

MOBILE TELECOMMUNICATIONS COMPANY
SAUDI ARABIA
(A Saudi Joint Stock Company)

UNAUDITED INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED
MARCH 31, 2010 AND
INDEPENDENT ACCOUNTANTS' LIMITED
REVIEW REPORT

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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(A Saudi Joint Stock Company)
INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH
PERIOD ENDED MARCH 31, 2010

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INDEPENDENT ACCOUNTANTS' LIMITED REVIEW REPORT

April 19, 2010

To the Shareholders of Mobile Telecommunications Company Saudi Arabia
(A Saudi Joint Stock Company)

We have reviewed the accompanying interim balance sheet of Mobile Telecommunications Company (A Saudi Joint Stock Company) (the "Company") as of March 31, 2010 and the related interim statements of operations, cash flows and changes in shareholders' equity for the three-month period ended March 31, 2010 and the related notes which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management.

We conducted our limited review in accordance with the standards established by the Saudi Organization for Certified Public Accountants. A 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 auditing standards generally accepted in 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.

Based on our 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 accounting principles generally accepted in Saudi Arabia, appropriate to the circumstances of the Company.

Without qualifying our report, we draw attention to Note 1 to interim financial statements. The Company incurred net loss for the three-month period ended March 31, 2010 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. The Company believes that it will be successful in meeting its obligations in the normal course of operations. Accordingly, the accompanying interim financial statements have been prepared under the going concern basis.

PricewaterhouseCoopers Al Juraid
PricewaterhouseCoopers Al Juraid

By: 

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MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim balance sheet
(All amounts in Saudi Riyals thousands unless otherwise stated)

Notes	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Assets			
Current assets			
Cash and cash equivalents	473,965	505,792	291,306
Accounts receivable - net	924,101	1,007,247	530,190
Inventories	30,366	39,422	58,681
Prepayments and other receivables - net	578,215	297,475	396,765
	<u>2,006,647</u>	<u>1,849,936</u>	<u>1,276,942</u>
Non-current assets			
Property and equipment - net	3,766,294	3,846,700	3,097,010
Intangible assets - net	21,887,685	22,133,477	22,836,794
	<u>25,653,979</u>	<u>25,980,177</u>	<u>25,933,804</u>
Total assets	<u>27,660,626</u>	<u>27,830,113</u>	<u>27,210,746</u>
Liabilities			
Current liabilities			
Accounts payable	2,157,886	1,814,792	1,018,310
Accrued and other liabilities	1,968,337	2,028,378	895,876
Deferred revenue	356,607	251,259	216,260
Due to related parties	610,257	542,563	534,207
Notes payable	2,152,219	2,152,219	2,051,469
Advances from shareholders - current portion	-	-	314,890
Syndicated Murabaha financing from banks	-	-	9,368,410
	<u>7,245,306</u>	<u>6,789,211</u>	<u>14,399,422</u>
Non-current liabilities			
Advances from shareholders - non-current portion	2,914,000	2,914,000	1,849,110
Syndicated Murabaha financing from banks	9,529,626	9,494,023	-
Employee termination benefits	11,669	10,400	5,752
	<u>12,455,295</u>	<u>12,418,423</u>	<u>1,854,862</u>
Total liabilities	<u>19,700,601</u>	<u>19,207,634</u>	<u>16,254,284</u>
Shareholders' equity			
Share capital	14,000,000	14,000,000	14,000,000
Accumulated losses	(6,039,975)	(5,377,521)	(3,043,538)
Total shareholders' equity	<u>7,960,025</u>	<u>8,622,479</u>	<u>10,956,462</u>
Total liabilities and shareholders' equity	<u>27,660,626</u>	<u>27,830,113</u>	<u>27,210,746</u>
Contingencies and commitments	8		

The accompanying notes on pages 6 to 12 form an integral part of these interim financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
 (A Saudi Joint Stock Company)
 Interim statement of operations
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Three-month period ended March 31, 2010 (Unaudited)	Three-month period ended March 31, 2009 (Unaudited)
Revenue		1,094,230	581,667
Cost of revenue		(709,890)	(435,688)
Gross profit		384,340	145,979
Operating expenses			
Distribution and marketing		(375,886)	(375,790)
General and administrative		(78,776)	(100,106)
Depreciation and amortization		(364,963)	(325,882)
Loss from operations		(435,285)	(655,799)
Other income (expenses)			
Commission income		149	859
Financial charges		(227,318)	(110,426)
Net loss for the period		(662,454)	(765,366)
Loss per share (Saudi Riyals):			
• Loss from operations	6	(0.31)	(0.47)
• Non-operating loss	6	(0.16)	(0.08)
• Net loss	6	(0.47)	(0.55)

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MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A Saudi Joint Stock Company)
Interim cash flow statement
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Three-month period ended March 31, 2010 (Unaudited)	Three-month period ended March 31, 2009 (Unaudited)
Cash flow from operating activities		
Net loss for the period	(662,454)	(765,366)
Adjustments for non-cash items		
Provision for doubtful debts	34,015	10,509
Depreciation and amortization	364,963	325,882
Other adjustments		
Commission income	(149)	(859)
Financial charges	227,318	110,426
Changes in working capital		
Accounts receivable - net	49,131	(223,030)
Inventories	9,056	1,151
Prepayments and other receivables - net	(280,740)	(176,133)
Accounts payable	343,094	604,511
Accrued and other liabilities	(57,955)	331,826
Deferred revenue	105,348	(35,363)
Employee termination benefits	1,269	1,356
Net cash generated from operating activities	132,896	184,910
Cash flow from investing activities		
Purchase of property and equipment	(37,726)	(770,500)
Additions to intangible assets	(1,040)	(5,339)
Commission income received	149	859
Net cash utilized in investing activities	(38,617)	(774,980)
Cash flow from financing activities		
Notes payable	-	203,925
Due to related parties	67,694	18
Proceeds from Syndicated Murabaha financing from banks - net	-	204,409
Financial charges paid	(193,800)	(110,426)
Net cash (utilized in) generated from financing activities	(126,106)	297,926
Net decrease in cash and cash equivalents	(31,827)	(292,144)
Cash and cash equivalents at beginning of period	505,792	583,450
Cash and cash equivalents at end of period	473,965	291,306

The accompanying notes on pages 6 to 12 form an integral part of these interim financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
 (A Saudi Joint Stock Company)
 Interim statement of changes in shareholders' equity
 (All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Accumulated losses	Total
<u>Unaudited</u> January 1, 2010	14,000,000	(5,377,521)	8,622,479
Net loss for the period	-	(662,454)	(662,454)
March 31, 2010	<u>14,000,000</u>	<u>(6,039,975)</u>	<u>7,960,025</u>
<u>Unaudited</u> January 1, 2009	14,000,000	(2,278,172)	11,721,828
Net loss for the period	-	(765,366)	(765,366)
March 31, 2009	<u>14,000,000</u>	<u>(3,043,538)</u>	<u>10,956,462</u>

The accompanying notes on pages 8 to 12 form an integral part of these interim financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Notes to the interim financial statements for the three month period ended March 31, 2010

(All amounts in Saudi Riyals thousands unless otherwise stated)

1 General information

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 June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008), Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Saudi Arabia on 4 Rabi' Awal 1429H (corresponding to March 12, 2008) to operate as the 3rd GSM public mobile cellular and 3G public mobile cellular licensee in the Kingdom of Saudi Arabia for 25 Hijra years. The head office of the Company is situated in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the three-month period ended March 31, 2010 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern depends upon the Company's ability to arrange adequate funds in a timely manner. The Company believes that it will be successful in its efforts to secure funding to meet its obligations in the normal course of its operations. Accordingly, the accompanying interim financial statements have been prepared under the going concern basis.

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

These interim financial statements were approved by the Management on April 19, 2010.

2 Summary of 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.

2.1 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 Saudi Organization for Certified Public Accountants ("SOCPA"). These interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2009.

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 December 31, 2009.

2.2 Period of the financial statements

The Company's financial year begins on January 1 and ends on December 31 of each Gregorian year. The interim financial statements have been prepared in accordance with SOCPA's Standard 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 accompanying interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present a fair statements of financial position, results of operations and cash flows.

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

2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles 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.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

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(All amounts in Saudi Riyals thousands unless otherwise stated)

2.4 Segment reporting

(a) **Business segment**

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

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously analyzed 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 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.

2.5 Foreign currency translations

(a) **Reporting currency**

These financial statements are presented in Saudi Riyals which is the reporting 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, which were not significant for 2009 and 2008, are recognized in the statement of operations.

2.6 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.

2.7 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 debts 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 statement of operations and reported under "distribution and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "distribution and marketing expenses" in the statement of operations.

2.8 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using 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.

2.9 Property and equipment

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

Leasehold improvements (lease term or useful life which ever is shorter)	5 Years
Telecommunications equipment	8 Years
Civil works (telecommunications)	15 Years
Information technology systems	2 Years
Information technology servers	5 Years
Furniture and fixtures	5 Years
Office equipment	2 Years
Vehicles and other transportation equipment	5 Years

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(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

2.10 Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 Hijra years 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 statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

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 software are recognized as an expense when they are incurred.

2.11 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 statement of operations. Impairment losses recognized on intangible assets are not reversible.

2.12 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 statement of operations.

2.13 Capital leases

The Company accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the statement of operations applying the straight-line method at the rates applicable to the related assets.

2.14 Accounts payable and accruals

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

2.15 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.

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Notes to the interim financial statements for the three month period ended March 31, 2010

(All amounts in Saudi Riyals thousands unless otherwise stated)

3 Advances from shareholders

The founding shareholders have provided advances to the Company in accordance with the arrangements agreed with the shareholders during the third quarter of 2009, the outstanding balance carries finance cost that approximate the prevailing market rates.

The following is a breakdown of the advances from shareholders:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Mobile Telecommunications Company K.S.C.	1,859,397	1,859,397	1,109,397
Faden Trading & Contracting Est.	314,890	314,890	314,890
Saudi Plastic Factory	301,365	301,365	301,365
Rakisa Holding Company	136,984	136,984	136,984
Almarai Company	109,587	109,587	109,587
Ashbal Al-Arab Contracting Est.	109,587	109,587	109,587
Al Jeraisy Development Company Limited	54,793	54,793	54,793
Al Sale Al Sharkiyah Company Limited	27,397	27,397	27,397
	<u>2,914,000</u>	<u>2,914,000</u>	<u>2,164,000</u>
Less current portion	-	-	(314,890)
Non-current portion	<u>2,914,000</u>	<u>2,914,000</u>	<u>1,849,110</u>

The non-current portion of the advances at March 31, 2010 including accrued financial charges is not scheduled for repayment until after August 2011.

4 Syndicated Murabaha financing from banks

A Syndicated Murabaha facility ("Murabaha facility") of approximately Saudi Riyals ("SR") 9.75 billion was arranged by the Banque Saudi Fransi to refinance the previous financing which matured in July 2009. This facility consists of a SR portion totaling SR 7.09 billion and a US\$ portion totaling US\$ 710 million (SR 2.66 billion).

Financing charges as specified under the Murabaha facility are payable in quarterly installments over two years. The principal amount is payable in one bullet payment on August 12, 2011.

Financial covenants imposed by the lending banks are:

- Negative pledge on all revenues and assets;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and
- Compliance with various financial milestones across time.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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Notes to the interim financial statements for the three month period ended March 31, 2010
 (All amounts in Saudi Riyals thousands unless otherwise stated)

5 Share capital

The share capital of the Company as of March 31, 2010, December 31, 2009 and March 31, 2009, was comprised of 1.4 billion shares stated at Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share capital
Mobile Telecommunications Company K.S.C.	350,000,000	3,500,000
Saudi Plastic Factory	96,250,000	962,500
Faden Trading & Contracting Est.	96,250,000	962,500
Rakisa Holding Company	43,750,000	437,500
Almarai Company	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	35,000,000	350,000
Al Jeraisy Development Company Limited	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	8,750,000	87,500
Total founding shareholders	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Saudi nationals IPO subscribed	630,000,000	6,300,000
Total	1,400,000,000	14,000,000

6 Loss per share

Loss per share for the period ended March 31, 2010 and 2009 has been computed by dividing the operating loss, non-operating items - net and net loss for the period by the weighted average number of shares outstanding during the period which was 1.4 billion shares.

7 Operating leases

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

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Within 12 months	125,297	475,746	123,313
Within 2 to 5 years	535,378	874,964	274,458
Over 5 years	391,988	487,148	559,455
	1,052,663	1,837,858	957,226

8 Contingencies and commitments

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. The capital commitments are comprised of the following:

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)	March 31, 2009 (Unaudited)
Within 12 months	804,755	814,040	2,441,610
Within 2 to 5 years	6,215	1,174,633	1,421,810
Over 5 years	-	-	117,709
	810,970	1,988,673	3,981,129

Also, see Note 7 for operating lease commitments.

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Furthermore, the Company in the normal course of business is subject to and also pursuing lawsuits and other claims. However, these matters are not expected to have a material impact on the financial position or the results of operations of the Company.

9 Segment information

The Company commenced commercial activities on August 26, 2008 and since commencement of activities, the Company's operations are substantially from mobile phone services. Accordingly, segment information is not applicable.