

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI
ARABIA**
(A SAUDI JOINT STOCK COMPANY)

**INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTH PERIODS ENDED
30 SEPTEMBER 2016 AND INDEPENDENT AUDITORS'
REVIEW REPORT**

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)

INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

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Independent auditors' review report

**To the shareholders of Mobile Telecommunications Company Saudi Arabia
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia**

Scope of review

We have reviewed the accompanying interim balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at 30 September 2016 and the related interim income statement for the three and nine-month periods ended 30 September 2016, and interim statement of cash flows and interim statement of changes in shareholders' equity for the nine-month period ended 30 September 2016 including the related notes 1 to 14 which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us with all the necessary information and explanation, which we required.

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

Review conclusion

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

Emphasis of matters

We draw attention to the following matters:

1. as disclosed in Note 1.2 and 3.1 to the accompanying interim financial statements, the Company has incurred losses for the period from 01 January 2016 to 30 September 2016 amounting to SR 845.23 million and has accumulated deficit amounting to SR 2,123.63 million as of 30 September 2016. Further, the management of the Company is still in negotiation with banks to reset new covenant based on new business plan approved by the Company's Board of Directors on 20 January 2015;
2. as disclosed in Note 9.2 to the accompanying interim financial statements which outlines that as of 30 September 2016, the Company is a party to an arbitration proceeding with Etihad Etisalat Company ("Mobily") in relation to claims raised by Mobily against the Company in the amount of SR 2.2 billion plus penalties that were rejected in their majority by the Company; thus resulting in a dispute arising from the Service Agreement entered into by the Company and Mobily on 06 May 2008. The arbitration sessions which were in progress, started effective 20 December 2014, and the ultimate outcome from the arbitration and resulting effect, if any, on the Company's financial statements cannot be reliably determined at this stage; and

3. as disclosed in Note 8 to the accompanying interim financial statements which outlines that the Company received a letter from DZIT requesting additional payment of SR 619,852,491 of which SR 352,481,222 are related to Zakat and SR 267,371,269 to withholding tax, and delay penalty, for the financial years 2009, 2010 and 2011. The Company has filed an appeal and the outcome of the appeal cannot reliably be determined at this stage.

**Aldar Audit Bureau
Abdullah Al Basri & Co.**



**Abdullah M. Al Basri
Certified Public Accountant
(License No.171)**

**Riyadh, Muharram 16, 1438H
Corresponding to October 17, 2016G**





MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)

INTERIM BALANCE SHEET (Unaudited)
AS AT 30 SEPTEMBER 2016

		30 September 2016 SR'000 (Unaudited)	31 December 2015 SR'000 (Audited)	30 September 2015 SR'000 (Unaudited)
	Notes			
ASSETS				
Current assets				
Cash and cash equivalents		1,550,264	1,378,498	1,512,214
Accounts receivable, net		1,038,185	1,092,856	1,420,134
Inventories, net		37,522	103,613	81,004
Prepaid expenses and other assets		1,242,946	1,520,919	1,447,767
Total current assets		3,868,917	4,095,886	4,461,119
Non-current assets				
Property and equipment, net		6,284,521	5,007,464	4,712,650
Intangible assets, net		16,227,883	16,812,756	16,951,798
Other non-current assets		112,056	132,102	333,807
Total non-current assets		22,624,460	21,952,322	21,998,255
TOTAL ASSETS		26,493,377	26,048,208	26,459,374
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Long-term borrowings – current portion	3	933,915	2,450,005	2,450,005
Notes payable		343,952	329,541	167,506
Accounts payable		282,739	286,040	320,611
Due to related parties		2,995	2,909	2,816
Deferred revenue		670,171	731,944	633,034
Accrued expenses and other liabilities		3,115,579	2,698,059	3,273,911
Total current liabilities		5,349,351	6,498,498	6,847,883
Non-current liabilities				
Long-term borrowings – non-current portion	3	9,539,603	8,615,727	8,615,728
Advances from shareholders	4	4,492,084	3,966,599	3,897,120
Due to related parties		871,536	834,612	822,595
Other non-current liabilities		2,455,583	1,507,867	1,358,959
Derivative financial instruments	5	18,613	7,204	88,105
Provision for employees' end-of-service benefits		71,566	66,020	67,094
Total non-current liabilities		17,448,985	14,998,029	14,849,601
TOTAL LIABILITIES		22,798,336	21,496,527	21,697,484
SHAREHOLDERS' EQUITY				
Share capital	6	5,837,292	5,837,292	5,837,292
Hedging reserve	5	(18,613)	(7,204)	(88,105)
Accumulated deficit	1.2	(2,123,638)	(1,278,407)	(987,297)
Total shareholders' equity		3,695,041	4,551,681	4,761,890
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,493,377	26,048,208	26,459,374


Wissam Farhat
CFO


Hassan Kabbani
CEO


HH Prince. Naif bin Sultan bin
Mohammed bin Saud Al Kabeer
Chairman

The accompanying notes form an integral part of these interim financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)

INTERIM INCOME STATEMENT (Unaudited)
FOR THE THREE AND NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016

	For the three-month period ended		For the nine-month period ended	
	30 September 2016 SR'000	30 September 2015 SR'000	30 September 2016 SR'000	30 September 2015 SR'000
Revenue and sales	1,633,757	1,763,729	5,126,043	5,069,349
Cost of revenue and sales	(573,126)	(701,549)	(1,867,060)	(2,183,338)
Gross profit	1,060,631	1,062,180	3,258,983	2,886,011
Operating expenses				
Distribution and marketing expenses	(533,743)	(547,379)	(1,805,011)	(1,461,188)
General and administrative expenses	(39,172)	(73,304)	(149,289)	(200,847)
Depreciation and amortization	(489,683)	(442,391)	(1,446,968)	(1,282,978)
Total operating expenses	(1,062,598)	(1,063,074)	(3,401,268)	(2,945,013)
Operating loss	(1,967)	(894)	(142,285)	(59,002)
Other income / (expenses)				
Finance charges	(272,027)	(223,814)	(723,344)	(626,847)
Commission and other income	7,272	1,756	20,398	5,010
NET LOSS FOR THE PERIOD	(266,722)	(222,952)	(845,231)	(680,839)
Loss per share (in Saudi Riyals):				
- From operating loss for the period	(0.003)	(0.002)	(0.244)	(0.101)
- From non-operating loss for the period	(0.454)	(0.380)	(1.204)	(1.065)
- From net loss for the period	(0.457)	(0.382)	(1.448)	(1.166)


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CEO

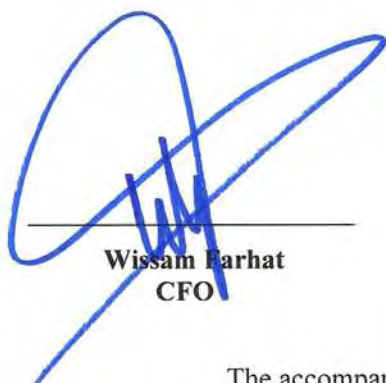

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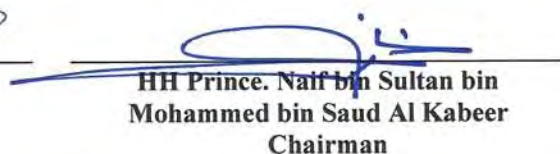
**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A SAUDI JOINT STOCK COMPANY)**

**INTERIM STATEMENT OF CASH FLOWS (Unaudited)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

	2016 SR'000	2015 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(845,231)	(680,839)
Adjustments to reconcile net loss for the period to net cash from operating activities:		
Provision for doubtful receivables and other assets	33,543	32,444
Depreciation and amortization	1,446,968	1,282,853
Other provisions	(32,312)	17,380
Provision for slow moving inventory items	(10,941)	(71)
Finance charges	723,344	603,572
Provision for employees' end-of-service benefits, net	5,546	16,830
Operating income before changes in working capital	1,320,917	1,272,169
Changes in working capital		
Accounts receivable	21,128	(58,889)
Inventories	77,033	(18,253)
Prepaid expenses and other current and non-current assets	298,019	(229,979)
Accounts payable	(348,952)	(48,440)
Due to related parties	37,010	35,947
Deferred revenue	(61,773)	117,223
Accrued expenses and other current and non-current liabilities	697,675	693,119
Cash flows generated from operating activities	2,041,057	1,762,897
Financial charges paid	(352,682)	(385,231)
Net cash generated from operating activities	1,688,375	1,377,666
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,097,032)	(855,439)
Purchase of intangible assets	(180,884)	(222,907)
Net cash (used in) / investing activities	(1,277,916)	(1,078,346)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable	14,411	167,506
Short and Long term borrowing facility	(392,209)	(121,298)
Advances from shareholders	139,105	74,569
Net cash (used in) / generated from financing activities	(238,693)	120,777
Net change in cash and cash equivalents	171,766	420,097
Cash and cash equivalents at beginning of the period	1,378,498	1,092,117
Cash and cash equivalents at end of the period	1,550,264	1,512,214


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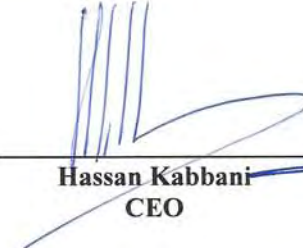
**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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**INTERIM STATEMENT OF CASH FLOWS (Unaudited) (continued)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

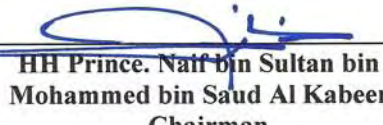
	2016 SR'000	2015 SR'000
Non-cash transactions:		
Adjustment to property and equipment with corresponding effect to accounts payable	861,236	103,510
Adjustment to advances from shareholders with corresponding effect to financial charges	186,374	146,890
Adjustment to advances from shareholders with corresponding effect to short and long - term borrowing facilities	200,005	200,004
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	11,409	21,275



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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total shareholders' equity SR'000
Balance as at 1 January 2016		5,837,292	(7,204)	(1,278,407)	4,551,681
Net loss for the period		-	-	(845,231)	(845,231)
Derivative financial instruments	5	-	(11,409)	-	(11,409)
Balance as at 30 September 2016		5,837,292	(18,613)	(2,123,638)	3,695,041
Balance as at 1 January 2015		10,801,000	(66,830)	(5,270,166)	5,464,004
Decrease of share capital		(4,963,708)	-	4,963,708	-
Net loss for the period		-	-	(680,839)	(680,839)
Derivative financial instruments		-	(21,275)	-	(21,275)
Balance as at 30 September 2015		5,837,292	(88,105)	(987,297)	4,761,890


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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

1. ORGANIZATION AND ACTIVITIES

- 1.1 Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a "Saudi Joint Stock Company" established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I 1428H (corresponding to 11 June 2007) and No. 357 dated 28 Dhu Al-Hijjah 1428H (corresponding to 7 January 2008), Royal Decree No. 48/M dated 26 Jumada I 1428H (corresponding to 12 June 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4 Rabi Awal 1429H (corresponding to 12 March 2008) to operate as the 3rd GSM public mobile cellular and technology neutral license in the Kingdom of Saudi Arabia for twenty five (25) years.

The registered address of the Company is P.O. Box 295814, Riyadh 11351, Kingdom of Saudi Arabia.

- 1.2 The Company incurred losses for the period from 1 January 2016 to 30 September 2016 amounting to SR 845 million and has accumulated deficit amounting to SR 2,123 million as of 30 September 2016. The management of the Company is still in negotiation with the banks to reset the new covenant based on the new business plan that was approved by the Company's Board of Directors on 20 January 2015.

The Company's management believes that the Company will be successful in meeting its obligations in normal course of operations. The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The accompanying interim financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants (“SOCPA”). These interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2015.

The significant accounting policies used for the preparation of the interim financial statements mentioned below are in conformity with the accounting policies described in the audited financial statements for the year ended 31 December 2015.

Period of the financial statements

The Company’s financial year begins on January 1 and ends on 31 December of each Gregorian year. The interim financial statements have been prepared in accordance with SOCPA’s Standard of Review of Interim Financial Reporting, on the basis of integrated periods, which views each interim period as an integral part of the financial year. Accordingly, revenues, gains, expenses and losses of the period are recognized during the period. The interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fairly the balance sheet, income statement, cash flows and changes in shareholders’ equity.

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

Critical accounting estimates and judgments

The preparation of interim financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

(a) Business segment

A business segment is a group of assets, operations or entities:

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analysed by management in order to make decisions related to resource allocation and performance assessment; and
- (iii) financial information is separately available.

(b) Geographical segment

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

Foreign currency translations

(a) Reporting currency and functional currency

These interim financial statements are presented in Saudi Riyals (“SR”) which is the reporting currency and functional currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the interim income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the interim income statement and reported under “distribution and marketing expenses”. When an account receivable is uncollectible, it is written-off against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited against “distribution and marketing expenses” in the interim income statement.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Inventories sold to distributors on which significant risk and reward remains with the Company are recorded as inventory on consignment.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation except for capital work in progress which is carried at cost. Depreciation is charged to the income statement, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives of the assets:

	<u>Years</u>
	Shorter of lease term or useful life
Leasehold improvements	3 - 10
Telecommunication equipment	20
Civil works (telecommunications)	3
Information technology systems	5
Information technology servers	5
Furniture and fixtures	5
Office equipment	5
Vehicles and other transportation equipment	5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the interim income statement.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the interim income statement as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 years (refer note 14 and 14.1) and is primarily determined by reference to the unexpired license period, the conditions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the interim income statement on a straight-line basis over the estimated useful life from the commencement of service of the network.

Rights of use of various telecommunication services are recorded upon acquisition at cost and are amortized starting from the date of service on a straight line basis over their useful lives or statutory duration, whichever is shorter.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are expected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining the software are recognized as an expense when they are incurred.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the interim income statement. Impairment losses recognized on intangible assets are not reversible.

Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the interim income statement.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Company.

Provisions

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the interim income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' end-of-service benefits

Employee end-of-service benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the interim income statement. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the interim balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Revenues

The Company's revenue mainly comprises revenue from mobile telecommunications. Revenue from mobile telecommunications comprises amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's network.

Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services to be provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as discount for facilitating the service. The income from provision of content services, is recognized on net basis to record the extent of its own share of income only.

Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company's performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Distribution, marketing, general and administrative expenses

Distribution, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Operating leases

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rental expenses under operating leases are charged to the interim income statement on a straight-line basis over the period of the lease.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its interest rate risk on the floating rate Syndicate Murabaha facility. The Company designates these derivatives financial instruments as cash flow hedges in accordance with the approved policies and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. These derivative financial instruments are measured at fair value. The effective portions of changes in the fair value of derivatives are recognized in hedging reserve under the interim statement of shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in the interim income statement. Gains or losses recognized initially in hedging reserve are transferred to the interim income statement in the period in which the hedged item impacts the interim income statement.

3. LONG TERM BORROWINGS FACILITIES

	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
Syndicate Murabaha facility - current portion (refer note 3.1)	863,077	-	-
Local commercial bank – current portion (refer note 3.2)	-	2,250,000	2,250,000
Export credit facility - current portion (refer note 3.3)	70,838	200,005	200,005
	933,915	2,450,005	2,450,005
Syndicate Murabaha facility - non-current portion (refer note 3.1)	7,254,184	8,509,470	8,509,471
Long term facility from local commercial bank (refer note 3.2)	-	-	-
Export credit facility – non-current portion (refer note 3.3)	35,419	106,257	106,257
Industrial and Commercial Bank of China Facility – non-current (refer note 3.4)	2,250,000	-	-
	9,539,603	8,615,727	8,615,728
Total	10,473,518	11,065,732	11,065,733

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016

3. LONG TERM BORROWINGS FACILITIES (Continued)

3.1 Syndicated Murabaha facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha facility consists of a SR portion totalling SR 7.09 billion and a USD portion totalling USD 710 million (equivalent to SR 2.66 billion).

Financing charges as specified under the Murabaha facility are payable in quarterly instalments over the life of the loan. As per the terms of the Murabaha financing agreement the Company exercised its two (2) options to extend the initial maturity date (12 August 2011) for six (6) months each, totalling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. Subsequently, the Company has successfully obtained several approvals to extend the facility until 31 July 2013. During 2013, the Company has partially settled an amount of SR 750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company has signed an amended and restated “Murhabaha financing agreement” with a consortium of banks which also includes existing Murabaha facility investors to extend the maturity date of its Murabaha facility for 5 years ending 30 June 2018 which was due on 31 July 2013. The new facility has been restructured as an amortising facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal at this quarter stands at SR 8.1 billion, SR portion totalling SR 5.8 billion and USD portion totalling USD 0.6 billion (SR 2.3 billion).

Financing charges as specified under the Murabaha financing agreement are payable in quarterly instalments over 5 years. The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and pledge of shares of the Company owned by some of the founding shareholders.

Financial and other covenants imposed by the financing banks are:

- A- Assignment of certain contracts and receivables;
- B- Pledge of insurance contracts and operating accounts;
- C- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- D- No further financial indebtedness, pari passu, insurance on all assets; and
- E- EBITDA and leverage level.

The management of the Company is still in negotiation with the banks to reset the new covenant based on the new business plan that was approved by the Company’s Board of Directors on 20 January 2015.

In the second quarter of 2015, the Company made a prepayment for the amount of SR 121 million as a mandatory settlement due to its excess free cash flow. As well, the Company made a prepayment for the amount of SR 392 million in the first quarter of 2016.

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3. LONG TERM BORROWINGS FACILITIES (Continued)

3.2 This facility consists of a SR portion totalling SR 1,875 million and a USD portion totalling USD 100 million (equivalent SR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha facility and was due for repayment on 3 April 2013. The Company has obtained the approval from financing banks to extend this long term facility until 5 June 2013.

On 5 June 2013 the Company has signed a new long-term borrowing facility agreement amounting to SR 2.25 billion with three years maturity to refinance the existing facility. The new facility consists of a SR portion totalling SR 1,875 million and a USD portion totalling USD 100 million provided by a syndicate of four banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha facility, and secured by an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C. The new facility will be repaid in one bullet payment at the maturity date of 5 June 2016.

On 2 June 2016 the Company has renewed its long-term Commercial loan facility agreement amounting SR 2.25 billion with a two years tenor that is extendable by one additional year. The loan is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. The principal amount will be repaid in one bullet payment at the maturity date.

3.3 On 20 June 2012 an Export Credit Agency facility agreement having two tranches (A and B) totalling to USD 325 million was signed between the Company and some international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha facility. The purpose of this facility is to:

- 1- repay amounts due to one of the Company's technical vendors; and
- 2- finance further new expansion plans provided by the same technical vendor.

The Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B has been cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totalling USD 155 million) and July 2013 for tranche B (totalling USD 98 million). As at 30 September 2016, all sixteen (31 December 2015: 12) instalments were repaid in full.

3.4 On 15 August 2016 the Company has signed a long-term commercial loan facility agreement amounting to SAR 2.25 Billion with a two years tenor that is extendable by one additional year. The new facility agreement signed with the Industrial and Commercial Bank of China to replace the existing syndicated facility (refer note 3.2); This new facility will have lower financing cost compared to the existing facilities, the Facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. (Zain Group).

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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
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3.5 The maturity details of long term borrowings facilities are as follows:

	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
2016	431,540	2,881,544	2,881,544
2017	1,832,410	1,832,410	1,832,410
2018	8,209,568	6,351,778	6,351,779
	10,473,518	11,065,732	11,065,733

4. ADVANCES FROM SHAREHOLDERS

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. During 2012, pursuant to all related approvals, the principal amount of these advances were utilized to increase the share capital of the Company. Additionally, a founding shareholder has provided additional loans and made certain payments on behalf of the Company. All advances, loans and amounts due to shareholders carry finance cost that approximate the prevailing market rates. The breakdown of the advances, loans and amount due to the shareholders and related accrued financial charges are as follows:

	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	3,164,907	2,826,939	2,809,146
Abu Dhabi Investment House	8,413	8,413	8,413
	3,173,320	2,835,352	2,817,559
Accrued financial charges	1,318,764	1,131,247	1,079,561
Total	4,492,084	3,966,599	3,897,120

The above-mentioned advances from shareholders and the related accrued financial charges are currently not scheduled for repayment until the settlement of the existing Murabaha facility.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments (profit rate swaps) (maturing 2018) together with the contract notional amounts are as follows:

	Negative Fair Value		
Contracts notional amounts SR'000	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	18,613	7,204
			88,105

The notional amounts do not reflect the amount of future cash flow involved.

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6. SHARE CAPITAL

The share capital of the Company as at 30 September 2016 comprised 583,729,175 shares stated at SR 10 per share owned as follows:

	30 September 2016	
	Number of shares	Share capital SR'000
Mobile Telecommunications Company K.S.C.	216,243,575	2,162,436
Saudi Plastic Factory	34,125,198	341,252
Faden Trading & Contracting Est.	34,856,143	348,561
Rakisa Holding Company	2,548,320	25,483
Abu Dhabi Investment House	12,508,485	125,085
Almarai Company	12,409,162	124,092
Ashbal Al-Arab Contracting Est.	12,409,162	124,092
Al Jeraisy Development Company Limited	6,204,581	62,046
Architectural Elite Est. for Engineering and Contracting	3,243,316	32,433
Al Sale Al Sharkiyah Company Limited	3,102,290	31,023
	337,650,232	3,376,503
Public shareholding	246,078,943	2,460,789
Total	583,729,175	5,837,292

7. LOSS PER SHARE

Losses per share are computed by dividing the losses for the period by the weighted average number of shares outstanding at the period end.

8. ZAKAT

The Company had finalized its zakat and tax status up to 2008 and obtained the related certificate. The Company had submitted its financial statements along with zakat and returns for the years 2009 to 2014 and paid zakat and withholding tax according to the filed returns.

On 18 Ramadan 1436 (corresponding to 07 July 2015), the Company received the Zakat and WHT assessments from DZIT for the years 2009 to 2011 whereby they asked to pay an additional amount of SR 619,852,491 of which SR 352,481,222 are related to zakat differences and SR 267,371,269 as withholding tax subject to delay penalty payable from the due date up to the settlement date equals to 1% for every 30 days.

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8. ZAKAT (Continued)

The Zakat and tax advisors believe that there is a valid argument to support the Company's position on appealing such assessment; therefore, during the quarter ended 30 September 2015 the Company filed an appeal within the allowed period of 60 days. The outcome of the appeal cannot be reliably determined at this stage; furthermore, the Company has taken adequate provision based on the advice of its Zakat and tax advisor.

9. COMMITMENTS AND CONTINGENCIES

9.1 Capital commitments

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment. The capital commitments are comprised of the following:

	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
Within 12 months	507,931	493,258	891,614
Within 2 to 5 years	2,136,885	2,203,849	2,585,500
	2,644,816	2,697,107	3,477,114

Also see Note 10 for operating lease commitments.

9.2 Claim by an operator

On 16 November 2014, the Company received a request from Etihad Etisalat Company ("**Mobily**") to begin an arbitration proceeding related to a disputed and rejected claim of SR 2.2 billion and a claim for damages of SR 58.7 million raised by Mobily against the Company.

As a result of the above, the Company is a party in an arbitration proceeding against Mobily in relation to a disputed claim arising from the Services Agreement ("**Agreement**") entered into by both parties on 6 May 2008 and the related Amendment I, Addendum I and an offer letter (collectively known as the "**Amendments**"), which were implemented by both parties in normal course of operations till Mobily acted unilaterally to revoke these Amendments. The Company considers that this unilateral revocation from Mobily is the basis of its claims and which, according to the Company's management, have no basis, are unfounded and illegitimate.

Based on external legal and technical advice, the Company believes that Mobily did not have the unilateral right to revoke the Amendments, neither by way of terms in the contracts nor under Sharia Law. The Company rejected Mobily's actions and any subsequent invoices which were not in line with the terms of the Agreement as amended, and as initially implemented by both parties in normal course of operations.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
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9.2 Claim by an operator (Continued)

The arbitration sessions started effective 20 December 2014, and are currently in an extension phase of 12 months' duration, commencing from 10 December 2015.

On 23 November 2015, Mobily made a submission to the arbitration panel (the "**Panel**"), accompanied by an expert report, asserting its demand for SR 2,102,512,041 (the "**Demand**"). According to Mobily, this demand is based on a calculation using the quantities of services rendered during the relevant period and the rates set forth in the Agreement only. The calculation, according to Mobily, ignores and does not take into account the discounted prices and waiver of certain commitments agreed upon by the parties in the Amendments.

On 23 December 2015, Zain responded, submitting independent expert reports from internationally recognized telecommunications and accounting experts. The opinion of the experts was consistent with Zain's position.

The Panel subsequently appointed a technical expert (the "**Expert**") to review the claims of each party in the arbitration and submit a report. On 2 August 2016, Zain received the Expert's draft report. The Expert calculated amounts owing under a number of different scenarios. Zain with the input of its internationally recognized telecommunications and accounting experts provided its comments on the Expert's scenario calculations to the Panel on 31 August 2016. The Expert left the Panel to decide which of the scenarios applies. Zain's legal counsel provided its comments on those issues in Zain's 31 August submission.

On 1 October 2016 Zain, Mobily and the Panel, alongside their respective Experts, met to go through the Expert's draft report. The parties informed the Panel that they had nothing further to add to what they had already submitted during the arbitration process. The Panel decided to close arguments on the merits of the case and reserve the case for study and issuance of judgement. Subsequently, the Panel, through its Secretary-General will inform the parties of the date for announcement of the judgement.

The management believes that the ultimate outcome of the arbitration cannot be determined reliably at this stage. Based on the scenario that is consistent with the Company's established position, supported by external legal opinion and opinion from internationally recognised telecommunications and accounting experts, the amounts stated in the Company's books as of 30 September 2016 are adequate, and there is no need for any additional provision.

9.3 Other legal proceedings, penalties and other claims

The Company in the normal course of business is subject to and also pursuing lawsuits, proceedings, penalties and fines imposed by the regulator, municipalities and other claims from suppliers and telecommunication providers. The management of the Company and based on its internal and external lawyers and technical advisors believe that these matters are not expected to have a significant impact on the financial position or the results of operations of the Company.

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10. OPERATING LEASES COMMITMENTS

The Company leases sites, technical buildings and offices in connection with its operations. The lease commitments relating to such operating leases are as follows:

	30 September 2016 (Unaudited) SR'000	31 December 2015 (Audited) SR'000	30 September 2015 (Unaudited) SR'000
Within 12 months	318,991	309,984	307,052
Within 2 to 5 years	1,275,965	1,239,936	1,228,209
Over 5 years	1,594,956	1,549,920	1,535,261
	3,189,912	3,099,840	3,070,522

11. SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the Company's operations which comprise Mobile Voice, Data, Internet and other related communication services which are substantially concentrated in mobile phone services since commencement of its activities, are not met as of the interim balance sheet date, accordingly, the Company's management believes that operating segments information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

12. COMPARATIVE FIGURES

Certain comparatives figures have been reclassified to conform with the presentation in the current period.

13. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the Board of Directors on 17 October 2016.

14. SUBSEQUENT EVENTS

Based on the High Order dated 30/12/1437 H corresponding to 01/10/2016 G which was announced by the Capital Market Authority on 01/01/1438 H corresponding to 02/10/2016 G directing the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to extend its license for an additional 15-year period, during the period of the extension the government will be entitled to a 5% of the company's annual net income, in addition, to coordinate with Zain to facilitate the issuance of a Unified Telecommunication License that allows the Company to provide all telecommunication services. The High Order also requires that the Company coordinates with the Ministry of Finance to discuss alternatives regarding the amounts due to the government.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
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14. SUBSEQUENT EVENTS (Continued)

The Company announces that this High Order will have the following positive impacts on the company:

- 1) In regards to the license extension for an additional 15 years, bringing the remaining period to 32 years ending on 21/03/1469 H corresponding to 18/01/2047 G:
Reducing the annual amortization charge by 433 million Saudi Riyals each year starting from the date of the extension, this will reduce the company's net losses by the same amount.
- 2) In regards to granting the Company a Unified License to provide all telecommunication services:
The Unified License enables the Company to offer all telecommunication services, including fixed services. The Company expects that this will have a positive impact on the Company's financial performance, however the exact impact cannot be determined at this time.
- 3) In regards to the coordination with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government, The Company will announce the financial impacts of any agreements reached with the Ministry of Finance following their approval.