

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

**INTERIM FINANCIAL STATEMENTS AND
AUDITORS' REVIEW REPORT
FOR THE THREE-MONTH AND NINE-MONTH
PERIODS ENDED SEPTEMBER 30, 2011**

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

INTERIM FINANCIAL STATEMENTS AND AUDITORS' REVIEW REPORT
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011

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AUDITORS' REVIEW REPORT

To the shareholders
Mobile Telecommunications Company Saudi Arabia
(A Saudi joint stock company)
Riyadh, Saudi Arabia

Tel : +966 (1) 4630018
Fax : +966 (1) 4630865
www.deloitte.com
Head Office: Riyadh

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 September 30, 2011, and the related interim statement of operations for the three-month and nine-month periods ended September 30, 2011 and the interim statements of cash flows and changes in shareholders' equity for the nine-month period then ended including the related notes 1 to 13 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 interim financial reporting standard 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.

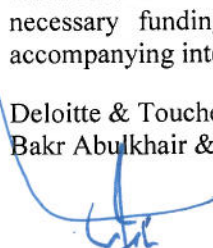
Review Results

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 generally accepted accounting standards in the Kingdom of Saudi Arabia.

Emphasis of matter

Without modifying our report, we draw attention to Note 1 to the interim financial statements. The Company incurred net loss for the nine-month period ended September 30, 2011 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 and its efforts in securing the necessary funding which is conditional to the Company's capital restructuring. Accordingly, the accompanying interim financial statements have been prepared under the going concern basis.

Deloitte & Touche
Bakr Abulkhair & Co.


Nasser M. Al-Sagga
License No. 322
Dhual Qa'dah 14, 1432
October 12, 2011

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

INTERIM BALANCE SHEET (Unaudited)
AS AT SEPTEMBER 30, 2011

	Note	September 30, 2011 SR'000	December 31, 2010 SR'000	September 30, 2010 SR'000
ASSETS				
Current assets				
Cash and cash equivalents		601,634	702,117	812,819
Accounts receivable, net		777,680	1,463,166	1,364,485
Due from a related party		-	-	6,757
Inventories, net		31,549	28,799	24,446
Prepaid expenses and other assets		570,396	408,527	420,631
Total current assets		1,981,259	2,602,609	2,629,138
Non-current assets				
Property and equipment, net		4,042,648	4,298,200	3,931,187
Intangible assets, net		20,498,175	21,154,628	21,407,409
Total non-current assets		24,540,823	25,452,828	25,338,596
TOTAL ASSETS		26,522,082	28,055,437	27,967,734
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term borrowing facility	3	-	2,193,750	2,193,750
Syndicated murabaha financing – current	4	9,740,550	-	-
Accounts payable		1,321,267	2,104,503	2,093,271
Due to related parties		37,869	117,294	-
Deferred revenue		462,150	451,342	383,114
Accrued expenses and other liabilities		2,688,947	2,587,223	2,712,224
Derivative financial instruments	5	45,781	-	-
Total current liabilities		14,296,564	7,454,112	7,382,359
Non-current liabilities				
Notes payable		817,905	659,221	329,644
Long term borrowing facility	3	2,218,565	-	-
Syndicated murabaha financing	4	-	9,655,693	9,571,888
Advances from shareholders	6	3,938,004	3,665,497	3,599,375
Due to related parties		473,744	339,776	284,487
Derivative financial instruments	5	-	134,630	198,285
Provision for employees' end-of-service benefits		22,775	17,096	15,328
Total non-current liabilities		7,470,993	14,471,913	13,999,007
TOTAL LIABILITIES		21,767,557	21,926,025	21,381,366
SHAREHOLDERS' EQUITY				
Share capital	8	14,000,000	14,000,000	14,000,000
Hedging reserve	5	(45,781)	(134,630)	(198,285)
Accumulated deficit	1	(9,199,694)	(7,735,958)	(7,215,347)
Total shareholders' equity		4,754,525	6,129,412	6,586,368
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		26,522,082	28,055,437	27,967,734

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

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

INTERIM STATEMENT OF OPERATIONS (Unaudited)

	Note	For the three-month period ended		For the nine-month period ended	
		September 30, 2011 SR'000	September 30, 2010 SR'000	September 30, 2011 SR'000	September 30, 2010 SR'000
Revenue		1,794,813	1,661,953	4,983,674	4,206,592
Cost of revenue		(924,693)	(949,821)	(2,474,323)	(2,502,086)
Gross profit		870,120	712,132	2,509,351	1,704,506
Operating expenses					
Distribution and marketing expenses		(574,594)	(484,056)	(1,617,528)	(1,329,716)
General and administrative expenses		(85,778)	(93,366)	(252,776)	(253,257)
Depreciation and amortization		(431,350)	(369,884)	(1,237,557)	(1,106,444)
Total operating expenses		(1,091,722)	(947,306)	(3,107,861)	(2,689,417)
Operating loss		(221,602)	(235,174)	(598,510)	(984,911)
Other income / (expenses)					
Finance charges		(262,224)	(308,659)	(865,258)	(853,202)
Commission income		12	48	32	287
NET LOSS FOR THE PERIOD	9	(483,814)	(543,785)	(1,463,736)	(1,837,826)
Loss per share (in Saudi Riyals):					
- From operating loss for the period		(0.16)	(0.17)	(0.43)	(0.70)
- From non-operating loss for the period		(0.19)	(0.22)	(0.62)	(0.61)
- From net loss for the period		(0.35)	(0.39)	(1.05)	(1.31)

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

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

INTERIM STATEMENT OF CASH FLOWS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

	2011 SR'000	2010 SR'000
OPERATING ACTIVITIES		
Net loss for the period	(1,463,736)	(1,837,826)
Adjustments to reconcile loss for the period to net cash from operating activities:		
Provision for doubtful receivables	154,764	142,763
Depreciation and amortization	1,237,557	1,106,444
Finance charges	865,258	853,202
Commission income	(32)	(287)
Operating income before changes in working capital	793,811	264,296
Changes in working capital:		
Accounts receivable	530,722	(500,001)
Due from a related party	-	(6,757)
Inventories	(2,750)	14,976
Prepaid expenses and other assets	(161,869)	(123,156)
Accounts payable	(889,642)	278,479
Due to related parties	54,543	(258,076)
Deferred revenue	10,808	131,855
Accrued expenses and other liabilities	(533,391)	391,608
Provision for employees' end-of-service benefits, net	5,679	4,928
Net cash (used in) / from operating activities	(192,089)	198,152
INVESTING ACTIVITIES		
Purchase of property and equipment	(211,553)	(441,267)
Addition to intangible assets	(7,593)	(23,596)
Commission income received	32	287
Net cash used in investing activities	(219,114)	(464,576)
FINANCING ACTIVITIES		
Notes payable	158,684	(1,822,575)
Short-term borrowing facility	(2,193,750)	2,193,750
Proceeds from long-term borrowing	2,218,565	-
Advances from shareholders	272,507	685,375
Finance charges paid	(145,286)	(483,099)
Net cash from financing activities	310,720	573,451
Net change in cash and cash equivalents	(100,483)	307,027
Cash and cash equivalents, beginning of the period	702,117	505,792
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	601,634	812,819
Non-cash transactions:		
Change in fair value of derivative financial instruments and corresponding debit to shareholders' equity	88,849	198,285
Adjustment to property and equipment with corresponding effect to accounts payable	106,406	-

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated losses SR'000	Total SR'000
January 1, 2011		14,000,000	(134,630)	(7,735,958)	6,129,412
Net loss for the period		-	-	(1,463,736)	(1,463,736)
Derivative financial instruments	5	-	88,849	-	88,849
September 30, 2011		14,000,000	(45,781)	(9,199,694)	4,754,525
January 1, 2010		14,000,000	-	(5,377,521)	8,622,479
Net loss for the period		-	-	(1,837,826)	(1,837,826)
Derivative financial instruments	5	-	(198,285)	-	(198,285)
September 30, 2010		14,000,000	(198,285)	(7,215,347)	6,586,368

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

1. ORGANIZATION AND ACTIVITIES

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 license in the Kingdom of Saudi Arabia for 25 years. The head office of the Company is located in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the period ended September 30, 2011 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 are dependent upon the Company’s ability to arrange adequate funds in a timely manner.

The Board of Directors (the “Board”) in their meeting held on February 20, 2011 and in line with the approved long term business plan, recommended to restructure the share capital of the Company by reducing it from SR 14,000,000,000 to SR 6,265,000,000 and the total number of shares from 1.4 billion shares to 626,500,000 shares by cancellation of 773,500,000 shares with a 55.25% reduction of share capital, an average reduction of approximately one share for every 1.80995 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Company as of December 31, 2010. Further, the Board has recommended to increase the share capital by SR 4,383,487,180 through the issuance of 438,348,718 new shares (rights issue) which will involve capitalization of advances from shareholders to equity, which is subject to the approval of the founding shareholders, and raising of fresh cash from the retail investors and from the Public Pension Agency. The recommendation of the Board is subject to approval by the shareholders in the extra ordinary general assembly meeting and by the Capital Market Authority and Ministry of Commerce and Industry which is under process as of September 30, 2011.

On October 11, 2011, the Board of Directors approved the initial proposal obtained from the sole Mandated Lead Arranger, Lead Underwriter and coordinating Bank (the “refinancing proposal”) to refinance the SR 9.7 billion which the Company has an option to extend its maturity date with the existing Lead Lender, Bank Saudi Fransi till July 27, 2012. The initial approved proposal is subject to certain terms and conditions including the completion in full of the proposed rights issue for the Company (the “Proposed Rights Issue”). The Proposed Right Issue to be subscribed by the Company’s founding shareholders in full to their entitlement under the proposed right issue by converting their relevant shareholders’ advances to equity, which is subject to the approval of the founding shareholders, and the raising of fresh cash from the retail investors and from the Public Pension Agency, which will likely take some time to be completed. Accordingly, the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012. In addition, in the same meeting, the Board also approved the appointment of the new CEO Mr. Khalid S. A. Al Omar who will replace the existing CEO Mr. Saad Barrak effective October 11, 2011.

MOBILE TELECOMMUNICATIONS COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

1. ORGANIZATION AND ACTIVITIES (Continued)

The discussions and negotiations relating to the proposed acquisition by Kingdom Holding Company (KHC) – Saudi Arabia and Batelco Group – Bahrain (the “consortium”) of the 25% shareholding in the Company owned by Mobile Telecommunications Company K.S.C. – Kuwait has ended. The consortium will not proceed with making the binding offer to Mobile Telecommunications Company K.S.C. to acquire Mobile Telecommunications Company K.S.C.’s 25% stake in the Company. Consequent to the above, Mobile Telecommunication Company K.S.C. is no longer considering to sell its stake in the Company, it will focus instead on speeding up the Company’s capital restructuring plan with its full support.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these interim financial statements have been prepared on a 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 directors on October 11, 2011.

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, as modified by revaluation of derivative financial instruments at fair value, 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 December 31, 2010.

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, 2010.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 accompanying interim financial statements include all adjustments, comprising mainly of normal recurring accruals, considered necessary by the management to present fairly the 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.

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.

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 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 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

These interim financial statements are presented in Saudi Riyals ("SR") 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 the period ended September 30, 2011 and 2010, are recognized in the interim statement of operations.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of operations 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 statement of operations.

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.

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 interim 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:

	<u>Years</u>
	Shorter of lease term or useful life
Leasehold improvements	8
Telecommunication equipment	15
Civil works (telecommunications)	2
Information technology systems	5
Information technology servers	5
Furniture and fixtures	2
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 statement of operations.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 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 interim 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 the software are recognized as an expense when they are incurred.

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 statement of operations. 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 statement of operations.

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 interim statement of operations applying the straight-line method at the rates applicable to the related assets.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of operations. 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.

Employee end-of-service benefits

Employee end-of-service benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the interim statement of operations. 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.

Revenues

The Company's revenue 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 commission for facilitating the service.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues (Continued)

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.

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 statement of operations on a straight-line basis over the period of the lease.

Derivative financial instruments

Derivative financial instruments are measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedge is recognized in hedging reserve under shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in the interim statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the interim statement of operations in the period in which the hedged item impacts the interim statement of operations.

3. SHORT AND LONG TERM BORROWINGS FACILITIES

During June 2010, a short-term facility was arranged by BNP Paribas to refinance the Company's obligations under the existing vendor financing arrangements to be repayable in June 2011. This facility consists of a SR portion totaling SR 438.8 million and a US\$ portion totaling US\$ 468 million (equivalent SR 1,755 million) and is secured by a guarantee provided by a founding shareholder. The facility attracts financing charges as specified in the agreement. The Company has arranged a long-term facility as mentioned below to pay off the short-term borrowing facility.

On April 5, 2011, one of the local commercial banks arranged a long-term facility to refinance the Company's obligations under the above-mentioned existing short-term borrowing facility to be repayable on April 9, 2013. This facility consists of a SR portion totaling SR 1,875 million and a US\$ portion totaling US\$ 100 million (equivalent SR 375 million) and is secured by a guarantee provided by a founding shareholder. The facility attracts financing charges as specified in the agreement.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011

4. SYNDICATED MURABAHA FINANCING

A Syndicated Murabaha facility (“Murabaha facility”) of approximately SR 9.7 billion was arranged by 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 totalling 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 July 27, 2011. As per the terms of the Murabaha facility agreement and in the event that no default has occurred, the Company has the unconditional option to extend the initial maturity date (July 27, 2011) by six months, up to January 27, 2012, by giving notice to the lenders. The Company has exercised this option by giving notice to the lenders, to extend the initial maturity upto January 27, 2012. Further if no default occurs, the agreement also provides the Company to further extend the maturity of Murabaha facility for another six months with the prior written consent of the lenders. The Company intends to exercise this option and believes that it will be able to get the required approval from the lenders. The outstanding balance at September 30, 2011 has been classified as current liability.

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.

On October 11, 2011, the Board of Directors approved the initial refinancing proposal to refinance the SR 9.7 billion which the Company has an option to extend its maturity date with the existing Lead Lender, Bank Saudi Fransi till July 27, 2012. The initial approved proposal is subject to certain terms and conditions including the completion in full of the proposed rights issue for the Company, to be subscribed by the Company’s founding shareholders in full to their entitlement under the proposed rights issue by converting their relevant shareholders’ advances to equity, which is subject to the approval of the founding shareholders, and the raising of fresh cash from the retail investors and from the Public Pension Agency, which will likely take some time to be completed. Accordingly, the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012, (refer to Note 1).

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5. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments (commission rate swap) together with the contract notional amounts are as follows:

Contract notional amount SR'000	Negative fair value		
	September 30, 2011 (Unaudited) SR'000	December 31, 2010 (Audited) SR'000	September 30, 2010 (Unaudited) SR'000
Derivative financial instruments	8,287,500	45,781	134,630
			198,285

6. 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:

	September 30, 2011 (Unaudited) SR'000	December 31, 2010 (Audited) SR'000	September 30, 2010 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	2,472,416	2,350,595	2,349,288
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
	3,527,019	3,405,198	3,403,891
Accrued financial charges	410,985	260,299	195,484
Total	3,938,004	3,665,497	3,599,375

The advances from shareholders at September 30, 2011 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha facility of SR 9.7 billion (Note 4).

As disclosed in note 1 the initial refinancing proposal stipulates that the founding shareholders should subscribe in full to their entitlement under the proposed right issue by converting the above advances to equity which will likely take some time to be completed (refer to Note 1).

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7. ZAKAT

No zakat provision has been made in these interim financial statements as the Company's zakat base is negative and the Company has incurred losses. The Company has filed its zakat returns for the years 2008, 2009 and 2010 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

8. SHARE CAPITAL

The share capital of the Company as of September 30, 2011, December 31, 2010 and September 30, 2010 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
Public shareholding	630,000,000	6,300,000
Total	1,400,000,000	14,000,000

9. LOSS PER SHARE

Loss per share from operating loss and from net loss for the period is calculated by dividing operating loss and net loss for the period by the outstanding number of ordinary shares as at September 30, 2011, which was 1.4 billion shares (December 31, 2010 and September 30, 2010: 1.4 billion shares).

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10. 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:

	September 30, 2011 (Unaudited) SR'000	December 31, 2010 (Audited) SR'000	September 30, 2010 (Unaudited) SR'000
Within 12 months	163,909	164,520	125,048
Within 2 to 5 years	624,673	614,753	489,438
Over 5 years	295,595	294,747	273,287
	1,084,177	1,074,020	887,773

11. 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:

	September 30, 2011 (Unaudited) SR'000	December 31, 2010 (Audited) SR'000	September 30, 2010 (Unaudited) SR'000
Within 12 months	875,128	480,367	933,293
Within 2 to 5 years	107,330	912,494	635,748
	982,458	1,392,861	1,569,041

Also see Note 10 for operating lease commitments.

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

12. 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 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 segment information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

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13. RECLASSIFICATIONS

The following reclassifications have been made in the comparative December 31, 2010 financial statements and September 30, 2010 interim financial statements to conform with the 2011 presentation:

- (i) For better presentation, accrued financial charges amounting to SR 195,484 thousand as at September 30, 2010 has been reclassified as part of advances from shareholders (Note 6) from accrued expenses and other liabilities.
- (ii) Balance amounting to SR 489,891 thousand as at September 30, 2010 has been reclassified from due to related parties to advances from shareholders (Note 6).
- (iii) Balance amounting to SR 6,758 thousand as at September 30, 2010 has been reclassified from due to related parties to due from a related party.
- (iv) Balance amounting to SR 339,800 thousand and SR 284,487 thousand as of December 31, 2010 and September 30, 2010, respectively, has been reclassified from due to related parties - current liabilities to due to related parties - non-current liabilities.