

**Mobile Telecommunications
Company Saudi Arabia
(A Saudi Joint Stock Company)**

**Unaudited Interim Condensed
Financial Statements for the
Period Ended June 30, 2008
with Independent Accountants'
Review Report**

REVIEW REPORT

July 12, 2008

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 (the "Company") as of June 30, 2008 and the related statements of operations for the three month period ended June 30, 2008 and for the period from March 12, 2008 (date of Commercial Registration) to June 30, 2008 and changes in equity and cash flows for the period From March 12, 2008 (date of Commercial Registration) to June 30, 2008, and the related notes which form an integral part of these interim condensed financial statements. These financial statements are the responsibility of the Company's management.

We conducted our limited review in accordance with the standard of interim financial statements issued 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. The scope of the review is substantially less than an audit in accordance with generally accepted auditing standards, 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 condensed financial statements for them to be in conformity with accounting principles generally accepted in Saudi Arabia, appropriate to the circumstances of the Company.

PricewaterhouseCoopers Al Juraid

By:


Rashid S. Al Rashoud
License Number 366



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

BALANCE SHEET
AS AT JUNE 30, 2008 (UNAUDITED)

<u>ASSETS</u>	<u>NOTES</u>	<u>SR'000</u>
Current assets		
Cash and cash equivalents	3	1,850,868
Prepaid expenses and other	4	309,388
Inventory		<u>1,836</u>
Total current assets		<u>2,162,092</u>
Non-current assets		
License fee	5	23,280,210
Property and equipment - net	6	<u>1,173,710</u>
Total non-current assets		<u>24,453,920</u>
TOTAL ASSETS		<u>26,616,012</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities		
Accounts payable and other	8	1,134,018
Accrued expenses		181,907
Due to bank	9	183,333
Due to related parties	7	483,664
Advances from shareholders	9	<u>2,164,000</u>
Total current liabilities		<u>4,146,922</u>
Non-current liabilities		
Syndicated Murabaha financing from banks	9	9,164,001
Employees' end-of-service benefits		<u>2,325</u>
Total non-current liabilities		<u>9,166,326</u>
Total liabilities		<u>13,313,248</u>
Shareholders' equity		
Paid-up capital	10	14,000,000
Accumulated losses		<u>(697,236)</u>
Total shareholders' equity		<u>13,302,764</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>26,616,012</u>

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

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

STATEMENT OF OPERATIONS
FOR THREE MONTH PERIOD ENDED JUNE 30, 2008 AND FOR THE PERIOD FROM
MARCH 12, 2008 (DATE OF COMMERCIAL REGISTRATION) TO JUNE 30, 2008
(UNAUDITED)

	NOTE	SR'000	
		For the three Month period ended June 30, 2008	For the period from March 12, 2008 to June 30, 2008
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Distribution, marketing and operating expenses		(168,703)	(209,317)
General and administrative expenses		(77,570)	(104,985)
Depreciation		(2,659)	(2,828)
Operating loss		(248,932)	(317,130)
OTHER INCOME (EXPENSE):			
Commission income		30,809	37,340
Financing charges		(2,488)	(2,999)
Unrealized gain on investments		1,478	1,478
Loss for the period		(219,133)	(281,311)
Pre-operation costs - net	11	-	(415,925)
Net loss for the period		(219,133)	(697,236)

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

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE PERIOD FROM MARCH 12, 2008 (DATE OF COMMERCIAL
REGISTRATION) TO JUNE 30, 2008 (UNAUDITED)

	<u>SR'000</u>		
	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Total shareholders equity</u>
Balance, March 12, 2008	14,000,000	-	14,000,000
Net loss for the period	<u>-</u>	<u>(697,236)</u>	<u>(697,236)</u>
Balance, June 30, 2008	<u>14,000,000</u>	<u>(697,236)</u>	<u>13,302,764</u>

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

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM MARCH 12, 2008 (DATE OF COMMERCIAL
REGISTRATION) TO JUNE 30, 2008 (UNAUDITED)

	<u>SR'000</u>
OPERATING ACTIVITIES:	
Loss for the period	(281,311)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	2,828
Commission income	(37,340)
Financing charges	2,999
Unrealized gain on investments	(1,478)
Pre-operating costs - net	(415,925)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	(309,388)
Inventory	(1,836)
Account payable and other payables	1,134,018
Accrued expenses	181,907
Employees' end-of-service benefits	2,325
Net cash provided by operations	<u>276,799</u>
INVESTING ACTIVITIES:	
Purchase of property and equipment	(1,176,538)
License fee	(23,280,210)
Commission income received	37,340
Gain on investments	1,478
Net cash used in investing activities	<u>(24,417,930)</u>
FINANCING ACTIVITIES:	
Due to related parties	483,664
Due to banks	183,333
Advances from shareholders	2,164,000
Syndicated Murabaha financing from banks	9,164,001
Share capital contribution	14,000,000
Financing charges paid	(2,999)
Net cash provided by financing activities	<u>25,991,999</u>
Increase in cash and cash equivalents during the period	1,850,868
Cash and cash equivalents, beginning of the period	<u>-</u>
Cash and cash equivalents, end of the period	<u>1,850,868</u>

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

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD
FROM MARCH 12, 2008 (DATE OF COMMERCIAL REGISTRATION) TO JUNE 30,
2008 (UNAUDITED)**

1. INCORPORATION AND ACTIVITIES

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain - KSA"), 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) and 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 years.

The Company provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates; purchases, delivers, installs, manages and maintains mobile telephone and paging systems; and invest surplus funds in investment securities.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Financial year - The Company's financial year begins on January 1 and ends on December 31 of each Gregorian year. However, the Company's first financial period starts from the date of Commercial Registration, which is March 12, 2008, and ends December 31, 2008.

Basis of preparation - The Company's financial statements are prepared in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

The interim financial statements have been prepared in accordance with SOCPA's standard of Interim Financial Reports, 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.

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

Use of estimates in the preparation of financial information - The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions. Such estimates and assumptions may affect the reported balances of certain assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date.

Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Pre-operating costs - Pre-operating costs are charged to the statement of operations currently, unless future economic benefits can be determined in which case the relevant costs are capitalized and amortized on a straight-line basis over a period not to exceed seven years or their expected economic lives, whichever is shorter.

Cash and cash equivalents - Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Inventories - Inventories, if any, are stated at the lower of weighted average cost or the net realizable value.

Property and equipment - Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Property and equipment are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

Furniture and office equipment	2-5 Years
Leasehold improvements	5 Years
Information technology systems	2-5 Years

Intangible assets - License fee is measured at cost less any accumulated amortization. The amortization period is 25 years and is determined primarily by reference to the unexpired license period, the conditions for license renewal, including 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 lives from the commencement of service of the network.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring into use the specific software. 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 costs beyond one year, are recognized as intangible assets.

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

Impairment - Company assesses its assets 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment loss is recorded in the statement of operations currently.

Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. When it becomes evident that the circumstances which resulted in the impairment no longer exist, the impairment amount will be reversed (in exception of goodwill) and recorded as income in the statement of operations of the period in which such reversal is determined.

Employees' end-of-service benefits - Employees' end-of-service benefits are payable as a lump sum to all employees employed under the terms and conditions of Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

Operating leases - Leases of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

Revenue - Airtime revenue, if any, is recognized based on actual usage. Subscription income is recognized on a time proportion basis. Other revenues primarily comprising of handset equipment and sim card starter pack sales are recognized upon delivery to customers. Murabaha income is recognized on a time proportion basis using the effective yield method.

Borrowing costs - Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

Foreign currencies - Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Riyals at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the statement of operations.

Zakat - The Company is subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT") as applicable in the Kingdom of Saudi Arabia. An estimate of Zakat due is provided for and charged to the statement of operations on a quarterly basis. At the end of the year, zakat expense is assessed on annual basis and the Zakat provision is adjusted accordingly.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2008 are comprised of the following:

	<u>SR'000</u>
Cash in hand	899
Cash at bank	1,198,491
Short term investments	<u>651,478</u>
Total	<u><u>1,850,868</u></u>

Short-term investments comprise Saudi Riyal trade fund amounting to SR 350,766,600 and Diversified Saudi Riyal trade fund amounting to SR 300,711,106 held by the Company on a short-term basis with original maturities of three months or less. Profits on these investments are calculated and accounted for on daily basis. The carrying amount of these investments approximates their fair value at balance sheet date.

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as at June 30, 2008 are comprised of the following:

	<u>SR'000</u>
Advances to suppliers	254,155
Prepaid rent	45,984
Prepaid other	<u>9,249</u>
Total	<u><u>309,388</u></u>

5. LICENSE FEE

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) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 Hijrah years was granted to the Company for an amount of SR 22.91 billion. The Company expects to commence commercial operation of its network during the second half of year 2008. Until then, borrowing costs attributable to the acquisition of the license are capitalized as part of the cost of the license. Total borrowing costs capitalized until June 30, 2008 was SR 370 million.

6. PROPERTY AND EQUIPMENT - NET

Property and equipment, net at June 30, 2008 are comprised of the following:

	SR'000		
	<u>Beginning balance</u>	<u>Additions</u>	<u>Balance as of June 30, 2008</u>
Cost:			
Furniture and office equipment	-	8,279	8,279
Leasehold improvements	-	5,280	5,280
Information technology systems	-	14,928	14,928
Work in progress	-	1,148,051	1,148,051
Total	<u>-</u>	<u>1,176,538</u>	<u>1,176,538</u>
Accumulated depreciation:			
Furniture and office equipment	-	(506)	(506)
Leasehold improvements	-	(225)	(225)
Information technology systems	-	(2,097)	(2,097)
Total	<u>-</u>	<u>(2,828)</u>	<u>(2,828)</u>
Property and equipment - net	<u>-</u>		<u>1,173,710</u>

7. DUE TO RELATED PARTIES

Due to related parties as at June 30, 2008 is comprised of the following:

	SR'000
Zain group	480,231
MTC Bahrain	2,877
MADA	<u>556</u>
Total	<u>483,664</u>

The balance of due to related parties represents funds advanced by them to finance the start up costs. The balance bears no financing charges and does not have a fixed settlement date.

8. ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

Accounts payable and other current liabilities at June 30, 2008 are comprised of the following:

	SR'000
Nokia Siemens Tietoliikenne Oy	839,256
Motorola Inc.	149,973
Local suppliers	60,258
Overseas suppliers	16,628
Other	<u>67,903</u>
Total	<u>1,134,018</u>

9. ADVANCES FROM SHAREHOLDERS AND CREDIT FACILITIES

Advances from shareholders - The founding shareholders provided an amount of SR 2.1 billion as advances to the Company with no fixed repayment dates. The lending shareholders have also decided to waive the financing costs associated with these advances.

The following is a breakdown of the advances by shareholder:

	<u>SR'000</u>
Mobile Telecommunications Company K.S.C.	1,082,000
Faden Trading & Contracting Est.	314,890
Saudi Plastic Factory	301,365
Rakisa Holding Company	136,984
Almarai Company	109,587
Ashbal Al-Arab Contracting Est.	109,587
Al Jeraisy Development Company Limited	54,793
Architectural Elite Est. for Engineering and Contracting	27,397
Al Sale Al Sharkiyah Company Limited	<u>27,397</u>
Total	<u><u>2,164,000</u></u>

Syndicated Murabaha financing - A Syndicated Murabaha facility of SR 9.2 billion (net of commission calculated at 1.25 pus SIBOR and LIBOR) was arranged by the Bank Saudi Fransi ("Murabaha facility") to finance part of the license fee. This facility consists of a Saudi Riyal portion totaling SR 7.1 billion and a US Dollar portion totaling US\$ 547.5 million (SR 2.1 billion). The full amount was withdrawn as of June 30, 2008.

The commission is payable in eight quarterly installments over two years. The principal amount is payable on bullets through refinancing as at July 29, 2009. The Murabaha facility is collateralized by securities given by some of the founding shareholders.

Financial covenants imposed by the lending banks are Negative Pledge on all revenues and assets, Loans & Guarantees restrictions for customers, distributors, dealers, retailers, wholesalers, & employees, no further financial indebtedness exceeding SR 50 million, Pari Passu, insurance on all assets, and compliance with various financial milestones across time.

Due to bank - The Company obtained a short-term Murabaha financing from a local bank to finance its working capital. The outstanding balance bears annual commission rate of SIBOR plus a margin of 0.7%.

10. PAID-UP CAPITAL

The Company's paid up capital of SR 14 billion, consists of 1.4 billion shares with par value of SR 10 each, owned by the following shareholders:

<u>Shareholders</u>	<u>Number of shares</u>	<u>Share capital SR'000</u>
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	<u>8,750,000</u>	<u>87,500</u>
Total founding shareholders'	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Saudi nationals IPO subscribed	<u>630,000,000</u>	<u>6,300,000</u>
Total	<u>1,400,000,000</u>	<u>14,000,000</u>

11. PRE-OPERATING COSTS - NET

Pre-operating costs, net at June 30, 2008 are comprised of the following:

	<u>SR'000</u>
IPO costs	92,539
Bank credit facilities commitment charges and financing charges expenses	70,029
Consulting fees	36,092
Salaries and other benefits	83,094
Rent	20,833
Advertising	11,769
Depreciation	1,067
Legal fees	298
Other expenses	104,714
Withholding taxes	107
Pre-operating income	<u>(4,617)</u>
Pre-operating costs, net	<u>415,925</u>

12. OPERATING LEASES

The Company leases sites, technical building and offices in connection with its operation. The lease commitments relating to such leases as of June 30, 2008 are as follows:

	<u>SR'000</u>
Within 12 months	1,198,844
Within 2-5 years	6,269,602
Over 5 years	<u>1,642,535</u>
Total	<u><u>9,110,981</u></u>

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Company entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. At the date of the review report, capital commitments are as follows:

	<u>SR'000</u>
Within 12 months	1,458,414
Within 2-5 years	3,657,914
Over 5 years	<u>10,228</u>
Total	<u><u>5,126,556</u></u>

14. SEGMENT INFORMATION

The company has not commenced commercial operations. Segment information will be disclosed after the commercial operation and when these information become available.

15. GENERAL

These interim condensed financial statements were approved by the management on July 12, 2008.
