

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS  
AND AUDITORS' LIMITED REVIEW REPORT  
FOR THE THREE AND NINE MONTHS PERIOD ENDED  
30 SEPTEMBER 2013**

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS AND AUDITORS' LIMITED  
REVIEW REPORT  
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2013**

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## AUDITORS' LIMITED 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 30 September 2013, and the related interim statement of operations for the three-month and nine-month periods ended 30 September 2013, and the interim statements of cash flows and changes in shareholders' equity for the nine-month period then ended including the related notes 1 to 12 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 limited 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 a matter**

We draw attention to Note 1 to the accompanying interim financial statements, the Company has incurred a net loss for the nine-month period ended 30 September 2013 and has an accumulated deficit as of that date. The Company's management believes that the Company will achieve its future profitable targets, which are based on the realization of its future business plan, and it will be successful in meeting its obligations in the normal course of operations.

Deloitte & Touche  
Bakr Abulhair & Co.



Ehsan A. Makhdoum  
License No. 358

Dhu Al Hijjah 22, 1434  
October 27, 2013



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

**INTERIM BALANCE SHEET**

	Notes	30 September 2013 SR'000 (Unaudited)	31 December 2012 SR'000 (Audited)	30 September 2012 SR'000 (Unaudited)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,578,187	2,384,898	2,718,256
Accounts receivable, net		1,249,161	1,318,931	1,067,630
Inventories, net		129,723	50,300	64,008
Prepaid expenses and other assets		638,231	625,738	702,207
<b>Total current assets</b>		<b>3,595,302</b>	<b>4,379,867</b>	<b>4,552,101</b>
<b>Non-current assets</b>				
Property and equipment, net		4,277,530	4,284,994	4,237,034
Intangible assets, net		18,561,552	19,274,353	19,519,662
<b>Total non-current assets</b>		<b>22,839,082</b>	<b>23,559,347</b>	<b>23,756,696</b>
<b>TOTAL ASSETS</b>		<b>26,434,384</b>	<b>27,939,214</b>	<b>28,308,797</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Short-term borrowing facility	3	200,005	11,413,421	11,393,883
Notes payable		32,331	199,897	1,110,261
Accounts payable		628,181	688,044	764,266
Due to related parties		36,543	46,743	47,336
Deferred revenue		437,518	385,181	423,804
Accrued expenses and other liabilities		2,734,108	2,662,008	2,685,946
<b>Total current liabilities</b>		<b>4,068,686</b>	<b>15,395,294</b>	<b>16,425,496</b>
<b>Non-current liabilities</b>				
Notes payable		2,542	34,872	34,872
Long-term borrowing facility	3	11,085,494	644,083	523,894
Advances from founding shareholders	4	2,975,355	2,562,810	1,629,514
Due to related parties		729,792	693,570	647,030
Other non-current liabilities		274,064	130,823	122,118
Provision for employees' end-of-service benefits		35,750	25,898	26,029
<b>Total non-current liabilities</b>		<b>15,102,997</b>	<b>4,092,056</b>	<b>2,983,457</b>
<b>TOTAL LIABILITIES</b>		<b>19,171,683</b>	<b>19,487,350</b>	<b>19,408,953</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	6	10,801,000	10,801,000	10,801,000
Accumulated deficit	1	(3,538,299)	(2,349,136)	(1,901,156)
<b>Total shareholders' equity</b>		<b>7,262,701</b>	<b>8,451,864</b>	<b>8,899,844</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>26,434,384</b>	<b>27,939,214</b>	<b>28,308,797</b>

  
Fahad Al Dheghaither - Chairman

  
Hassan Kabbani - CEO

  
Wissam Farhat - 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)**

	For the three-month period ended		For the nine-month period ended	
	30 September 2013 SR'000	30 September 2012 SR'000	30 September 2013 SR'000	30 September 2012 SR'000
Revenue	1,573,324	1,472,494	4,999,066	4,505,608
Cost of revenue	(812,343)	(760,878)	(2,631,090)	(2,384,668)
<b>Gross profit</b>	<b>760,981</b>	<b>711,616</b>	<b>2,367,976</b>	<b>2,120,940</b>
<b>Operating expenses</b>				
Distribution and marketing expenses	(510,153)	(486,663)	(1,522,609)	(1,213,353)
General and administrative expenses	(30,897)	(71,954)	(161,110)	(232,190)
Depreciation and amortization	(458,935)	(457,785)	(1,362,319)	(1,345,385)
<b>Total operating expenses</b>	<b>(999,985)</b>	<b>(1,016,402)</b>	<b>(3,046,038)</b>	<b>(2,790,928)</b>
<b>Operating loss</b>	<b>(239,004)</b>	<b>(304,786)</b>	<b>(678,062)</b>	<b>(669,988)</b>
<b>Other income / (expenses)</b>				
Finance charges	(184,072)	(189,517)	(529,270)	(639,332)
Commission income	2,268	1,303	18,169	2,693
<b>NET LOSS FOR THE PERIOD</b>	<b>(420,808)</b>	<b>(493,000)</b>	<b>(1,189,163)</b>	<b>(1,306,627)</b>
<b>Loss per share (in Saudi Riyals):</b>				
- From operating loss for the period	(0.22)	(0.22)	(0.63)	(0.49)
- From non-operating loss for the period	(0.17)	(0.14)	(0.47)	(0.46)
- From net loss for the period	(0.39)	(0.36)	(1.10)	(0.95)

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA**  
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**INTERIM STATEMENT OF CASH FLOWS (Unaudited)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

	2013 SR'000	2012 SR'000
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(1,189,163)	(1,306,627)
<b>Adjustments to reconcile net loss for the period to net cash from operating activities:</b>		
Provision for doubtful receivables and other assets	33,068	26,941
Depreciation and amortization	1,362,319	1,345,385
Other Provisions	5,394	45,348
Finance charges	529,270	639,332
Provision for employees' end-of-service benefits, net	9,852	2,828
<b>Operating income before changes in working capital</b>	<b>750,740</b>	<b>753,207</b>
<b>Changes in working capital</b>		
Accounts receivable	34,499	(87,997)
Inventories	(79,423)	(20,391)
Prepaid expenses and other assets	(10,290)	(100,501)
Accounts payable	(129,622)	(1,036,913)
Due to related parties	26,022	147,042
Deferred revenue	52,337	(10,588)
Accrued expenses and other liabilities	276,388	(22,338)
<b>Cash flows generated from (used in) operating activities</b>	<b>920,651</b>	<b>(378,479)</b>
Financial charges paid	(413,609)	(427,910)
<b>Net cash generated from (used in) operating activities</b>	<b>507,042</b>	<b>(806,389)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(553,175)	(478,311)
Purchase of intangible assets	(19,120)	(1,809)
<b>Net cash used in investing activities</b>	<b>(572,295)</b>	<b>(480,120)</b>
<b>FINANCING ACTIVITIES</b>		
Notes payable	(199,896)	(73,125)
Short and long-term borrowing facilities	(772,005)	(53,390)
Advances from founding shareholders	230,443	29,573
Rights issue costs	-	(132,375)
Increase in share capital through rights issue	-	3,453,809
<b>Net cash generated from (used in) financing activities</b>	<b>(741,458)</b>	<b>3,224,492</b>
<b>Net change in cash and cash equivalents</b>	<b>(806,711)</b>	<b>1,937,983</b>
Cash and cash equivalents at beginning of period	2,384,898	780,273
Cash and cash equivalents at end of period	1,578,187	2,718,256

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA  
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**INTERIM STATEMENT OF CASH FLOWS (Unaudited) (Continued)  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

	2013 SR'000	2012 SR'000
<b>Non-cash transactions:</b>		
Adjustment to advances from shareholders with corresponding effect to financial charges	<u>182,102</u>	127,582
Adjustment to property and equipment with corresponding effect to accounts payables	<u>69,759</u>	191,895
Adjustment to property and equipment with corresponding effect to notes payable	-	118,475
Adjustment to advances from shareholders with corresponding effect to share capital	-	2,546,191
Adjustment to accumulated deficit with corresponding effect to share capital	-	9,199,000
Adjustment to notes payable with corresponding effect to financial charges	-	29,970

  
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**MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA  
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**INTERIM STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY (Unaudited)  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total equity SR'000
Balance as at 1 January 2013		10,801,000	-	(2,349,136)	8,451,864
Net loss for the period		-	-	(1,189,163)	(1,189,163)
Balance as at 30 September 2013		10,801,000	-	(3,538,299)	7,262,701
Balance as at 1 January 2012		14,000,000	(45,781)	(9,661,154)	4,293,065
Decrease of share capital (Capital Reduction)	1	(9,199,000)	-	9,199,000	-
Increase of share capital (Subsequent Capital Increase)	1	6,000,000	-	-	6,000,000
Rights issue costs	1	-	-	(132,375)	(132,375)
Net loss for the period		-	-	(1,306,627)	(1,306,627)
Derivative financial instrument		-	45,781	-	45,781
Balance as at 30 September 2012		10,801,000	-	(1,901,156)	8,899,844

  
Fahad Al Dheghaither - Chairman

  
Hassan Kabbani - CEO

  
Wissam Farhat - CFO

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

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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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 2013 to 30 September 2013 and has accumulated deficit as of that date. The Company believes that the Company will achieve its future profitable targets, which are based on the realization of its future business plan, and it will be successful in meeting its obligations in the normal course of operations.

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 partial capitalisation of the "Advances from Founding Shareholders" and rights issue transactions for a total amount of SR 6 billion that represents the following:
  - An amount of approximately SR 2.5 billion which will be used to partially capitalise the "Advances from Founding Shareholders"; and
  - 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.
- Approval on the modifications of clauses 7 and 8 of the by-laws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications sought were as follows:
  - 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 shares 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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**1. ORGANISATION AND ACTIVITIES (Continued)**

As at 24 July 2012 Zain KSA had successfully executed the capital restructuring that involved the following phases:

- Capital reduction;
- Partial capitalisation of the "Advances from Founding Shareholders"; and
- Rights issue.

The cost of above-mentioned transactions amounting to SR 137.6 million has been recorded directly in the statement of changes in shareholders' equity.

**Capital Reduction**

The Company reduced its share capital from SR14 billion to SR4.8 billion and accordingly the total number of shares was reduced from 1.4 billion shares to 480.1 million shares by cancellation of 919.9 million shares (65.7% reduction of share capital). The purpose of this reduction was to absorb the accumulated deficit of the Company as at 30 September 2011. The capital reduction was completed on 4 July 2012.

**Partial Capitalisation of the "Advances from Founding Shareholders"**

The founding shareholders who provided the Company previously with interest bearing advances along with Abu Dhabi Investment House (ADIH) (refer note 4 and 6) capitalised partially the "Advances from Shareholders" which amounted to approximately SR2.5 billion. The accumulated accrued interest due to this particular interest bearing debt was not subject to this partial capitalisation transaction.

After this capitalisation transaction the share capital increased from SR4.8 billion to SR7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

**Rights Issue**

After the partial capitalisation mentioned above, a cash injection transaction was executed through the rights issue transaction which amounted to SR3.5 billion. This amount was subscribed by the Company's shareholders that were registered in Zain KSA register as at the date of the Extraordinary General Assembly that was held on 4 July 2012. After this transaction the share capital increased from SR7.3 billion to SR10.8 billion and accordingly the number of shares increased from 734.7 million shares to 1.08 billion shares. Mobile Telecommunications Company K.S.C. injected SR1.3 billion whereas the remaining amount of SR 2.2 billion was injected by the public shareholding.

Accordingly; the ownership percentage of Mobile Telecommunications Company K.S.C. increased from 25% to 37.05%.

The cash injection of SR 3.5 billion was partially utilized by the Company as set out below:

- Settlement of the related rights issue costs;
- Partial settlement amounted to SR750 million related to the Syndicated Murabaha Facility; and
- Financing capital expenditure projects required to increase the coverage and capacity of the Company.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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**1. ORGANISATION AND ACTIVITIES (Continued)**

**Refinancing Arrangements**

On 11 October 2011 the Board of Directors also approved the commencement of negotiations with the current existing Murhabaha facility investors and to seek new potential investors to refinance the Company`s existing Murabaha Facility.

On 27 July 2012, the Company's existing Murabaha Facility was due to mature. Prior to that date the Company secured the unanimous consent of the Murabaha Facility investors to extend the maturity for two (2) months until 27 September 2012. Subsequently the Company has obtained several approvals to extend the existing Facility until 31 July 2013.

On 31 July 2013 the Company has signed an amended and restated agreement "Murhabaha financing Agreement" with some of the Existing Murabaha Facility Investors. As per the term of the new agreement the Company has settled portion of the existing facility amounting to SR 369 million from its internal cash resources to reduce the outstanding principle amounting to SR 8.63 billion.

With the signing of of the new agreement the company has successfully extended the maturity date of its existing Murabaha facility for 5 years ended July 31, 2018 (Refer to Note 3).

On 5 June 2013 the Company has signed a new long-term borrowing facility amounting to SR 2.25 billion with three years bullet maturity to refinance the existing facility obtained from local commercial banks due on 3 April 2013 (Refer to Note 3).

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.

**Agreement with the Ministry of Finance, Saudi Arabia**

The Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at SAR 5.6 billion. These deferred payments under this agreement will be bearing commercial commission payable annually, while the amount due will be repayable in equal instalments starting June 2021.

**Strategic Cooperation**

The Company has entered into a commercial agreement on 2 September 2012 with Vodafone Sales & Services Limited (Vodafone). This commercial cooperation agreement is to provide the Company an access to in-depth knowledge transfer on a range of operational issues, together with branding and procurement support from Vodafone. Covering products and services, international roaming and handsets, the Agreement is allowing customers of Zain KSA to benefit from the industry leading expertise and global presence of Vodafone.

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 October 27, 2013.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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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 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 31 December 2012.

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 31 December 2012.

**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) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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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.

Rights of use of various telecommunication services are recorded upon acquisition at cost and are amortized starting from the date of service on a straight line basis over their useful lives or statutory duration, whichever is shorter.

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) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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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.

**Accounts payable and accruals**

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

**Provisions**

Provisions are recognized when; the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**Zakat**

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the interim 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.



**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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

**Employees' end-of-service benefits**

Employee end-of-service benefits required by Saudi Labour 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 mainly 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.

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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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

**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 interim statement of 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**

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
<b><u>SHORT TERM</u></b>			
Export credit facility – current portion (c)	<b>200,005</b>	170,039	155,464
Long term facility from local commercial bank (b)	-	2,243,382	2,238,419
Syndicate Murabaha facility – current portion (a)	-	9,000,000	9,000,000
	<b>200,005</b>	11,413,421	11,393,883
<b><u>LONG TERM</u></b>			
Syndicate Murabaha facility – noncurrent portion (a)	<b>8,419,999</b>	-	-
Long term facility from local commercial bank (b)	<b>2,206,322</b>	-	-
Export credit facility– noncurrent portion (c)	<b>459,173</b>	644,083	523,894
	<b>11,085,494</b>	644,083	523,894

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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

- (a) 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 SR7.09 billion and a USD portion totalling USD710 million (equivalent to SR 2.66 billion).

Financing charges as specified under the Murabaha Facility are payable in quarterly instalments over the life of the loan. 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.

As mentioned before under Note 1; the Company has partially settled an amount of SR750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company has signed an amended and restated agreement “Murhabaha financing Agreement” with the existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ended 31 July 2018. The facility has been restructured as an amortising facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SR 8.6 billion, SR portion totalling 6.3 billion and USD portion totalling 0.6 billion (SR 2.3 billion).

Accordingly, the outstanding balance as at 30 September 2013 has been classified as non-current liability, (refer to Note 1).

Financing charges as specified under the Murabaha financing agreement are payable in quarterly instalments over 5 years. The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and pledge of shares of founding shareholders.

Financial covenants imposed by the financing banks are:

- a. Assignment of certain contracts and receivables;
  - b. Pledge of insurance contracts and operating accounts;
  - c. Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
  - d. No further financial indebtedness, pari passu, insurance on all assets; and
  - e. EBITDA and leverage level.
- (b) 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 3 April 2013. This facility consists of a SAR portion totalling SAR 1,875 million and a USD portion totalling USD100 million (equivalent SAR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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

The Company obtained the required approval to extend existing long term facility until 5 June 2013 in order to finalize the legal documents for the refinancing.

On 5 June 2013 the Company has signed a new Long-Term borrowing facility agreement amounting to SAR 2.25 billion with three years maturity to refinance the above facility. The new facility is provided by a syndicated of four banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility, and secured by an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C. The new facility will be repaid in one bullet payment at the maturity date of 2<sup>nd</sup> June, 2016.

(c) On 20 June 2012 an Export Credit Agency Facility Agreement was signed between the Company and international banks (as "Mandated Lead Arrangers"). This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the existing 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.

At 30 September 2013, the Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion has been cancelled during the first quarter of 2013.

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 USD 98 million). As at 30 September 2013 four instalments were repaid.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

**4. ADVANCES FROM FOUNDING SHAREHOLDERS**

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

The following is a breakdown of the advances from shareholders:

	<b>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	<b>2,246,938</b>	1,946,890	1,035,174
Abu Dhabi Investment House (ADIH)	<b>8,413</b>	8,413	8,413
	<b>2,255,351</b>	1,955,303	1,043,587
Accrued financial charges	<b>720,004</b>	607,507	585,927
Total	<b>2,975,355</b>	2,562,810	1,629,514

As discussed in Note 1, the advances from founding shareholders are capitalised "Advances from founding Shareholders" amounted to approximately SR 2.5 billion. The accumulated accrued interest due to advances from founding shareholders was not subject to this capitalisation activity. After this capitalisation transaction, the share capital increased from SR4.8 billion to SR 7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

The advances from shareholders as at 30 September 2013 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

In addition, a founding shareholder Rakisa Holding Company ("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 in the Company and its full amount of the advances provided to the Company, 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.

**5. ZAKAT**

No zakat provision for the period 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 filled its zakat return for the year 2008 and has received its final zakat assessment from DZIT for the year 2008 raising additional liability. This liability is being contested by the Company. The Company has also filed its zakat returns for the years 2009, 2010, 2011 and 2012 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

**6. SHARE CAPITAL**

The share capital of the Company as of 30 September 2013 (post capital restructuring) (refer note 1) comprised of 1.08 billion shares stated at SR10 per share owned as follows:

Shareholders	Post-Capital Restructuring		Pre-Capital Restructuring	
	Number of shares	Share Capital SR'000	Number of shares	Share Capital SR'000
Mobile Telecommunications Company K.S.C.	400,125,067	4,001,251	350,000,000	3,500,000
Saudi Plastic Factory	63,143,367	631,434	96,250,000	962,500
Faden Trading & Contracting Est.	64,495,867	644,958	96,250,000	962,500
Rakisa Holding Company (refer to Note 4)	4,715,270	47,153	13,750,000	137,500
Abu Dhabi Investment House (refer to Note 4)	23,145,004	231,450	30,000,000	300,000
Almarai Company	22,961,224	229,612	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	22,961,224	229,612	35,000,000	350,000
Al Jeraisy Development Company Limited	11,480,612	114,806	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	6,001,253	60,013	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	5,740,305	57,403	8,750,000	87,500
Total founding shareholders	624,769,193	6,247,692	700,000,000	7,000,000
Public shareholding	455,330,807	4,553,308	700,000,000	7,000,000
	<b>1,080,100,000</b>	<b>10,801,000</b>	<b>1,400,000,000</b>	<b>14,000,000</b>

A founding Shareholder 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 investors; CITC and CMA (refer to Note 4).

**7. LOSS PER SHARE**

Losses per share are computed by dividing losses for the period by the weighted average number of shares outstanding i.e. 1.08 billion shares for the period ended 30 September 2013 (2012: 1.38 billion shares).

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

**8. OPERATING LEASES COMMITMENTS**

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>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Within 12 months	<b>220,204</b>	189,484	193,712
Within 2 to 5 years	<b>880,814</b>	757,935	774,847
Over 5 years	<b>1,101,018</b>	947,419	968,558
	<b>2,202,036</b>	1,894,838	1,937,117

**9. 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>30 September 2013 (Unaudited) SR'000</b>	31 December 2012 (Audited) SR'000	30 September 2012 (Unaudited) SR'000
Within 12 months	<b>258,192</b>	669,438	685,676
Within 2 to 5 years	-	62,899	-
	<b>258,192</b>	732,337	685,676

Also see Note 8 for operating lease commitments.

Furthermore, the Company in the normal course of business is subject to and also pursuing lawsuits, penalties 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.

**10. 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.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)**  
**FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2013**

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**11. SUBSEQUENT EVENT**

Subsequent to the balance sheet date, the Company has concluded three profit rate swap agreements with some of the existing Murabaha Facility Investors, in order to comply with the terms of the recent amended rescheduled Murabaha Financing Agreement signed by the Company (Refer Note 3), which requires the Company to hedge exactly 50% of the current outstanding principal as at signing date of amended rescheduled Murabaha Financing Agreement amounting to SR 4.3 billion approximately.

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the presentation in the current quarter.