations		0.72	1.54
Net income for the year		1.27	2.03

The accompanying notes form an integral part of these financial statements

Saudi Stock Exchange Company (Tadawul)  
(A Saudi Closed Joint Stock Company)

### Statement of Cash Flows

For the year ended December 31, 2013 (Saudi Riyals)

	Notes	For the year ended December 31, 2013	For the year ended December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year		152,429,269	243,261,530
<b>Adjustments for:</b>			
Depreciation and amortization		22,387,354	32,172,180
Reversal of provision for doubtful debts		(266,147)	(70,827)
Losses from disposal/sale of property and equipment		12,978	1,070,663
Additional indirect costs income	10	–	(9,014,903)
Provision for end-of-service benefits		10,876,685	10,582,116
Unrealized losses on commission rate swaps held for trading		–	1,408,004
Accretion of discount on Sukuk		(2,280,526)	(1,029,177)
Share in net loss of an associate		49,782	–
Dividends from investment portfolios	4 (b)	(7,652,966)	–
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable		4,118,388	2,897,405
Prepaid expenses and other assets		(2,247,975)	(818,598)
Due from a related party		(23,385)	3,744,868
Accounts payable		9,507,709	2,402,623
Balance due to Capital Market Authority		(738,856)	(1,947,219)
Accrued expenses and other liabilities		(1,044,856)	2,813,525
End-of-service benefits paid		(11,300,088)	(4,004,387)
Provision for specific obligations		21,914,680	–
<b>Net cash from operating activities</b>		<b>195,742,046</b>	<b>283,467,803</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Matured held to maturity investments		2,140,000,000	7,653,472,020
Purchase of held to maturity investments		(3,036,175,625)	(6,847,039,420)
Purchase of available for sale investments		(50,000,000)	(150,000,000)
Recovery of amounts paid in advance against land		–	77,420,537
Purchase of property, equipment and projects under progress held for sale		(15,723,810)	(13,020,736)
Proceeds from sale of property and equipment		43,650	–
<b>Net cash (used in)/from investing activities</b>		<b>(961,855,785)</b>	<b>720,832,401</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid		(90,000,000)	(60,000,000)
<b>Net cash used in financing activities</b>		<b>(90,000,000)</b>	<b>(60,000,000)</b>
<b>Net change in cash and cash equivalents during the year</b>		<b>(856,113,739)</b>	<b>944,300,204</b>
Cash and cash equivalents, beginning of the year		967,053,978	22,753,774
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>		<b>110,940,239</b>	<b>967,053,978</b>
<b>Additional non-cash information</b>			
Due from a related party	10	–	(4,826,483)
Transferred to investment in an associated	9 & 10	–	(84,000,000)
Transferred from projects under progress	10	–	88,826,483
Change in fair value of available for sale investments	4 (b)	73,446,665	8,155,316

The accompanying notes form an integral part of these financial statements

Saudi Stock Exchange Company (Tadawul)  
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**Statement of Changes in Shareholders' Equity**  
For the year ended December 31, 2013 (Saudi Riyals)

	Notes	Share capital	Statutory reserve	General reserve	Change in fair value of available for sale investments	Retained earnings	Total
Balance at January 1, 2012		1,200,000,000	206,982,834	1,114,180,214	2,361,725	335,939,894	2,859,464,667
Net income for the year		-	-	-	-	243,261,530	243,261,530
Change in fair value of available for sale investments	4 (b)	-	-	-	8,155,316	-	8,155,316
Transfer to statutory reserve	18	-	24,326,153	-	-	(24,326,153)	-
Dividends paid	26	-	-	-	-	(60,000,000)	(60,000,000)
Balance at December 31, 2012		1,200,000,000	231,308,987	1,114,180,214	10,517,041	494,875,271	3,050,881,513
Net income for the year		-	-	-	-	152,429,269	152,429,269
Change in fair value of available for sale investments	4 (b)	-	-	-	73,446,665	-	73,446,665
Transfer to statutory reserve	18	-	15,242,927	-	-	(15,242,927)	-
Dividends paid	26	-	-	-	-	(90,000,000)	(90,000,000)
Balance at December 31, 2013		1,200,000,000	246,551,914	1,114,180,214	83,963,706	542,061,613	3,186,757,447

The accompanying notes form an integral part of these financial statements

## 1. GENERAL

The Company's main activity is to provide, create and manage the mechanisms of trading of securities and carrying out reconciliation works, clearing, filing, registering ownership and publishing of securities related information and engage in any related other activity in accordance with the capital market regulations which achieves its objectives contained therein.

The Royal Decree No. M/15 dated 01/03/1428 H corresponding to 20/03/2007 G was issued approving the license to establish the Saudi Stock Exchange Company (Tadawul) as a Saudi joint stock company with a share capital amounting to SAR 1,200 million divided into 120 million shares of equal value with a nominal value amounting to SAR 10 each fully subscribed by the Public Investment Fund.

The Minister of Commerce and Industry resolution no. 320/k dated 1/12/1428 H corresponding to 11/12/2007 G was issued approving the establishment of the Saudi Stock Exchange Company (Tadawul) as a Saudi closed joint stock company. The Company has been registered as a closed joint stock company in Riyadh under commercial registration number 1010241733 dated 2/12/1428 H corresponding to 12/12/2007 G. All rights, assets, liabilities, obligations and records were transferred to Tadawul (the system which existed before the establishment of the Company) as at 10/12/2007 G to Saudi Stock Exchange Company (Tadawul).

Saudi Stock Exchange Company (Tadawul)  
(A Saudi Closed Joint Stock Company)

## Notes to the Financial Statements

For the year ended December 31, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Accounting Standards Generally Accepted in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### Basis of presentation

The financial statements are prepared under the historical cost convention, except for available for sale investments which are measured at fair value, and the investment in an associate which is measured using the equity basis method.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results might differ from those estimates.

#### Cash and cash equivalents

Cash and cash equivalents include bank current accounts and highly liquid short-term Murabahas which mature within 3 months or less from date of acquisition.

#### Accounts receivables

Accounts receivable balance is stated at net realizable value which represents services billed not collected yet after providing for the necessary amounts for doubtful accounts receivables, (if any).

#### Available for sale investments

Available for sale investments are stated at fair value, and the changes in fair value are included in shareholders' equity. Where the fair value is not readily determinable, such financial instruments are stated at cost less allowance for impairment in value.

#### Held to maturity investments

Held to maturity investments are recorded at amortized cost basis, adjusted for the premium or discount, if any. Losses arising from impairment in fair value from its cost are included in the statement of income in the year where the impairment takes place and it is included in current assets if it is with maturity dates of more than 3 months and less than 12 months from the balance sheet date and in non-current assets if it matures after 12 months from the balance sheet date. Revenues of these investments are recorded periodically in the statement of income according to its maturities dates.

#### Investment in an associate

Investment in an associate in which the Company has equity interest more than 20% but less than 50% and exercises significant influence. The investment is recorded using the equity method, under which the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the investee party.

#### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, impairment loss is recognized in the statement of income. For assets carried at cost, impairment is determined as the difference between cost and the present value of future cash flows discounted at the current market rate of return for similar financial assets.



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Notes to the Financial Statements (Continued)  
For the year ended December 31, 2013

#### Non-Current assets held for sale

Non-current assets are classified as held for sale in case of recovering their book value primarily through a selling transaction and not through continuous usage. This practice is applicable only when the possibility of selling the asset is highly probable, and it is compulsory to have the assets for immediate sale in their current condition. The appropriate level of management must be committed to a plan to sell the asset within one year from the date of classification.

The non-current assets classified as held for sale in measured at the lower of its carrying amount and fair value less costs to sell.

#### Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the applicable assets using the straight-line method. The assets sold or disposed off and their related accumulated depreciation are removed from the accounts at the time of selling or disposal and gains or losses arising there from are recorded in the statement of income in the year where the disposal occurs.

The estimated useful lives of the principal classes of assets are as follows:

	Years
Computer hardware and software.....	4
Decorations, improvements, furniture and fixtures.....	10
Electrical supplies, equipments and office tools.....	6
Vehicles.....	4

#### Impairment of long lived assets

Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

#### Intangible assets

Expenses with expected future benefits are capitalized as intangible assets and amortized on a straight-line basis over 5 years which is represented in licenses and computer programs.

#### Provisions for obligations

A provision is made when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### Provision for end-of-service benefits

Employees' end-of-service benefits is calculated based on a one month salary for the first five years, and one and a half months salary starting from the sixth year of the employees' service at Tadawul.

#### Revenue recognition

Revenues are recognized upon delivery of services. Part of total commissions and services provided by the Company are deducted to the favor of Capital Market Authority. The annual services fees collected at the beginning of the contract are recorded as unearned revenues (deferred) in current liabilities and stated in statement of income over its maturity period.

The commission income is recognized on accrual basis.

#### General and administrative expenses

General and administrative expenses include costs indirectly related to operating costs as required under generally accepted accounting principles. Allocations between general and administrative expenses and operating costs, when required, are made on a constant basis.

#### Zakat

The Company does not calculate zakat provision in the financial statements due to the fact that it is fully owned by the Public Investment Fund (governmental agency). Based on the letter received from the DZIT number 2999/12 dated 5/6/1429 H which states that the Company will be subject to zakat after the initial public offering and the participation of the private sector in its share capital, according to the approval of the Minister of Finance on DZIT's study regarding this matter dated 24/5/1429 H.

#### Foreign currency transactions

Foreign currencies transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Saudi Riyals at the exchange rates prevailing at the balance sheet date according to the rates prevailing at the end of the year. Gains and losses from settlements and translation of foreign currencies are included in the statement of income.

#### Commission rate swaps held for trading

Commission rate swaps are measured at fair value. Fair value is recorded as an asset when the fair value is positive and as a liability when the fair value is negative. The fair value is determined as per the market quoted prices, cash flow discount and pricing methods, as appropriate.

Changes in fair value of commission rate swaps held for trading are recognized directly in the statement of income, and are included in the other revenues.

Saudi Stock Exchange Company (Tadawul)  
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Notes to the Financial Statements (Continued)  
For the year ended December 31, 2013

### 3. CASH AND CASH EQUIVALENTS

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Bank current accounts	35,940,239	12,053,978
Short-term Murabaha deposits	75,000,000	955,000,000
Balance at the end of the year	110,940,239	967,053,978

Bank current accounts and short-term Murabaha deposits are placed with counter parties who have good credit ratings.

Short-term murabaha contracts are made for varying periods between one day and three months depending on the cash requirements of the Company, and earn an average special commission rate of 1.21% annually (December 31, 2012: 2.05% annually).

### 4. INVESTMENTS

The investments portfolio is as follows:

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Held to maturity investments - current portion (a)	1,519,052,728	1,068,596,577
Available for sale investments (b)	341,616,672	210,517,041
Held to maturity investments - non-current portion (c)	1,200,000,000	752,000,000
Balance at the end of the year	3,060,669,400	2,031,113,618

(a) Held to maturity investments- current:

Description	Saudi Riyals			
	December 31, 2013		December 31, 2012	
	Maturity	Amount	Maturity	Amount
Murabaha	–	–	May 28, 2013	485,000,000
Murabaha	–	–	June 11, 2013	285,000,000
Murabaha	–	–	July 1, 2013	125,000,000
Murabaha	March 26, 2014	50,000,000	–	–
Murabaha	April 23, 2014	50,000,000	–	–
Murabaha	May 28, 2014	310,000,000	–	–
Murabaha	May 28, 2014	340,000,000	–	–
Murabaha	March 26, 2014	195,000,000	–	–
Murabaha	March 26, 2014	200,000,000	–	–
Murabaha	April 23, 2014	200,000,000	–	–
Dar Al Arkan - Sukuk	April 15, 2014	100,000,000	–	–
Saudi Bin Laden Group (Forth issuance)	July 9, 2014	74,052,728	–	–
Saudi Hollandi Bank - Sukuk (First issuance)	–	–	December 29, 2013	75,000,000
Saudi Bin Laden Group (Third issuance)	–	–	July 30, 2013	98,596,577
Balance at the end of the year		1,519,052,728		1,068,596,577

Short-term Murabaha deposits are placed with counterparties with good credit ratings and are made for varying periods between three months and one year depending on the cash requirements of the Company, and earn an average special commission rate of 1.64% annually (December 31, 2012: 1.97% annually).

Sukuk and bonds periods vary between three to five years and mature within one year as of the balance sheet date. These investments earn an average special commission rate of 3.90% annually (December 31, 2012: 2.71% annually).

The Company purchased Saudi Bin Laden Group Sukuk with a face value amounted to SAR 75,000,000 maturing on July 9, 2014 at a discount amounted to SAR 1,824,375 (December 31, 2012: Nil).

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Notes to the Financial Statements (Continued)  
For the year ended December 31, 2013

(b) Available for sale investments:

The cost and fair value of available for sale investments as at December 31 are as follows:

Description	Saudi Riyals			
	Cost	Change in fair value	Fair value 2013	Fair value 2012
Investment in quoted local funds	50,000,000	29,361,613	79,361,613	57,916,519
Investments in discretionary portfolios	157,652,966	54,602,093	212,255,059	152,600,522
Investment in real estate funds	50,000,000	–	50,000,000	–
Balance at the end of the year	257,652,966	83,963,706	341,616,672	210,517,041

The change in fair value of available for sale investments amounting to SAR 83,963,706 is included in Shareholders' equity as at December 31, 2013 (December 31, 2012: SAR 10,517,041). During the year, the company received SAR 7,652,966 as dividends from investments in discretionary portfolios. The company reinvested those dividends through investment in discretionary portfolios.

(c) Held to maturity investments - non-current:

Description	Saudi Riyals			
	December 31, 2013		December 31, 2012	
	Maturity	Amount	Maturity	Amount
DAR Al-Arkan - Sukuk	–	–	April 15, 2014	100,000,000
Saudi Bin Laden Group (second issuance)	October 7, 2015	73,000,000	–	–
SABB - Sukuk	March 28, 2017	27,000,000	March 28, 2017	27,000,000
Al Marai Co. - Sukuk (second issuance)	March 31, 2018	25,000,000	–	–
Al Marai Co. - Sukuk (third issuance)	September 30, 2018	100,000,000	–	–
Al Marai Co. - Sukuk (First issuance)	March 7, 2019	75,000,000	March 7, 2019	75,000,000
Tasnee - Sukuk	May 21, 2019	100,000,000	May 21, 2019	100,000,000
Saudi Hollandi Bank (second issuance)	November 26, 2019	100,000,000	November 26, 2019	100,000,000
Saudi Fransi Bank - Sukuk	December 18, 2019	100,000,000	December 18, 2019	100,000,000
Savola Co - Sukuk	January 22, 2020	75,000,000	–	–
SABB - Sukuk (second issuance)	December 17, 2020	100,000,000	–	–
General Authority for Civil Aviation - Sukuk	January 18, 2022	100,000,000	January 18, 2022	100,000,000
Saudi Hollandi Bank - Sukuk (Third issuance)	December 12, 2023	150,000,000	–	–
SEC - Sukuk (second issuance)	July 6, 2029	150,000,000	July 6, 2029	150,000,000
Power and Water Utilities Co- Sukuk	May 28, 2033	25,000,000	–	–
Balance at the end of the year		1,200,000,000		752,000,000

Sukuk and bonds mature after more than twelve months from the date of the balance sheet and earns an average special commission rate of 2.36 % annually (December 31, 2012: 2.62% annually).

## 5. ACCOUNTS RECEIVABLE, NET

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Accounts receivable	7,197,178	11,315,566
Less: Provision for doubtful debts	(915,443)	(1,181,590)
Balance at the end of the year	6,281,735	10,133,976

## 6. TRANSACTIONS WITH RELATED PARTIES

The Company transacted with related parties to the Public Investment Fund (the shareholder), the associate and Board of Directors' members. The terms of those transactions are similar to ordinary trade receivables and payables. The significant transactions and the related amounts for the year ended December 31 are as follows:

Description	Saudi Riyals	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Trading commission	175,264,113	255,764,566
Market information services	14,114,528	17,194,215
Basic registration services	11,313,425	11,300,000
Investors accounts services	2,546,340	1,831,650
Other services	1,772,322	1,716,301
Data network and communications	5,047,924	5,127,448
Electricity	1,345,957	1,496,234
Board of Directoris remunerations and allowances	3,426,000	2,652,000
Additional indirect cost income	–	9,014,903
Investments in discretionary portfolios	105,227,528	75,411,670
Balance due from Tadawul Real Estate Company	539,982	516,597

Accounts receivable from related parties as at December 31, 2013 included in accounts receivable balance, amounted to SAR 1,352,351 (December 31, 2012: SAR 3,303,591).

Accounts payable from related parties as at December 31, 2013 included in accounts payable balance, amounted to SAR 6,393,881 (December 31, 2012: SAR 250,733).

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**Notes to the Financial Statements (Continued)**  
For the year ended December 31, 2013

The balance due from Tadawul Real Estate Company ("Associate") as at December 31, 2013 amounted to SAR 539,982 (December 31, 2012: SAR 516,597).

As at December 31, 2013, the Company had investments in discretionary portfolios amounted to SAR 105,227,528 (December 31, 2012: SAR 75,411,670) in each of Jadwa Investment amounting to SAR 54,475,062 (December 31, 2012: SAR 37,423,645) and Bakheet Group for Investment amounting to SAR 50,752,466 (December 31, 2012: SAR 37,988,025).

As at December 31, 2013, the Company had investments in a quoted local fund with NCB Capital amounted to SAR 15,089,505 (December 31, 2012: SAR 11,410,181).

## 7. COMMISSION RATE SWAPS HELD FOR TRADING

The agreement for commission rate swaps with a notional amount of SAR 150 million matured on July 15, 2012. As per the terms of the agreement, the Company pays a varying rate that equals to three months Saudi Inter Bank Rate on the notional amount and receives a fixed rate amounting to 2.05%.

The positive fair value of this agreement which does not qualify for hedge accounting in accordance with generally accepted accounting standards, amounted to Nil as at December 31, 2013 (December 31, 2012: SAR Nil). During the year ended December 31, 2013, income from commission rate swaps agreement which is included in other revenues, amounted to Nil (December 31, 2012: SAR 999,546).

## 8. PREPAID EXPENSES AND OTHER ASSETS

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Accrued investments income	8,879,663	7,214,346
Accrued operational revenues	5,094,764	5,235,571
Prepaid insurance expenses	4,799,483	3,431,299
Prepaid rent expenses	3,359,392	3,401,661
Contracts for maintenance work	780,130	927,992
Due from employees	298,788	319,573
Other debit balances	801,698	1,235,501
<b>Balance at the end of the year</b>	<b>24,013,918</b>	<b>21,765,943</b>

## 9. INVESTMENT IN AN ASSOCIATE

The "Tadawul Real Estate" company (a Limited Liability Company) is the owner of the building in King Abdullah Financial District where all rights and obligations relating to Tadawul head quarter project and all the engineering team related to that project will be transferred to the company, knowing that Saudi Stock Exchange Company (Tadawul), based on the understanding memorandum, owns 20% equivalent to SAR 84 Million divided into 84 thousand shares where the value of each share is equivalent to SAR 1,000 in this Company.

On 14/4/1432 H (corresponding to March 19, 2011), the articles of association of Tadawul Real Estate company (a sole proprietorship), a limited liability company has been formalized through an assigned public notary at the Ministry of Commerce and Industry, Document Number (71), Issue (2133), Folder Number (328) for year 1432H which was not registered in the commercial registration, with a share capital of SAR 1,045,000 fully owned by the Saudi Stock Exchange Company (Tadawul). The Saudi Stock Exchange Company (Tadawul) has signed an understanding memorandum with each of The Public Investment Fund and The Public Pension Agency on Thul Hijja 2, 1432H (corresponding to October 29, 2011) to enter as shareholders in "Tadawul Real Estate" (Limited liability company) through assigning 40% of the Saudi Stock Exchange Company (Tadawul) shares representing 418 shares amounting to SAR 418,000 to The Public Investment Fund and assigning 40% of its shares representing 418 shares amounting to SAR 418,000 to the Public Pension Agency including all the rights and obligations of ownership. The parties have received all their rights among each other's and the agreement represents a complete clearance among themselves, where all parties agreed on increasing the capital from SAR 1,045,000 to SAR 420,000,000 with an increase of SAR 418,955,000.

On Safar 23, 1433 H (corresponding to January 17, 2012), "Tadawul Real Estate" company (Limited Liability Company), has been registered under the commercial registration number 1010325813 with a share capital of SAR 420 million. The investment is recorded at cost as at the balance sheet date.

The movement of investment in an associate is as follows:

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Balance at the beginning of the year	84,000,000	–
Transfer from projects under progress (Note 10)	–	84,000,000
Share in net losses of an associate	(49,782)	–
Balance at the end of the year	83,950,218	84,000,000



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Notes to the Financial Statements (Continued)  
For the year ended December 31, 2013

## 10. PROJECTS UNDER PROGRESS

Description	Saudi Riyals	
	For the year ended December 31, 2013	For the year ended December 31, 2012
Balance, beginning of the year	368,863	157,035,962
Additions	6,835,872	9,579,921
Transfer to property and equipment	(1,164,716)	–
Recovery of amounts paid in advance against a land	–	(77,420,537)
Transfer to an investment in an associate (Note 9)	–	(84,000,000)
Transfer to due from a related party	–	(4,826,483)
Balance, end of the year	6,040,019	368,863

The Board of Directors of Tadawul real estate company (“Associate”) has approved on April 10, 2012 the pre-operating expenses which include an amount of SAR 9,014,903 on the projects under progress balance as indirect additional costs, in addition to the amount of SAR 565,018 which was added to the project. As a result, the investment in Tadawul Real Estate Company was recorded with an amount of SAR 84,000,000 and the remaining amount from the project’s balance amounting to SAR 4,826,483 was considered as a due from Tadawul Real Estate Company.

The Board of Directors of Saudi Stock Exchange Company (“Tadawul”) resolved to settle Tadawul’s share and rights with Tadawul Real Estate in its meeting held on September 24, 2012.

## 11. PROPERTY AND EQUIPMENT, NET

Description	Saudi Riyals							
	Computers and software	Decorations and improvements	Furniture and fixtures	Electrical machines and equipment	Office tools and equipment	Vehicles	Capital projects under progress	Total
<b>Cost</b>								
Balance, beginning of the year	232,443,307	10,186,980	7,798,429	8,568,248	6,150,189	625,450	4,504,722	270,277,325
Additions	4,840,314	–	88,228	2,039,120	160,176	119,000	1,641,100	8,887,938
Transfers from capital projects under progress	4,198,722	–	4,100	16,288	30,732	–	(4,249,842)	–
Transfers from projects under progress (Note 10)	1,164,716	–	–	–	–	–	–	1,164,716
Disposals	(960,161)	–	(94,396)	–	(155,123)	(59,000)	–	(1,268,680)
December 31, 2013	241,686,898	10,186,980	7,796,361	10,623,656	6,185,974	685,450	1,895,980	279,061,299
<b>Accumulated depreciation</b>								
Balance, beginning of the year	203,173,451	5,404,570	3,260,485	6,829,143	3,927,882	610,867	–	223,206,398
Depreciation for the year	15,857,349	1,018,698	2,316,025	1,357,727	1,803,139	34,416	–	22,387,354
Disposals	(935,811)	–	(66,515)	–	(150,726)	(59,000)	–	(1,212,052)
December 31, 2013	218,094,989	6,423,268	5,509,995	8,186,870	5,580,295	586,283	–	244,381,700
<b>Net book value</b>								
December 31, 2013	23,591,909	3,763,712	2,286,366	2,436,786	605,679	99,167	1,895,980	34,679,599
December 31, 2012	29,269,856	4,782,410	4,537,944	1,739,105	2,222,307	14,583	4,504,722	47,070,927

## 12. INTANGIBLE ASSETS, NET

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Net intangible assets, beginning of the year	–	113,072
Amortization charged for the year	–	(113,072)
Net intangible assets, end of the year	–	–

## 13. ACCOUNTS PAYABLE

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Services suppliers	22,024,419	14,927,049
Assets suppliers	7,716,413	5,306,074
Balance, end of the year	29,740,832	20,233,123

## 14. BALANCE DUE TO CAPITAL MARKET AUTHORITY

The balance due to Capital Market Authority as at the balance sheet date represents mainly the remaining balance of Capital Market Authority (CMA) share in Tadawul's financial return (Refer to Note 20).

## 15. ACCRUED EXPENSES AND OTHER LIABILITIES

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Accrued employees benefits	19,190,360	19,091,102
Accrued employees vacation allowance	9,741,703	11,319,429
Unearned revenues	1,427,118	1,254,457
Accrued social insurance	1,029,066	1,054,745
Others	398,309	111,679
Balance, end of the year	31,786,556	32,831,412

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## 16. PROVISION FOR END-OF-SERVICE BENEFITS

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Balance, beginning of the year	49,703,067	43,125,338
Charged to expenses during the year	10,876,685	10,582,116
Paid during the year	(11,300,088)	(4,004,387)
Balance, end of the year	49,279,664	49,703,067

## 17. PROVISION FOR SPECIFIC OBLIGATIONS

On June 3, 2013, an agreement "a settlement and release agreement" was signed with the shareholders of the Saudi Share Registration Company "the shareholders" which stated that the shareholders of the Saudi Share Registration Company shall waive, transfer and assign all their rights in the Company including the shareholders equity rights and Tadawul shall be liable for all existing and future obligations on the Company and/or any of its shareholders in relation to any of the Company's activities from the date of the Company's establishment up until the deregistration of the Company is achieved and completed, including any of the obligations relevant to any of the current and future cases against the Company, complaints, taxes, zakat or any other obligation or liability on the Company or on the Shareholders due to any third party, and that Tadawul shall replace, defend and hold the Shareholders harmless from any claim or complaint that may be brought in the future against the Shareholders collectively or severally in connection with the Company. Accordingly, the shareholders of the Saudi Share Registration Company waived the Company's cash balance amounting to SAR 23,016,492 to tadawul. Certain obligations of the Saudi Share Registration Company was paid and deducted from the received amount and the remaining balance amounted to SAR 21,914,680 as at December 31, 2013 (Note 28).

## 18. STATUTORY RESERVE

In accordance with Regulations for Companies in Saudi Arabia and the Company's bylaws, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

## 19. GENERAL RESERVE

In accordance with the approval of His Excellency the Chairman of the Capital Market Authority in his letter number 524/2007 dated February 13, 2007, the balance of the retained earnings was transferred to the contractual reserve, starting from 2006 for the purpose of financing the construction of Tadawul's headquarter in King Abdullah Financial District and any other future purposes to be decided by Tadawul Board of Directors. During 2008, the Board of Directors of the Company resolved according to decision number 6/8/2008 to transfer the balance of the contractual reserve to the general reserve.

## 20. OPERATING REVENUES

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Trading commission	493,349,982	694,849,248
Market information services	73,089,180	64,954,772
Basic registration services	60,190,032	56,772,178
Investors accounts services	50,660,780	48,934,070
Companies data services	2,074,118	3,481,816
Other services	12,446,220	11,573,982
<b>Total commissions and services provided</b>	<b>691,810,312</b>	<b>880,566,066</b>
Less: Share of Capital Market Authority	(345,905,156)	(440,283,033)
<b>Operating revenues</b>	<b>345,905,156</b>	<b>440,283,033</b>

Based on the instruction issued by the Saudi Arabian Monetary Agency dated Rabi Al Thani 14, 1424 (corresponding to June 15, 2003) and supported by the approval of the President of the Capital Market Authority dated Jumada Al Awwal 25, 1427 (corresponding to June 22, 2006) and the resolution issued by the Council of the Capital Market Authority No. (292/2010/H J) dated Dul Hijjah 3, 1431 (corresponding to November 9, 2010), the Capital Market Authority receives a financial return amounting to 50% of the total commissions and services provided. The Company collects this return and deposits it in the Authority's account based on its instructions. This matter is under review with the related parties.

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For the year ended December 31, 2013

## 21. OPERATING COSTS

Operating costs represent the direct expenses of those departments that directly provide services to the customers of the Saudi Financial Market, which are as follows:

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Salaries and related benefits	71,670,294	73,270,412
Maintenance and operation	35,760,297	32,364,137
Depreciation and amortization	18,845,737	28,252,395
Data network lines	7,358,190	7,677,506
Consultancy	6,108,029	5,225,210
Rent	4,801,410	4,688,214
Training	1,997,840	2,134,863
Travel expenses	1,067,657	619,664
Water and electricity	1,014,296	1,096,181
Security guards	856,892	771,807
SAREE system usage fees	761,000	541,000
Hospitality and cleaning	645,731	326,207
Communication	571,495	527,419
Others	3,263,175	2,871,671
<b>Total</b>	<b>154,722,043</b>	<b>160,366,686</b>

## 22. GENERAL AND ADMINISTRATIVE EXPENSES

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Salaries and related benefits	68,124,213	60,073,620
Consultancy	11,297,624	9,571,833
Rent	3,822,962	4,044,447
Depreciation and amortization	3,541,617	4,676,632
Training	3,467,579	3,784,473
Board of Directors' remuneration and allowances	3,426,000	2,652,000
Stationary and office supplies	2,086,683	1,887,998
Travel expenses	1,775,109	1,403,461
Maintenance and operation	1,311,156	1,137,052
Trading activities insurance contracts	925,741	975,711
Water and electricity	696,564	523,691
Security guard	517,853	626,084
Hospitality and cleaning	465,820	654,322
Communication	456,857	414,043
Property insurance	54,181	62,004
Postage and freight	10,221	9,599
Others	3,296,267	3,170,936
<b>Total</b>	<b>105,276,447</b>	<b>95,667,906</b>

### 23. OTHER REVENUES, NET

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Murabaha revenues	24,662,725	25,182,321
Sukuk revenues	29,755,496	21,301,305
Dividends paid from investment portfolios (Note 4 b)	7,652,966	-
Additional indirect cost income (Note 10)	-	9,014,903
Bonds revenues	-	2,869,448
Income on commission rate swaps held for trading (Note 7)	-	999,546
Unrealized losses on commission rate swaps held for trading	-	(1,408,004)
Others	4,501,198	1,053,570
<b>Total</b>	<b>66,572,385</b>	<b>59,013,089</b>

### 24. FUTURE COMMITMENTS

The future commitments represent the value of the part not yet executed from supply contracts of assets and services to Tadawul, as follows:

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Supply of assets	4,414,194	5,429,174
Supply of services	25,579,586	29,335,799
Letter of guarantee	725,965	725,965
<b>Total</b>	<b>30,719,745</b>	<b>35,490,938</b>

### 25. EARNINGS PER SHARE

Earnings per share from the main operations are calculated by dividing the income from the main operations for the year by the weighted average number of shares amounting to 120 million shares for the year.

Earnings per share from net income is calculated by dividing the net income for the year by the weighted average number of shares amounting to 120 million shares for the year.

### 26. DIVIDENDS

The Company's Board of Directors in their meeting held on Rabi Al Thani 14, 1434 H (corresponding to February 24, 2013) proposed to distribute cash dividends of SAR 90 million for the financial year ended December 31, 2012 to the Public Investment Fund.

On Jumad Al Thani 5, 1434 H (corresponding to April 15, 2013) the General Assembly approved to distribute cash dividends of SAR 90 million for the financial year ended December 31, 2012 to the Public Investment Fund.

On Jumad Al Thani 1, 1433 H (corresponding to April 23, 2012) the General Assembly approved to distribute cash dividends of SAR 60 million for the financial year ended December 31, 2011 to the Public Investment Fund.

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## 27. SEGMENT INFORMATION

The Company operates solely in the Kingdom of Saudi Arabia. For management purposes, the Company is organized into business units based on services provided and has the following reportable segments:

### Money market services

Is the system for securities trading, clearing and settlement in the Kingdom of Saudi Arabia and is based on a continuous market driven buy and sell orders. It provides real time data on prices traded and companies information. It allows trading of all shares in one local market. This system is based on integrated automated processing.

### Market information services

Market information services are the licenses granted by the Company to information providers specialized in republishing and disseminating market information within specific contracts and agreements.

### Assets and deposit services

Investor account services are services related to the pledge of shares, mortgage release, transfer between investors and family members accounts and services related to uploading shares' owners data in the electronic system of Saudi Stock Exchange after completion of the underwriting and the allocation of shares to underwriters.

Basic registration services are services related to shares registration activities including custody, maintenance, updating records, registration of transfers and change in ownership.

### Corporate

Corporate manages future corporate development and controls all treasury related functions. All investments are incubated within this business segment, which also comprise managing strategy for business development, legal, finance, operations, human resources and customers' relation management.

Description	Saudi Riyals				Total
	Money market services	Market information services	Assets and deposit services	Corporate	
<b>December 31, 2013</b>					
Operating revenues	247,288,625	37,468,115	61,148,416	-	345,905,156
Operating costs	(84,406,309)	(14,442,832)	(55,872,902)	-	(154,722,043)
General and administrative expenses	-	-	-	(105,276,447)	(105,276,447)
Income/(loss) from main operations	162,882,316	23,025,283	5,275,514	(105,276,447)	85,906,666
Total assets	14,633,897	2,236,132	9,883,629	3,300,361,452	3,327,115,110
Total liabilities	6,416,267	2,354,606	12,315,397	119,271,393	140,357,663
<b>December 31, 2012</b>					
Operating revenues	347,424,624	32,477,384	60,381,025	-	440,283,033
Operating costs	(117,888,661)	(16,292,469)	(26,185,556)	-	(160,366,686)
General and administrative expenses	-	-	-	(95,667,906)	(95,667,906)
Income/(loss) from main operations	229,535,963	16,184,915	34,195,469	(95,667,906)	184,248,441
Total assets	17,108,141	1,957,248	9,922,167	3,133,036,346	3,162,023,902
Total liabilities	3,911,869	1,832,730	12,264,148	93,133,642	111,142,389

## 28. CONTINGENT LIABILITIES

Tadawul faces during its normal activity some lawsuits and other claims related to the nature of this activity, however, significant claims are not expected to result from the outstanding lawsuits as at the financial statements date.

There are also outstanding lawsuits against Saudi Stock Exchange (Tadawul) related to the operations of Saudi Company for Shares Registration since, and based on the letter of the minister of finance the president of the board of directors' of The Public Investment Fund No. 2205 dated 07/03/1433 H, and in response to the inquiry letter provided by the Saudi Stock Exchange Company (Tadawul) No. 21/M/A/2011 dated 28/11/1432 H, Tadawul will finalize the liquidation procedures of Saudi Company for Shares registration during this year in accordance with the Capital Market Authority council resolution No. (1-202-2006) dated 2/8/1427 H which was based on the resolution of council of ministers No. (91) dated 16/4/1424 H (Note 17).

## 29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair Value

It is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Management believes that the fair value of the Company's financial assets and liabilities is not materially different from their carrying value.

### Commission Rate Risk

Commission rate risk is represented by the exposure to multiple risks related to the impact of changes in Commission rates in the market on the Company's financial position and cash flows. The Company monitors the fluctuations in Commission rates and believes that the impact of Commission rates risk is not significant.

The below schedule shows at which extent the income is affected by the potential and reasonable changes in special commission rates, with a stability in all other changes. The effect on the income represents the effect of assumed changes in special commission rates on the Company's income for one year, and this on the basis of financial assets by a floating rate at the end of the year. There is no effect on Company's shareholders' equity.

Description	Saudi Riyals	
	December 31, 2013	December 31, 2012
Increase/decrease in base points +/- 5 base points	6,875,000	4,635,000

### Change in Currency Translation Prices Risk

Tadawul believes that it is not exposed to a large extend to currency risk since the official currency of the Company is the Saudi Riyal and due to the fact that almost all of the Company's operations are conducted in Saudi Riyals.

### Credit Risk

Is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The financial assets exposed to credit risk comprise the cash and cash equivalents, investments and other receivables. Cash and investments are substantially placed with national banks and other parties with sound credit ratings. Accounts receivable are distributed over a number of accounts with good financial positions. As a result, there is no critical exposure to credit risk.



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The below schedule shows the maximum limit for exposure to credit risk of the balance sheet elements:

Description	Total maximum exposure (Saudi Riyals)	
	December 31, 2013	December 31, 2012
Cash equivalents	75,000,000	955,000,000
Held to maturity investments	2,719,052,728	1,820,596,577
Accounts receivable	6,281,735	10,133,976
Available for sale investments	341,616,672	210,517,041
Investment in an associate	83,950,218	84,000,000
Due from a related party	539,982	516,597
<b>Total</b>	<b>3,226,441,335</b>	<b>3,080,764,191</b>

#### Liquidity Risk

Is the risk that the Company will encounter difficulty in selling financial assets upon necessary and in a quickly manner to avoid any loss. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any future commitments. Tadawul believes it is not seriously exposed to any risks of liquidity.

The below schedule shows an analysis of assets and liabilities based on the expected date of collection or settlement:

Description	Saudi Riyals					
	Less than 12 months	More than 12 months	December 31, 2013	Less than 12 months	More than 12 months	December 31, 2012
Cash and cash equivalents	110,940,239	–	110,940,239	967,053,978	–	967,053,978
Held to maturity investments	1,519,052,728	1,200,000,000	2,719,052,728	1,068,596,577	752,000,000	1,820,596,577
Accounts receivable	6,281,735	–	6,281,735	10,133,976	–	10,133,976
Due from a related party	539,982	–	539,982	516,597	–	516,597
Investment in an associate	–	83,950,218	83,950,218	–	84,000,000	84,000,000
Prepaid expenses and other assets	24,013,918	–	24,013,918	21,765,943	–	21,765,943
Available for sale investments	–	341,616,672	341,616,672	–	210,517,041	210,517,041
<b>Total financial assets</b>	<b>1,660,828,602</b>	<b>1,625,566,890</b>	<b>3,286,395,492</b>	<b>2,068,067,071</b>	<b>1,046,517,041</b>	<b>3,114,584,112</b>
Accounts payable	29,740,832	–	29,740,832	20,233,123	–	20,233,123
Balance due to Capital Market Authority	7,635,931	–	7,635,931	8,374,787	–	8,374,787
Accrued expenses and other liabilities	31,786,556	–	31,786,556	32,831,412	–	32,831,412
Provision for end-of-service benefits	–	49,279,664	49,279,664	–	49,703,067	49,703,067
Provision for specific obligations	–	21,914,680	21,914,680	–	–	–
<b>Total financial liabilities</b>	<b>69,163,319</b>	<b>71,194,344</b>	<b>140,357,663</b>	<b>61,439,322</b>	<b>49,703,067</b>	<b>111,142,389</b>
<b>Net financial assets</b>	<b>1,591,665,283</b>	<b>1,554,372,546</b>	<b>3,146,037,829</b>	<b>2,006,627,749</b>	<b>996,813,974</b>	<b>3,003,441,723</b>

### 30. COMPARATIVE FIGURES

Certain figures for year 2012 have been reclassified to conform to the presentation in the current year.

### 31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on Rajab 24, 1435H (corresponding to May 24, 2014).

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