

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
AND AUDITORS' REVIEW REPORT  
FOR THE THREE AND SIX MONTHS PERIOD ENDED  
JUNE 30, 2012**

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS AND AUDITORS' REVIEW REPORT  
FOR THE THREE AND SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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## AUDITORS' REVIEW REPORT

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

### Scope of Review

We have reviewed the accompanying interim balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at June 30, 2012, and the related interim statement of operations for the three-month and six-month periods ended, and the interim statement of cash flows and interim statement of changes in shareholders' equity for the six-month period ended June 30, 2012 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

We draw attention to Note 1 to the interim financial statements. The Company incurred a net loss for the six-month period ended June 30, 2012. Furthermore, its current liabilities exceed its current assets and it has an accumulated deficit as of that date. Subsequent to June 30, 2012, the restructuring of the Company's capital was undertaken and the accumulated deficit, through to 30 September 2011, has been extinguished through the capital reduction process. Currently, the Company is in negotiations with the Murabaha facility lenders to obtain an additional extension of the existing facility, which will permit the finalization of the refinancing of the new planned Muarabaha Facility. The Company believes that it will be successful in meeting its obligations in the normal course of operations and in its efforts to secure the necessary funding. Accordingly, the accompanying interim financial statements have been prepared on a going concern basis.

Deloitte & Touche  
Bakr Abulkhair & Co.



Ehsan A. Makhdom  
License No. 358  
Sha'ban 28, 1433  
July 18, 2012



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

**INTERIM BALANCE SHEETS (Unaudited)**

	Notes	June 30, 2012 SR'000 (Unaudited)	December 31, 2011 SR'000 (Audited)	June 30, 2011 SR'000 (Unaudited)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		632,921	780,273	502,367
Accounts receivable, net		1,369,234	1,006,574	636,748
Inventories, net		69,954	43,617	27,718
Prepaid expenses and other assets		512,722	601,706	509,589
<b>Total current assets</b>		<b>2,584,831</b>	<b>2,432,170</b>	<b>1,676,422</b>
<b>Non-current assets</b>				
Property and equipment, net		4,195,080	4,058,813	3,850,482
Intangible assets, net		19,766,186	20,252,778	20,740,600
<b>Total non-current assets</b>		<b>23,961,266</b>	<b>24,311,591</b>	<b>24,591,082</b>
<b>TOTAL ASSETS</b>		<b>26,546,097</b>	<b>26,743,761</b>	<b>26,267,504</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Short-term borrowing facility	3	129,167	-	-
Long-term borrowing facility – current	3	2,233,456	-	-
Notes payable		1,076,091	915,876	-
Syndicated Murabaha Financing – current	4	9,746,750	9,747,638	-
Accounts payable		822,304	1,609,284	1,240,617
Due to related parties		60,860	26,673	36,695
Deferred revenue		392,104	434,392	428,171
Accrued expenses and other liabilities		3,169,187	2,731,184	2,180,586
Derivative financial instruments	5	-	45,781	81,572
<b>Total current liabilities</b>		<b>17,629,919</b>	<b>15,510,828</b>	<b>3,967,641</b>
<b>Non-current liabilities</b>				
Notes payable		102,177	153,937	807,915
Long-term borrowing facility	3	505,847	2,223,529	2,214,737
Syndicated Murabaha Financing	4	-	-	9,735,877
Advances from shareholders	6	4,154,719	4,018,550	3,891,837
Due to related parties		605,723	520,651	425,876
Provision for employees' end-of-service benefits		22,493	23,201	21,073
<b>Total non-current liabilities</b>		<b>5,390,959</b>	<b>6,939,868</b>	<b>17,097,315</b>
<b>TOTAL LIABILITIES</b>		<b>23,020,878</b>	<b>22,450,696</b>	<b>21,064,956</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8	14,000,000	14,000,000	14,000,000
Hedging reserve	5	-	(45,781)	(81,572)
Accumulated deficit	1	(10,474,781)	(9,661,154)	(8,715,880)
<b>Total shareholders' equity</b>		<b>3,525,219</b>	<b>4,293,065</b>	<b>5,202,548</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>26,546,097</b>	<b>26,743,761</b>	<b>26,267,504</b>

Fraser Curley - CEO

Fahad Al Deghather-Board Member

Khalil Fawaz-CFO

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 six-month period ended	
		June 30, 2012 SR'000	June 30, 2011 SR'000	June 30, 2012 SR'000	June 30, 2011 SR'000
Revenue		<b>1,629,015</b>	1,704,646	<b>3,150,607</b>	3,188,861
Cost of revenue		<b>(921,895)</b>	(781,430)	<b>(1,741,283)</b>	(1,549,630)
<b>Gross profit</b>		<b>707,120</b>	923,216	<b>1,409,324</b>	1,639,231
<b>Operating expenses</b>					
Distribution and marketing expenses		<b>(333,123)</b>	(560,465)	<b>(726,690)</b>	(1,042,934)
General and administrative expenses		<b>(94,398)</b>	(87,326)	<b>(160,236)</b>	(166,998)
Depreciation and amortization		<b>(453,599)</b>	(419,224)	<b>(887,600)</b>	(806,207)
<b>Total operating expenses</b>		<b>(881,120)</b>	(1,067,015)	<b>(1,774,526)</b>	(2,016,139)
<b>Operating loss</b>		<b>(174,000)</b>	(143,799)	<b>(365,202)</b>	(376,908)
<b>Other income / (expenses)</b>					
Finance charges		<b>(220,425)</b>	(304,385)	<b>(449,815)</b>	(603,034)
Commission income		<b>786</b>	7	<b>1,390</b>	20
<b>NET LOSS FOR THE PERIOD</b>	9	<b>(393,639)</b>	(448,177)	<b>(813,627)</b>	(979,922)
<b>Loss per share (in Saudi Riyals):</b>					
• From operating loss for the period		<b>(0.12)</b>	(0.10)	<b>(0.26)</b>	(0.27)
• From non-operating loss for the period		<b>(0.16)</b>	(0.22)	<b>(0.32)</b>	(0.43)
• From net loss for the period		<b>(0.28)</b>	(0.32)	<b>(0.58)</b>	(0.70)

**Fraser Curley - CEO**

**Fahad Al Deghather-Board Member**

**Khalil Fawaz-CFO**

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

**INTERIM STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

	2012 SR'000	2011 SR'000
<b>Cash flow from operating activities</b>		
Net loss for the period	(813,627)	(979,922)
<b>Adjustments to reconcile net loss for the period to net cash from operating activities</b>		
Provision for doubtful receivables	18,850	102,836
Provision for slow moving inventory items	-	750
Provision against other receivables	-	2,697
Depreciation and amortization	887,600	806,207
Other provisions	40,076	-
Finance charges	449,815	603,034
Provision for employees' end-of-service benefits, net	(708)	3,977
<b>Operating income before changes in working capital</b>	<b>582,006</b>	<b>539,579</b>
<b>Changes in working capital</b>		
Accounts receivable	(381,510)	723,582
Inventories	(26,337)	331
Prepaid expenses and other assets	88,984	(103,759)
Accounts payable	(1,057,353)	(757,480)
Accrued expenses and other liabilities	119,833	(510,150)
Due to related parties	119,259	(80,599)
Deferred revenue	(42,288)	(23,171)
<b>Cash flows used in operating activities</b>	<b>(597,406)</b>	<b>(211,667)</b>
Finance charges paid	(47,655)	(315,684)
<b>Net cash used in operating activities</b>	<b>(645,061)</b>	<b>(527,351)</b>
<b>Cash flow from investing activities</b>		
Purchase of property and equipment	(176,853)	(47,371)
Purchase of intangible assets	(1,574)	(3,496)
<b>Net cash used in investing activities</b>	<b>(178,427)</b>	<b>(50,867)</b>
<b>Cash flow from financing activities</b>		
Notes payable	-	144,780
Long-term borrowing facility	515,774	2,214,737
Short-term borrowing facility	129,167	(2,193,750)
Advance from shareholders	32,083	126,601
Syndicated Murabaha Financing	(888)	-
Due to related parties - net	-	86,100
<b>Net cash generated from financing activities</b>	<b>676,136</b>	<b>378,468</b>
<b>Net change in cash and cash equivalents</b>	<b>(147,352)</b>	<b>(199,750)</b>
Cash and cash equivalents at beginning of period	780,273	702,117
Cash and cash equivalents at end of period	632,921	502,367

**Fraser Curley - CEO**

**Fahad Al Dheghaither-Board Member**

**Khalil Fawaz-CFO**

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**INTERIM STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**Non-cash transactions:**

Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	-	53,058
Adjustment to property and equipment with corresponding effect to notes payable	<u>88,475</u>	<u>106,406</u>
Adjustment to advances from shareholders with corresponding effect to financial charges	<u>104,086</u>	-
Adjustment to notes payable with corresponding effect to financial charges	<u>19,980</u>	-
Adjustment to property and equipment with corresponding effect to accounts payable	<u>270,373</u>	-

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**Fraser Curley - CEO**

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**Fahad Al Dheghaither-Board Member**

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**Khalil Fawaz-CFO**

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

	Notes	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total equity SR'000
<b>Balance as at 1 January 2012</b>		<b>14,000,000</b>	<b>(45,781)</b>	<b>(9,661,154)</b>	<b>4,293,065</b>
Net loss for the period		-	-	(813,627)	(813,627)
Derivative financial instruments	5	-	45,781	-	45,781
<b>Balance as at 30 June 2012</b>		<b>14,000,000</b>	<b>-</b>	<b>(10,474,781)</b>	<b>3,525,219</b>
Balance as at 1 January 2011		14,000,000	(134,630)	(7,735,958)	6,129,412
Net loss for the period		-	-	(979,922)	(979,922)
Derivative financial instruments	5	-	53,058	-	53,058
Balance as at 30 June 2011		14,000,000	(81,572)	(8,715,880)	5,202,548

**Fraser Curley - CEO**

**Fahad Al Dheghaither-Board Member**

**Khalil Fawaz-CFO**

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



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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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

The Company incurred losses for the period from 1 January 2012 to 30 June 2012 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 in its efforts to secure the necessary funding.

**Capital Reduction and Rights Issue**

The Board of Directors (the "Board") in their meeting held on 26 October 2011 recommended to restructure the share capital of the Company by reducing it from SR14 billion to SR4.8 billion and the total number of shares from 1.4 billion shares to 480.1 million shares by cancellation of 919.9 million shares with a 65.7% reduction of share capital, an average reduction of approximately one (1) share for every 1.5219 shares. The purpose of such capital reduction is to absorb the accumulated deficit of the Company as at 30 September 2011. The Board has also recommended to increase the share capital by SR6 billion through the issuance of 600 million new shares (rights issue) which is expected to involve partial capitalization of advances from founding shareholders to equity as mentioned below.

After obtaining the required approvals from the regulatory bodies (Communication and Information Technology Commission "CITC" and Capital Market Authority "CMA"), an Extraordinary General Assembly was held on 4 July 2012 and the following resolutions were approved:

- Approval on the Board of Directors' resolution to decrease the Company's capital from SR14 billion to SR4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit till 30 September 2011.
- Approval on the Board of Directors' resolution to increase the Company's capital through executing a rights issue transaction for an amount of SR6 billion that represents the following:
  - Cash injection amounting to approximately SR3.5 billion will be subscribed by the Company's shareholders that are registered in the Company's register as at the date of the Extraordinary General Assembly mentioned above; and
  - An amount of approximately SR2.5 billion which will be used to partially capitalise the advances from founding shareholders.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**1 ORGANIZATION AND ACTIVITIES (Continued)**

- Approval on the modifications of clauses 7 and 8 of the bylaws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications set out below will be effective post rights issue transaction:
  - Clause 7 after modification: The Company's capital is SR10.8 billion post rights issue. The number of shares is 1.08 billion at a par value of SR10 per share.
  - Clause 8 after modification: The shareholders subscribed in 1.08 billion share at a par value of SR10 per share for an amount of SAR10.8 billion.

The cash amount of approximately SR3.5 billion will be utilised as set out below:

- Repay certain amounts of the existing Syndicated Murabaha Facility;
- Finance certain capital expenditure required to increase the coverage and capacity of the Company's network and to enhance its transmission network;
- Reduce the current liabilities; and
- Settle the related rights issue expenses.

**Refinancing Arrangements**

On 11 October 2011 the Board also approved the commencement of negotiations with the current existing lenders and to seek new potential lenders to refinance the existing Murabaha Facility. Discussions are well advanced and the directors believe a formal refinancing agreement will be most likely signed during the third quarter of year 2012.

In December 2011, the Company has formally submitted the request to exercise its second and final option to extend the maturity date of the Murabaha Facility till 27 July 2012 and obtained the required approval from the lenders on 24 January 2012.

**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**1 ORGANIZATION AND ACTIVITIES (Continued)**

The Company is currently negotiating with the Murabaha Facility Lenders to obtain an additional extension of the existing Facility for a period up to two (2) months. This extension will permit the finalisation of the refinancing with a new planned USD 2.4 billion Murabaha Facility. The terms and conditions of the new facility (which will have a maturity of five (5) years and be at a lower financing cost to the existing Murabaha Facility) are being finalised. As of June 30, 2012, the Company has received firm written commitments, amounting, in aggregate, to USD 2.6 billion (exceeding the planned USD 2.4 billion requirement), from local and international banks to refinance the Murabaha Facility.

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 board on 18 July 2012.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**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, 2011.

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, 2011.

**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 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Segment reporting**

(a) Business segment

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

- (i) engaged in revenue producing activities;
- (ii) results of its operations are continuously 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 are recognized in the interim statement of operations.

**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.

**MOBILE TELECOMMUNICATIONS COMPANY**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and equipment**

Property and equipment are carried at cost less accumulated depreciation except for capital work in progress which is carried at cost. Depreciation is charged to the 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.

**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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment of non-current assets**

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

**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.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2012**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.



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**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**

On 5 April 2011, local commercial banks arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility. This facility is due for repayment on 9 April 2013. This facility consists of a SR portion totalling SR1,875 million and a USD portion totalling USD100 million (equivalent SR375 million) and is secured by a guarantee provided by a founding shareholder. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility.

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**3 SHORT AND LONG-TERM BORROWINGS FACILITIES (Continued)**

On 20 June 2012 an Export Credit Agency Facility Agreement was signed on between Zain KSA (as "Borrower") and international banks (as "Mandated Lead Arrangers"). This facility is fully guaranteed by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totalling USD 155 million) and July 2013 for tranche B (totalling USD170 million).

**4 SYNDICATED MURABAHA FINANCING**

Syndicated Murabaha Facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SR portion totalling SR 7.09 billion and a USD portion totalling USD710 million (equivalent to SR2.66 billion).

Financing charges as specified under the Murabaha Facility are payable in quarterly instalments over two (2) years. The principal amount was initially payable in one bullet payment on 27 July 2011. As per the terms of the Murabaha Financing Agreement the Company exercised its two (2) options to extend the initial maturity date (12 August 2011) for six (6) months each, totalling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. The Company has successfully exercised both renewal options and the Murabaha facility was extended till 27 July 2012.

Accordingly, the outstanding balance as at 30 June 2012 has been classified as current liability, (refer to Note 1).

Financial covenants imposed by the financing banks are:

- Pledge on all revenues and assets insurance and operating accounts;
- 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 till 31 December 2011.

**MOBILE TELECOMMUNICATIONS COMPANY**  
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**4 SYNDICATED MURABAHA FINANCING** (Continued)

As mentioned in Note 1, The Company is currently negotiating with the Murabaha Facility Lenders to obtain an additional extension of the existing Facility for a period up to two (2) months. This extension will permit the finalisation of the refinancing with a new planned USD 2.4 billion Murabaha Facility. The terms and conditions of the new facility (which will have a maturity of five (5) years and be at a lower financing cost to the existing Murabaha Facility) are being finalised. As of 30 June 2012, the Company has received firm written commitments, amounting, in aggregate, to USD 2.6 billion (exceeding the planned USD 2.4 billion requirement), from local and international banks to refinance the Murabaha Facility.

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.

**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		
	<b>June 30, 2012 (Unaudited) SR'000</b>	December 31, 2011 (Audited) SR'000	June 30, 2011 (Unaudited) SR'000
Derivative financial instruments	<b>8,287,500</b>	-	81,572

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**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:

	June 30, 2012 (Unaudited) SR'000	December 31, 2011 (Audited) SR'000	June 30, 2011 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	<b>2,537,157</b>	2,505,074	2,477,196
Faden Trading & Contracting Est.	<b>314,890</b>	314,890	314,890
Saudi Plastic Factory	<b>301,365</b>	301,365	301,365
Rakisa Holding Company (Rakisa)	-	136,984	136,984
Almarai Company	<b>109,587</b>	109,587	109,587
Ashbal Al-Arab Contracting Est.	<b>109,587</b>	109,587	109,587
Al Jeraisy Development Company Limited	<b>54,793</b>	54,793	54,793
Al Sale Al Sharkiyah Company Limited	<b>27,397</b>	27,397	27,397
Abu Dhabi Investment House (ADIH)	<b>136,984</b>	-	-
	<b>3,591,760</b>	3,559,677	3,531,799
Accrued financial charges	<b>562,959</b>	458,873	360,038
Total	<b>4,154,719</b>	4,018,550	3,891,837

The advances from shareholders at 30 June 2012 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility of SR9.75 billion (Note 4).

As disclosed in Note 1, on 4 July 2012 the Extraordinary General Assembly approved the partial capitalisation of the outstanding principal amount of the advances from founding shareholders amounting to SR2.5 billion.

In addition, Rakisa and ADIH entered into a settlement agreement dated 18 July 2008 and a supplement to this agreement dated 28 October 2008 (together, the "Settlement Agreements") in relation to a claim that ADIH had filed against Rakisa. The terms of the Settlement Agreements required Rakisa to transfer certain number of its assets to ADIH, including 30 million of its shares and its full amount of the advances from shareholders, being approximately SR137 million. In order to enforce Rakisa's compliance with the Settlement Agreements, ADIH filed a claim dated 9 September 2009 against Rakisa at the Second Commercial Circuit at the Grievances Board in Riyadh. On 20 October 2010, the Grievances Board issued a judgment requiring Rakisa to comply with the terms of the Settlement Agreements. The ADIH transfer took place on 15 May 2012.

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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, 2010 and 2011 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 30 June 2012, 31 December 2011 and 30 June 2011 was comprised of 1.4 billion shares stated at SR10 per share owned as follows:

<b>Shareholders</b>	<b>Number of shares</b>	<b>Share Capital SR'000</b>
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 (refer to Note 6)	13,750,000	137,500
Abu Dhabi Investment House (refer to Note 6)	30,000,000	300,000
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 shareholding	700,000,000	7,000,000
Total	<b>1,400,000,000</b>	<b>14,000,000</b>

Public Pension Agency sold their shares (70 million shares) in the Company during the second quarter of year 2012.

Rakisa Holding Company transferred 30 million shares amounting to SR300 million as of 15 May 2012 to Abu Dhabi Investment House. The consent of the transfer has been obtained from the Murabaha Facility Lenders, CITC and CMA (refer to Note 6)

**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 30 June 2012, which was 1.4 billion shares (30 June 2011: 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:

	<b>June 30, 2012 (Unaudited) SR'000</b>	December 31, 2011 (Audited) SR'000	June 30, 2011 (Unaudited) SR'000
Within 12 months	<b>182,316</b>	164,216	141,189
Within 2 to 5 years	<b>705,011</b>	632,292	543,377
Over 5 years	<b>812,482</b>	299,840	251,017
	<b>1,699,809</b>	1,096,348	935,583

**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:

	<b>June 30, 2012 (Unaudited) SR'000</b>	December 31, 2011 (Audited) SR'000	June 30, 2011 (Unaudited) SR'000
Within 12 months	<b>209,487</b>	318,212	850,753
Within 2 to 5 years	<b>-</b>	97,554	113,756
	<b>209,487</b>	415,766	964,509

Refer to 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 EVENTS AFTER BALANCE SHEET DATE**

After obtaining the required approvals from the regulatory bodies (Communication and Information Technology Commission "CITC" and Capital Market Authority "CMA"), an Extraordinary General Assembly was held on 4 July 2012 and the following resolutions were approved:

- Approval on the Board of Directors' resolution to decrease the Company's capital from SR14 billion to SR4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit till 30 September 2011.
- Approval on the Board of Directors' resolution to increase the Company's Capital through executing a rights issue transaction for an amount of SR6 billion that represents the following:
  - Cash injection amounting to approximately SR3.5 billion will be subscribed by the Company's shareholders that are registered in the Company's register as at the date of the Extraordinary General Assembly mentioned above; and
  - An amount of approximately SR2.5 billion which will be used to partially capitalise the advances from founding shareholders.
- Approval on the modifications of clauses 7 and 8 of the bylaws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications set out below will be effective post rights issue transaction:
  - Clause 7 after modification: The Company's capital is SR10.8 billion post rights issue. The number of shares is 1.08 billion at a par value of SR10 per share.
  - Clause 8 after modification: The shareholders subscribed in 1.08 billion share at a par value of SR10 per share for an amount of SAR10.8 billion.

The subscription period relating to the Rights Issue commenced on 10 July 2012 and it closed on 17 July 2012 at end of day.

The allocation of rights issues shares, according to the principles set out in the rights issue prospectus, and the settlement and disbursement of funds for over-subscription is expected to be completed no later than end of July 2012. The net proceeds from the rights issue are expected to be deposited in the company's accounts in August 2012.