

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

FINANCIAL STATEMENTS FOR THE YEAR
ENDED DECEMBER 31, 2010 AND
INDEPENDENT AUDITORS' REPORT

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

February 20, 2011

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

Scope of audit

We have audited the accompanying balance sheet of Mobile Telecommunications Company Saudi Arabia (the "Company") (a Saudi Joint Stock Company) as of December 31, 2010 and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of these financial statements. These financial statements, which were prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all necessary information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to circumstances of the Company; and
- Comply, in all material respects, with the requirements of the Regulations for the Companies and the Company's Bylaws with respect to the preparation and presentation of financial statements.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Company incurred net loss for the year ended December 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 financial statements have been prepared under the going concern basis.

PricewaterhouseCoopers



By:

Khalid A. Mahdhar
License Number 368

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

Balance sheet

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	As at December 31,	
		2010	2009
Assets			
Current assets			
Cash and cash equivalents	4	702,117	505,792
Accounts receivable - net	5	1,463,166	1,007,247
Inventories - net	6	28,799	39,422
Prepayments and other receivables - net	7	408,527	297,475
		<u>2,602,609</u>	<u>1,849,936</u>
Non-current assets			
Property and equipment - net	8	4,298,200	3,846,700
Intangible assets - net	9	21,154,628	22,133,477
		<u>25,452,828</u>	<u>25,980,177</u>
Total assets		<u>28,055,437</u>	<u>27,830,113</u>
Liabilities			
Current liabilities			
Accounts payable	10	2,104,503	1,814,792
Accrued and other liabilities	11	2,587,223	1,964,749
Deferred revenue		451,342	251,259
Due to related parties	17	457,070	51,365
Short-term borrowing facility	12	2,193,750	-
Notes payable	13	-	2,152,219
		<u>7,793,888</u>	<u>6,234,384</u>
Non-current liabilities			
Notes payable	13	659,221	-
Advances from shareholders	14	3,665,497	3,468,827
Syndicated Murabaha financing from banks	15	9,655,693	9,494,023
Derivative financial instruments	16	134,630	-
Employee termination benefits		17,096	10,400
		<u>14,132,137</u>	<u>12,973,250</u>
Total liabilities		<u>21,926,025</u>	<u>19,207,634</u>
Shareholders' equity			
Share capital	18	14,000,000	14,000,000
Accumulated losses		(7,735,958)	(5,377,521)
Hedging reserve	16	(134,630)	-
Total shareholders' equity		<u>6,129,412</u>	<u>8,622,479</u>
Total liabilities and shareholders' equity		<u>28,055,437</u>	<u>27,830,113</u>
Contingencies and commitments	25		

The notes on pages 6 to 21 form an integral part of these financial statements.

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

		Year ended December 31, 2010	Year ended December 31, 2009
	Notes		
Revenue	19	5,934,370	3,004,052
Cost of revenue	20	<u>(3,403,922)</u>	<u>(2,127,026)</u>
Gross profit		2,530,448	877,026
Operating expenses			
Distribution and marketing	21	(1,848,666)	(1,573,741)
General and administrative	22	(351,143)	(375,898)
Depreciation and amortization	8,9	<u>(1,494,220)</u>	<u>(1,394,310)</u>
Loss from operations		(1,163,581)	(2,466,923)
Other income (expenses)			
Financial charges	12,13,14,15	(1,195,511)	(633,742)
Commission income		655	1,316
Net loss for the year		<u>(2,358,437)</u>	<u>(3,099,349)</u>
Loss per share (Saudi Riyals):			
• Loss from operations	23	<u>(0.83)</u>	<u>(1.76)</u>
• Non-operating loss	23	<u>(0.85)</u>	<u>(0.45)</u>
• Net loss	23	<u>(1.68)</u>	<u>(2.21)</u>

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

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Cash flow from operating activities			
Net loss for the year		(2,358,437)	(3,099,349)
<u>Adjustments for non-cash items</u>			
Provision for doubtful debts	5,7	159,889	82,461
Provision for slow moving items	6	2,250	-
Depreciation and amortization	8,9	1,494,220	1,394,310
<u>Other adjustments</u>			
Financial charges		1,195,511	633,742
Commission income		(655)	(1,316)
<u>Changes in working capital</u>			
Accounts receivable - net		(623,808)	(772,039)
Inventories		8,373	20,410
Prepayments and other receivables - net		(103,052)	(76,843)
Accounts payable		289,711	1,400,993
Accrued and other liabilities		622,474	1,405,820
Deferred revenue		200,083	(364)
Due to related parties		139,720	(482,824)
Employee termination benefits		6,696	6,004
Net cash generated from operating activities		<u>1,032,975</u>	<u>511,005</u>
Cash flow from investing activities			
Purchase of property and equipment	8	(284,633)	(1,840,393)
Additions to intangible assets	9	(24,234)	(51,932)
Proceeds from sale of property and equipment		1,217	1,685
Commission income received		655	1,316
Net cash utilized in investing activities		<u>(306,995)</u>	<u>(1,889,324)</u>
Cash flow from financing activities			
Short-term borrowing facility	12	2,193,750	-
Notes payable	13	(2,152,219)	304,675
Advances from shareholders		-	1,241,198
Syndicated Murabaha financing from banks - net		-	330,022
Financial charges paid		(571,186)	(575,234)
Net cash (utilized in) generated from financing activities		<u>(529,655)</u>	<u>1,300,661</u>
Net change in cash and cash equivalents		196,325	(77,658)
Cash and cash equivalents at beginning of year		<u>505,792</u>	<u>583,450</u>
Cash and cash equivalents at end of year	4	<u>702,117</u>	<u>505,792</u>
Supplemental non-cash information			
Fair value of derivative financial instruments and corresponding debit to shareholders' equity	16	<u>134,630</u>	-
Notes payable issued against additions to property and equipment	13	<u>659,221</u>	-

The notes on pages 6 to 21 form an integral part of these financial statements.

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

	<u>Share capital</u>	<u>Accumulated losses</u>	<u>Hedging reserve</u>	<u>Total</u>
January 1, 2010	14,000,000	(5,377,521)	-	8,622,479
Net loss for the year	-	(2,358,437)	-	(2,358,437)
Derivative financial instruments (Note 16)	-	-	(134,630)	(134,630)
December 31, 2010	14,000,000	(7,735,958)	(134,630)	6,129,412
January 1, 2009	14,000,000	(2,278,172)	-	11,721,828
Net loss for the year	-	(3,099,349)	-	(3,099,349)
December 31, 2009	14,000,000	(5,377,521)	-	8,622,479

The notes on pages 6 to 21 form an integral part of these financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
(A Saudi Joint Stock Company)
Notes to the financial statements for the year ended December 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. 175 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. M/48 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 located in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the year ended December 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 financial statements have been prepared under the going concern basis.

The Board of Directors (the "Board") in their meeting held on February 20, 2011 recommended to restructure the share capital of the Company by reducing it from Saudi Riyals 14,000,000,000 to Saudi Riyals 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 Saudi Riyals 4,383,487,180 through the issuance of 438,348,718 new shares (rights issue). The recommendation of the Board is subject to approval by the shareholders in the extra ordinary general assembly meeting.

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

These financial statements were approved by the Management on February 20, 2011.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 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 Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Intangible assets

Intangible assets include license acquired from the Ministry of Telecommunication and licenses related to computer software purchased.

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The relative size of the Company's intangible assets being 75.4% (2009: 79.5%) of the Company's total assets, makes the judgments surrounding the estimated useful lives critical to the Company's financial position and performance.

Estimate of useful life

The useful life used to amortize intangible assets relates to the future performance of the assets acquired and management's judgment of the period over which economic benefit will be derived from the asset. The basis for determining the useful life for the most significant categories of intangible assets is as follows:

(i) Mobile telecommunication license

The estimated useful life is the term of the license. Using the license term reflects the period over which the Company will receive economic benefit.

(ii) Computer software licenses

The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. The useful life represents management's view of expected useful life over which the Company will receive benefits from the software, but not exceeding the license term.

(b) Property and equipment

Property and equipment also represent a significant proportion of the asset base of the Company, being 15% (2009: 14%) of the Company's total asset. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimate of useful life

The charge in respect of periodic depreciation is derived after determining estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the statement of operations.

The useful lives of Company's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life, such as changes in technology. Unless there is a reasonable expectation of renewal or an alternative future use for the asset, network infrastructure is depreciated over a period that does not exceed the expiry of the associated license under which the Company provides telecommunication services.

(c) Provision for doubtful debts

A provision for impairment of trade 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

2.3 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.

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2.4 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for 2010 and 2009, are recognized in the statement of operations.

2.5 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.

2.6 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.

2.7 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.

2.8 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:

	Shorter of lease term or useful life
Leasehold improvements	
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

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.

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2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 Accounts payable and accruals

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

2.14 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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2.15 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.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the 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 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.

2.17 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 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.

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.

2.18 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 principles. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

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

2.20 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 statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the statement of operations in the period in which the hedged item impacts the statement of operations.

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Notes to the financial statements for the year ended December 31, 2010
(All amounts in Saudi Riyals thousands unless otherwise stated)

2.21 Reclassifications

Following reclassifications have been made in the comparative 2009 financial statements to conform with 2010 presentation:

- (i) Balance amounting to Saudi Riyals 491.2 million has been reclassified from due to related parties (Note 17) to advances from shareholders (Note 14).
- (ii) For better presentation accrued financial charges amounting to Saudi Riyals 63.6 million has been reclassified from accrued and other liabilities (Note 11) to advances from shareholders (Note 14).

3 Financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow commission rate risks and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management under approved policies. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are discussed in this note below.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, borrowings, advances from shareholders, notes payable, accounts payable and accrued and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, Kuwaiti Dinars and US dollars. Management believes that Company's exposure to currency risk is not significant.

3.2 Fair value and cash flow commission rate risks

Fair value and cash flow commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows. The Company's commission rate risks arise mainly from short-term borrowing facilities, notes payable, advances from shareholders and syndicated murabaha financing from the banks which are at floating rate of commission and are subject to repricing on a periodic basis. The Company manages its cash flow commission rate risk on murabaha financing by using floating-to-fixed commission rate swaps. Such commission rate swaps have the economic effect of converting murabaha financing from floating rates to fixed rates. Under the commission rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate commission amounts calculated by reference to the agreed notional amounts.

3.3 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is currently not exposed to price risk.

3.4 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Accounts receivable are carried net of provision for doubtful debts.

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3.5 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments. Also, see Note 1.

3.6 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, except for derivative financial instruments at fair value, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

4 Cash and cash equivalents

	2010	2009
Cash in hand	200	200
Cash at banks	201,917	355,592
Time deposit	500,000	150,000
	702,117	505,792

5 Accounts receivable - net

	2010	2009
Billed receivables	1,609,535	992,802
Unbilled receivables	118,239	111,319
Other	299	144
	1,728,073	1,104,265
Less: provision for doubtful debts	(264,907)	(97,018)
	1,463,166	1,007,247

Movement in provision for doubtful debts is as follows:

	2010	2009
Beginning balance	97,018	14,557
Additions	167,889	82,461
Ending balance	264,907	97,018

6 Inventories - net

	2010	2009
Handsets and accessories	7,099	18,051
Sim cards	21,196	18,006
Prepaid recharge cards	1,544	3,365
Other	1,210	-
	31,049	39,422
Less: provision for inventory obsolescence	(2,250)	-
	28,799	39,422

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7 Prepayments and other receivables - net

	2010	2009
Advances for transmission lines and fiber links	177,110	171,683
Prepaid rent	71,596	64,351
Advances to suppliers and refundable deposits	102,489	27,554
Prepaid software license fee	2,358	8,138
Prepaid insurance	3,076	362
Prepaid advertisement	13,558	29,574
Other	38,340	3,813
	<u>408,527</u>	<u>305,475</u>
Less: provision for doubtful advances	-	(8,000)
	<u>408,527</u>	<u>297,475</u>

Movement in provision for doubtful advances is as follows:

	2010	2009
Beginning balance	8,000	8,000
Reversal	(8,000)	-
Ending balance	<u>-</u>	<u>8,000</u>

8 Property and equipment

	January 1, 2010	Additions	Disposals/ Transfers	December 31, 2010
Cost				
Leasehold improvements	147,285	16,380	-	163,665
Telecommunications equipment	3,309,368	753,695	(9,068)	4,053,995
IT systems and servers	247,270	24,752	-	272,022
Furniture, fixtures and office equipment	62,134	1,151	(1,205)	62,080
Vehicles and other transportation equipment	6,105	-	(340)	5,765
Capital work in progress	563,442	608,046	(460,170)	711,318
	<u>4,335,604</u>	<u>1,404,024</u>	<u>(470,783)</u>	<u>5,268,845</u>
Accumulated depreciation				
Leasehold improvements	35,883	29,357	-	65,240
Telecommunications equipment	369,178	411,947	(9,068)	772,057
IT systems and servers	71,781	43,578	-	115,359
Furniture, fixtures and office equipment	10,537	5,098	(215)	15,420
Vehicles and other transportation equipment	1,525	1,157	(113)	2,569
	<u>488,904</u>	<u>491,137</u>	<u>(9,396)</u>	<u>970,645</u>
	<u>3,846,700</u>			<u>4,298,200</u>

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	January 1, 2009	Additions	Disposals/ Transfers	December 31, 2009
Cost				
Leasehold improvements	69,269	78,016	-	147,285
Telecommunications equipment	2,102,176	1,207,192	-	3,309,368
IT systems and servers	169,697	77,610	(37)	247,270
Furniture, fixtures and office equipment	56,130	6,004	-	62,134
Vehicles and other transportation equipment	4,756	3,251	(1,902)	6,105
Capital work in progress	95,122	928,422	(460,102)	563,442
	<u>2,497,150</u>	<u>2,300,495</u>	<u>(462,041)</u>	<u>4,335,604</u>
Accumulated depreciation				
Leasehold improvements	3,805	32,078	-	35,883
Telecommunications equipment	65,115	304,063	-	369,178
IT systems and servers	15,395	56,403	(17)	71,781
Furniture, fixtures and office equipment	3,426	7,111	-	10,537
Vehicles and other transportation equipment	422	1,340	(237)	1,525
	<u>88,163</u>	<u>400,995</u>	<u>(254)</u>	<u>488,904</u>
	<u>2,408,987</u>			<u>3,846,700</u>

The Company is in the process of expanding its network. Capital work in progress at December 31, 2010 principally represents costs incurred on several network expansions.

9 Intangible assets

	January 1, 2010	Additions	December 31, 2010
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	114,122	24,234	138,356
	<u>23,473,302</u>	<u>24,234</u>	<u>23,497,536</u>
Accumulated amortization			
License fee*	(1,321,105)	(978,101)	(2,299,206)
Computer software licenses	(18,720)	(24,982)	(43,702)
	<u>(1,339,825)</u>	<u>(1,003,083)</u>	<u>(2,342,908)</u>
	<u>22,133,477</u>		<u>21,154,628</u>

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	January 1, 2009	Additions	December 31, 2009
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	62,190	51,932	114,122
	<u>23,421,370</u>	<u>51,932</u>	<u>23,473,302</u>
Accumulated amortization			
License fee*	(343,005)	(978,100)	(1,321,105)
Computer software licenses	(3,505)	(15,215)	(18,720)
	<u>(346,510)</u>	<u>(993,315)</u>	<u>(1,339,825)</u>
	<u>23,074,860</u>		<u>22,133,477</u>

* Pursuant to the Ministerial Resolutions No. 175 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. M/48 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 Hijra years was granted to the Company for an amount of Saudi Riyals 22.91 billion. The license fee also comprises an amount equal to Saudi Riyals 449.18 million related to financing costs which was capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia (see also Note 2.2).

10 Accounts payable

	2010	2009
Trade	2,083,291	1,799,287
Withholding tax	6,096	5,544
Staff	301	145
Other liabilities	14,815	9,816
	<u>2,104,503</u>	<u>1,814,792</u>

11 Accrued and other current liabilities

	2010	2009
Trade	2,148,108	1,696,371
Financial charges	140,795	103,559
Employees	54,648	41,762
Government fee (Note 20)	176,086	87,920
Other	67,586	35,137
	<u>2,587,223</u>	<u>1,964,749</u>

12 Short-term borrowing facility

During June 2010, a short-term facility was arranged by BNP Paribas to refinance the Company's obligations under the existing vendor financing arrangements and is repayable in June 2011. This facility consists of a Saudi Riyals ("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.

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13 Notes payable

	2010	2009
<u>Current :</u>		
Nokia Siemens Tietoliikenne Oy	-	577,758
Motorola Inc.	-	1,574,461
	-	2,152,219
<u>Non-current:</u>		
Motorola Inc.	659,221	-

14 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 as at December 31:

	2010	2009
Mobile Telecommunications Company K.S.C.	2,350,595	2,350,595
Faden Trading & Contracting Est.	314,890	314,890
Saudi Plastic Factory	301,365	301,365
Rakisa Holding Company	136,984	136,984
Almarai Company	109,587	109,587
Ashbal Al-Arab Contracting Est.	109,587	109,587
Al Jeraisy Development Company Limited	54,793	54,793
Al Sale Al Sharkiyah Company Limited	27,397	27,397
	3,405,198	3,405,198
Accrued financial charges	260,299	63,629
Total	3,665,497	3,468,827

The advances from shareholders at December 31, 2010 and the related accrued financial charges are currently not scheduled for repayment until the settlement of Syndicated Murabaha facility of Saudi Riyals 9.75 billion (Note 15).

15 Syndicated Murabaha financing from banks

A Syndicated Murabaha facility ("Murabaha facility") of approximately SR 9.75 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 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. As per the terms of the Murabaha facility agreement and in the event that no default has occurred, the Company has the option to extend the initial maturity date (August 12, 2011) by six months by giving notice to the lenders. The Company intends to exercise such option. Accordingly, the outstanding balance at December 31, 2010 has been classified as long term.

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.

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16 Derivative financial instruments

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

	Contract notional amount	Negative fair value
December 31, 2010	<u>8,287,500</u>	<u>(134,630)</u>

17 Related party matters

The Company is a member of an affiliated group of companies which are directly or indirectly controlled by the ultimate majority shareholder.

The related parties of the Company include the Zain group and its related entities (including subsidiaries and associates), shareholders who own material numbers of shares and voting interests in the Company, members of the board of directors, and senior management.

17.1 Related party transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below:

	2010	2009
Revenue	31,416	47,874
Consultancy and services	3,094	4,372
Management fees (Note 21)	189,900	126,132
Salaries and benefits	5,900	5,086

Payments were also made on behalf of the Company by the ultimate majority shareholder and its related entities.

Management fee is charged to the Company by one of the founding shareholders as per the basis specified in the underlying agreement.

Also see Note 14 for shareholders' advances.

17.2 Related party balances

Significant year end balances arising from transactions with related parties are as follows:

(i) Due to related parties

	2010	2009
MTC Head Office	436,940	48,176
Mada	2,000	2,000
Others	18,130	1,189
	<u>457,070</u>	<u>51,365</u>

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18 Share capital

The share capital of the Company as of December 31, 2010 and 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	<u>700,000,000</u>	<u>7,000,000</u>
Public Pension Agency	70,000,000	700,000
Public shareholding	630,000,000	6,300,000
Total	<u>1,400,000,000</u>	<u>14,000,000</u>

19 Revenue

	Year ended December 31, 2010	Year ended December 31, 2009
Usage charges	5,814,827	2,879,162
Subscription	114,860	122,429
Other	4,683	2,461
	<u>5,934,370</u>	<u>3,004,052</u>

20 Cost of revenue

	Year ended December 31, 2010	Year ended December 31, 2009
Access charges	2,199,778	1,491,086
Government charges	588,807	204,351
Leased lines	205,377	192,350
Discount on prepaid recharge cards	262,020	105,682
Other	147,940	133,557
	<u>3,403,922</u>	<u>2,127,026</u>

Government charges are related to annual license and commercial provisioning fee under the guidelines issued by the Communications and Information Technology Commission (CITC).

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21 Distribution and marketing expenses

	Year ended December 31, 2010	Year ended December 31, 2009
Dealer's commission	305,975	299,618
Advertising	252,053	296,921
Repairs and maintenance	417,318	236,015
Employees' salaries and related costs	231,019	217,685
Rentals	189,586	155,897
Management fees (Note 17)	189,900	126,132
Bad debts expense (Note 5 and 7)	159,889	82,461
Systems support and licenses	31,040	67,468
Utilities	4,586	26,506
Customer loyalty and retention	11,302	8,090
Other	55,998	56,948
	<u>1,848,666</u>	<u>1,573,741</u>

22 General and administrative expenses

	Year ended December 31, 2010	Year ended December 31, 2009
Consulting	74,694	114,722
Employees' salaries and related costs	100,699	96,870
System support and maintenance	52,514	59,893
Withholding tax expense	61,683	46,628
Repairs and maintenance	31,991	19,103
Legal and professional	8,279	15,649
Other	21,283	23,033
	<u>351,143</u>	<u>375,898</u>

23 Loss per share

Loss per share has been computed by dividing the operating loss, non-operating items - net and net loss for each year by the weighted average number of shares outstanding during the year which was 1.4 billion shares.

24 Operating leases

The Company leases sites, technical buildings and offices in connection with its operations. The lease commitments relating to such operating leases at December 31 are as follows:

	2010	2009
Within 12 months	164,520	475,746
Within 2 - 5 years	614,753	874,964
Over 5 years	294,747	487,148
	<u>1,074,020</u>	<u>1,837,858</u>

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25 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 at December 31 are comprised of the following:

	2010	2009
Within 12 months	480,367	814,040
Within 2 to 5 years	912,494	1,174,633
	1,392,861	1,988,673

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.

26 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.

27 Zakat

27.1 Components of zakat base

The significant components of the Company's approximate zakat base, for the year ended December 31, which are subject to certain adjustments under zakat and income tax regulations, are principally comprised of the following:

	2010	2009
Shareholders' equity at beginning of year	8,622,479	11,721,828
Provisions at beginning of year	115,418	26,953
Long-term borrowings and shareholders' advances	13,980,411	12,962,850
Adjusted net loss for the year	(2,189,602)	(3,010,884)
Property and equipment, net	(4,298,200)	(3,846,700)
Intangible assets, net	(21,154,628)	(22,133,477)
Approximate zakat base of the Company	(4,924,122)	(4,279,430)

Zakat is payable at 2.5 percent of higher of the approximate zakat base or adjusted net income.

Calculation of adjusted net loss

	Year ended December 31, 2010	Year ended December 31, 2009
Net loss for the year	(2,358,437)	(3,099,349)
- Employee termination benefits	6,696	6,004
- Provision for doubtful debts and inventory obsolescence	162,139	82,461
Adjusted net loss for the year	(2,189,602)	(3,010,884)

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27.2 Provision for zakat

As of December 31, 2010 and 2009, the Company's zakat base is negative and the Company has incurred losses. Accordingly, no zakat provision has been made for the years ended December 31, 2010 and 2009.

27.3 Status of assessments

The Company has filed its zakat return for the period ended December 31, 2008 and for the year ended December 31, 2009. However, DZIT has not yet raised the final assessment.