

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS
AND AUDITORS' LIMITED REVIEW REPORT
FOR THE THREE AND SIX MONTHS PERIOD ENDED
30 JUNE 2014**

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

**UNAUDITED INTERIM FINANCIAL STATEMENTS AND AUDITORS' LIMITED
REVIEW REPORT
FOR THE THREE AND SIX MONTHS PERIOD ENDED 30 JUNE 2014**

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AUDITORS' LIMITED REVIEW REPORT

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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 June 2014, and the related interim statement of operations for the three-month and six-month periods ended 30 June 2014, and the interim statements of cash flows and changes in shareholders' equity for the six-month period then ended including the related notes 1 to 13 which form an integral part of these interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and presented to us with all the necessary information and explanation which we required.

We conducted our limited review in accordance with the interim financial reporting standard issued by the Saudi Organization for Certified Public Accountants. A limited review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

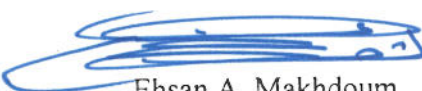
Review Results

Based on our 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 six-month period ended 30 June 2014 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 Abulkhair & Co.



Ehsan A. Makhdom
License No. 358
Ramadan 18, 1435
July 15, 2014





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

INTERIM BALANCE SHEET

		30 June 2014 SR'000 (Unaudited)	31 December 2013 SR'000 (Audited)	30 June 2013 SR'000 (Unaudited)
ASSETS				
Current assets				
Cash and cash equivalents		1,205,034	1,293,086	2,102,734
Accounts receivable, net		1,330,021	1,220,855	1,267,642
Inventories, net		81,563	140,940	104,595
Prepaid expenses and other assets		985,787	659,852	665,871
Total current assets		3,602,405	3,314,733	4,140,842
Non-current assets				
Property and equipment, net		4,224,532	4,292,616	4,301,957
Intangible assets, net		17,888,817	18,351,126	18,807,720
Other non-current assets		247,336	283,473	132,568
Total non-current assets		22,360,685	22,927,215	23,242,245
TOTAL ASSETS		25,963,090	26,241,948	27,383,087
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term borrowing facility	3	200,005	200,005	9,210,912
Notes payable		2,542	32,331	121,367
Accounts payable		293,689	496,370	602,237
Due to related parties		3,545	41,607	41,541
Deferred revenue		451,527	406,909	389,478
Accrued expenses and other liabilities		2,818,692	2,648,869	2,781,448
Total current liabilities		3,770,000	3,826,091	13,146,983
Non-current liabilities				
Notes payable		-	2,542	10,811
Long-term borrowing facility	3	11,287,033	11,387,035	2,859,023
Advances from shareholders	4	3,269,326	3,034,239	2,797,659
Due to related parties		763,337	740,809	718,371
Other non-current liabilities		675,372	412,043	134,861
Derivative financial instruments	5	76,023	41,727	-
Provision for employees' end-of-service benefits		44,924	38,790	31,870
Total non-current liabilities		16,116,015	15,657,185	6,552,595
TOTAL LIABILITIES		19,886,015	19,483,276	19,699,578
SHAREHOLDERS' EQUITY				
Share capital	6	10,801,000	10,801,000	10,801,000
Hedging reserve	5	(76,023)	(41,727)	-
Accumulated deficit		(4,647,902)	(4,000,601)	(3,117,491)
Total shareholders' equity		6,077,075	6,758,672	7,683,509
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		25,963,090	26,241,948	27,383,087


Farhan Bin Naif Al Jarba - 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 six-month period ended	
	30 June 2014 SR'000	30 June 2013 SR'000	30 June 2014 SR'000	30 June 2013 SR'000
Revenue	1,567,131	1,706,347	3,112,904	3,425,742
Cost of revenue	(770,079)	(875,584)	(1,517,196)	(1,818,747)
Gross profit	797,052	830,763	1,595,708	1,606,995
Operating expenses				
Distribution and marketing expenses	(526,545)	(517,868)	(970,923)	(1,012,456)
General and administrative expenses	(5,622)	(55,630)	(60,371)	(130,213)
Depreciation and amortization	(400,719)	(463,381)	(827,430)	(903,384)
Total operating expenses	(932,886)	(1,036,879)	(1,858,724)	(2,046,053)
Operating loss	(135,834)	(206,116)	(263,016)	(439,058)
Other income / (expenses)				
Finance charges	(195,502)	(173,735)	(389,408)	(345,198)
Commission income	2,395	9,445	5,123	15,901
NET LOSS FOR THE PERIOD	(328,941)	(370,406)	(647,301)	(768,355)
Loss per share (in Saudi Riyals):				
- From operating loss for the period	(0.13)	(0.19)	(0.24)	(0.41)
- From non-operating loss for the period	(0.18)	(0.15)	(0.36)	(0.30)
- From net loss for the period	(0.30)	(0.34)	(0.60)	(0.71)


Farhan Bin Naif Al Jarba - Chairman


Hassan Kabbani - CEO


Wissam Farhat - CFO

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

INTERIM STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

	2014 SR'000	2013 SR'000
OPERATING ACTIVITIES		
Net loss for the period	(647,301)	(768,355)
Adjustments to reconcile net loss for the period to net cash from operating activities:		
Provision for doubtful receivables and other assets	28,059	18,387
Depreciation and amortization	827,430	903,384
Provision for slow moving inventory items	2,620	-
Finance charges	389,408	345,198
Provision for employees' end-of-service benefits, net	6,134	5,972
Operating income before changes in working capital	606,350	504,586
Changes in working capital		
Accounts receivable	(137,225)	41,441
Inventories	56,757	(54,295)
Prepaid expenses and other current and non-current assets	(289,798)	(60,009)
Accounts payable	(202,681)	(175,433)
Due to related parties	(15,534)	19,599
Deferred revenue	44,618	(6,445)
Accrued expenses and other current and non-current liabilities	391,103	229,433
Cash flows generated from operating activities	453,590	498,877
Financial charges paid	(260,603)	(282,587)
Net cash generated from operating activities	192,987	216,290
INVESTING ACTIVITIES		
Purchase of property and equipment	(271,853)	(389,627)
Purchase of intangible assets	(25,184)	(19,119)
Net cash used in investing activities	(297,037)	(408,746)
FINANCING ACTIVITIES		
Notes payable	(32,331)	(102,591)
Short and long-term borrowing facilities	-	(98,058)
Advances from shareholders	48,329	110,941
Net cash generated from (used in) financing activities	15,998	(89,708)
Net change in cash and cash equivalents	(88,052)	(282,164)
Cash and cash equivalents at beginning of the period	1,293,086	2,384,898
Cash and cash equivalents at end of the period	1,205,034	2,102,734


Farhan Bin Naif Al Jarba - Chairman



Hassan Kaabani - CEO


Wissam Farhat - CFO

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

INTERIM STATEMENT OF CASH FLOWS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Non-cash transactions:		
Adjustment to property and equipment with corresponding effect to accounts payables	-	44,968
Adjustment to advances from shareholders with corresponding effect to financial charges	<u>86,756</u>	<u>123,908</u>
Adjustment to advances from shareholders with corresponding effect to short and long borrowing facilities	<u>100,002</u>	-
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	<u>76,023</u>	-



Farhan Bin Naif Al Jarba - 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 CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total shareholders' equity SR'000
Balance as at 1 January 2014		10,801,000	(41,727)	(4,000,601)	6,758,672
Net loss for the period		-	-	(647,301)	(647,301)
Derivative financial instruments	5	-	(34,296)	-	(34,296)
Balance as at 30 June 2014		10,801,000	(76,023)	(4,647,902)	6,077,075
Balance as at 1 January 2013		10,801,000	-	(2,349,136)	8,451,864
Net loss for the period		-	-	(768,355)	(768,355)
Balance as at 30 June 2013		10,801,000	-	(3,117,491)	7,683,509


Farhan Bin Naif Al Jarba - 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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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 Company incurred losses for the period from 1 January 2014 to 30 June 2014 and has 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.

Refinancing Arrangements

On 31 July 2013 the Company has signed an amended and restated "Murhabaha financing Agreement" which also includes 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 for SR 9 billion to SR 8.63 billion (Refer to Note 3).

With the signing of the new agreement the Company has successfully extended the maturity date of its existing murabaha facility for 5 years ending 30 June 2018 which was due on 31 July 2013 (Refer to Note 3).

On 5 June 2013 the Company has also 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).

Agreement with the Ministry of Finance, Saudi Arabia

During 2013, 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.

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 15 July 2014.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

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 2013.

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 2013.

Period of the financial statements

The Company’s financial year begins on January 1 and ends on 31 December 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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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 analysed 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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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 of the assets:

	<u>Years</u>
	Shorter of lease term or useful life
Leasehold improvements	3 - 10
Telecommunication equipment	20
Civil works (telecommunications)	3
Information technology systems	5
Information technology servers	5
Furniture and fixtures	5
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.

(Also please refer to Note 11).

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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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 SIX MONTH PERIOD ENDED 30 JUNE 2014

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

The Company uses derivative financial instruments to hedge its interest rate risk on the floating rate Syndicate Murabaha facility. The Company designates these derivatives financial instruments as cash flow hedges in accordance with the approved policies and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. These derivative financial instruments are measured at fair value. The effective portions of changes in the fair value of derivatives are recognized in hedging reserve under the 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

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
<u>SHORT TERM</u>			
Syndicate Murabaha facility – current portion (a)	-	-	9,000,000
Export credit facility – current portion (c)	200,005	200,005	210,912
	200,005	200,005	9,210,912
<u>LONG TERM</u>			
Syndicate Murabaha facility – non-current portion (a)	8,630,769	8,630,769	-
Long term facility from local commercial bank (b)	2,250,000	2,250,000	2,250,000
Export credit facility – non-current portion (c)	406,264	506,266	609,023
	11,287,033	11,387,035	2,859,023

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

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 SR 7.09 billion and a USD portion totalling USD 710 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. Subsequently, the Company has successfully obtained several approvals to extend the facility until 31 July 2013. The Company has also 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 “Murhabaha financing Agreement” with a consortium of banks which also includes existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ending 30 June 2018 which was due on 31 July 2013. The new 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 has been classified as non-current liability.

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 and other 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) This facility consists of a SAR portion totalling SAR 1,875 million and a USD portion totalling USD 100 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 and was due for repayment on 3 April 2013.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

3. SHORT AND LONG TERM BORROWINGS FACILITIES (Continued)

The Company has obtained the approval from financing banks to extend this long term facility until 5 June 2013.

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 existing facility. The new facility consists of SAR portion totalling SAR 1,875 million and USD portion totalling 100 million provided by a syndicate of four banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the 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 2nd June, 2016.

(c) On 20 June 2012 an Export Credit Agency Facility Agreement having two tranches (A and B) totalling to USD 325 million was signed between the Company and some international banks. This facility is secured by a guarantee provided 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.

At 30 June 2014, 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 of tranche B 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 June 2014 six instalments were repaid.

4. ADVANCES FROM SHAREHOLDERS

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. These advances carry finance cost that approximate the prevailing market rates. The following is a breakdown of the remaining advances from shareholders and related accrued financial charges:

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Mobile Telecommunications Company K.S.C.	2,412,781	2,264,450	2,117,372
Abu Dhabi Investment House (ADIH)	8,413	8,413	8,413
	2,421,194	2,272,863	2,125,785
Accrued financial charges	848,132	761,376	671,874
Total	3,269,326	3,034,239	2,797,659

The advances from shareholders as at 30 June 2014 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

5. DERIVATIVE FINANCIAL INSTRUMENTS

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

Contracts notional amounts SR'000	Negative Fair Value		
	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	76,023	41,727
			-

6. SHARE CAPITAL

The share capital of the Company as of 30 June 2014 and 2013 comprised of 1.08 billion shares stated at SR 10 per share owned as follows:

	Number of shares	Share Capital SR'000
Mobile Telecommunications Company K.S.C.	400,125,067	4,001,251
Saudi Plastic Factory	63,143,367	631,434
Faden Trading & Contracting Est.	64,495,867	644,958
Rakisa Holding Company	4,715,270	47,153
Abu Dhabi Investment House	23,145,004	231,450
Almarai Company	22,961,224	229,612
Ashbal Al-Arab Contracting Est.	22,961,224	229,612
Al Jeraisy Development Company Limited	11,480,612	114,806
Architectural Elite Est. for Engineering and Contracting	6,001,253	60,013
Al Sale Al Sharkiyah Company Limited	5,740,305	57,403
Total founding shareholders	624,769,193	6,247,692
Public shareholding	455,330,807	4,553,308
	1,080,100,000	10,801,000

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 June 2014 and 2013.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

8. 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 finalized its assessments up to 2008. The Company has also filed its zakat returns for the years 2009, 2010, 2011, 2012 and 2013 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

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:

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Within 12 months	342,983	275,441	260,963
	342,983	275,441	260,963

Also see Note 10 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. 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:

	30 June 2014 (Unaudited) SR'000	31 December 2013 (Audited) SR'000	30 June 2013 (Unaudited) SR'000
Within 12 months	265,773	228,644	224,370
Within 2 to 5 years	1,063,092	914,575	897,481
Over 5 years	1,328,865	1,143,219	1,121,851
	2,657,730	2,286,438	2,243,702

NOTES TO THE INTERIM FINANCIAL STATEMENTS (Unaudited) (Continued)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2014

11. CHANGE IN ACCOUNTING ESTIMATES

During 2014, the Board of Directors of the Company resolved to change the estimated useful life of the following property and equipment classes:

	<i>Years</i> <i>2008 to 2013</i>	<i>Years</i> <i>Starting from 2014</i>
Telecommunication equipment	2 - 8	3 - 10
Civil works (telecommunications)	15	20
Information technology systems	2	3
Office equipment	2	5

The Company has made this change based on the technical study and local benchmarks as the new estimate reflect better the expected useful life of the above-mentioned assets.

The change in estimate was accounted for prospectively with effect from January 1, 2014. As a result of the change, the net loss for the period ended 30 June 2014 was lower by SR 98 million compared to the results had the old estimate been used by 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.

13. COMPARATIVE FIGURES

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