RIGHTS ISSUE PROSPECTUS

Offering of 600,000,000 Shares through a rights issue at an Offer Price of SAR10 per Rights Issue Share. The Offering will result in an increase in the Company's share capital by SAR6,000,000,000 from SAR4,801,000,000 to SAR10,801,000,000 by the issue of 600,000,000 Shares, representing an increase of approximately 125% in the existing share capital of the Company.

Mobile Telecommunications Company Saudi Arabia

A Saudi Joint Stock Company established in accordance with Royal Decree No M/48 dated 26/05/1428H (corresponding to 12/06/2007G) with Commercial Registration No. 1010246192. The Offering Period is from 20/8/1433H to 27/8/1433H (corresponding to from 10/7/2012G) to 17/7/2012G).

Mobile Telecommunications Company Saudi Arabia (the "**Company**") is a Saudi joint stock company established in accordance with Royal Decree No. M/48 dated 26/05/1428H (corresponding to 12/06/2007G), pursuant to the Minister of Commerce and Industry resolution No. 81/Q dated 04/03/1429H (corresponding to 12/03/2008G), with Commercial Registration No. 1010246192 dated 4/03/1429H (corresponding to 12/03/2008G). At the date of this prospectus (the "**Prospectus**"), the share capital of the Company is SAR4,801,000,000 consisting of 480,100,000 shares with a nominal value of SAR10 each (the "**Existing Shares**"), all of which are fully paid.

The rights issue (the "**Offering**") consists of the issuance of 600,000,000 Shares (the "**Rights Issue Shares**") at an offer price of SAR10 per share (the "**Offer Price**") representing an increase in the total number of issued Shares from 480,100,000 Shares to 1,080,100,000 Shares, representing an increase of approximately 125% per cent. in the existing share capital of the Company.

The Offering is being made following the Capital Reduction to, and is only capable of acceptance by, registered holders of Existing Shares (the "**Eligible Shareholders**") at the close of trading on the Saudi Arabian Stock Exchange (the "**Tadawul**" or "**Exchange**") on the day of the Extraordinary General Assembly Meeting (the "**Capital Restructuring EGM**") held on 14/8/1433H (corresponding to 4/7/2012G) (the "**Record Date**"). Each Eligible Shareholder shall have the right to subscribe for one Rights Issue Share for every 0,800167 Existing Shares that he owned at the Record Date. Certain Founding Shareholders will subscribe for their proportionate entitlement of the Offering through capitalising all or part (as applicable) of their respective proportionate amount of the shareholder loans they had previously provided to the Company (see Section 10.2 (*Use of Proceeds – Capitalisation of Shareholder Financing*). Shareholders (including the Founding Shareholders) who participate in the Offering will not receive any proceeds resulting from the Offering. The Offering is fully underwritten by the Underwriters (see Section 14 (*Underwriting*)).

The Rights Issue Shares will be allocated to Eligible Shareholders who have applied to subscribe for a number of Rights Issue Shares proportionate to the number of Existing Shares held by them on the Record Date. The remaining Rights Issue Shares, if any, will be allocated to Eligible Shareholders who applied to subscribe for a number of Rights Issue Shares in excess of their proportionate entitlement of Rights Issue Shares (see Section 16 (*Subscription Terms, Conditions and Instructions*)). Fractional entitlements to Rights Issue Shares will be accumulated in one portfolio and then sold at the prevailing market price and the proceeds of such sale shall be distributed to Shareholders who have a fractional entitlement to Shares in proportion to the fraction each such Shareholder is entitled to within 30 days of allocation of the Rights Issue Shares and the distribution of excess Subscription Monies to those Eligible Shareholders who participated in the Offering. Upon completion of the Offering, the Company's share capital will be SAR10,801,000,000 and the number of Shares in issue will be 1,080,100,000. The total value of the Offering will be SAR6,000,000,000, comprising (i) a cash amount of SAR3,453,809,360 which will be used for a number of different purposes, including financing certain capital expenditures and (ii) an amount of SAR2,546,190,640 which will be used to capitalise a certain amount of Shareholder Financing at the Offer Price (see Section 10 (*Use of Proceeds*)).

The Board of Directors, by written resolution number 010-BoD/R-2011 dated 28/11/1432H (corresponding to 26 October 2011G), unanimously recommended to reduce the capital of the Company by 919,900,000 Shares from SAR14,000,000,000 to SAR4,801,000,000 by cancelling one Share for every 1.5219 Shares in issuance. By the same written resolution, the Board of Directors unanimously recommended an increase in the Company's capital by way of a rights issue in the amount of SAR6,000,000,000, with the Offer Price and number of Rights Issue Shares to be determined at the Capital Restructuring EGM after obtaining all necessary regulatory approvals. Eligible Shareholders attending the Capital Restructuring EGM held on 14/8/21433H (corresponding to 4/7/2012G), in person, represented by proxy or voting electronically, adopted a resolution to increase the Company's share capital from SAR4,801,000,000 to SAR10,801,000,000 by the issue and allotment of the Rights Issue Shares at the Offer Price.

The Offering will commence on 20/8/1433H (corresponding to 10/7/2012G) and will remain open for a period of 8 days up to and including 27/8/1433H (corresponding to 17/7/2012G) (the "**Offering Period**"). During the Offering Period, Eligible Shareholders may submit their applications to subscribe for Rights Issue Shares at any branch of the Receiving Agents (see Section 16 (*Subscription Terms, Conditions and Instructions*)). In accordance with the instructions and requirements of the Capital Market Authority (the "**Authority**" or the "**CMA**"), provided there is sufficient demand for Rights Issue Shares at prices above the Offer Price which results in sufficient proceeds being raised from the sale of such Rights Issue Shares, a mechanism will be applied to compensate Eligible Shareholders who do not subscribe for Rights Issue Shares as explained in Section 16.3 (*Subscription Terms, Conditions and Instructions – Eligible Shareholders who do not subscribe to the Rights Issue Shares*).

Excess subscription monies, if any, will be returned to Eligible Shareholders who participated in the Offering without any charge, commission or withholding by the Lead Manager and Receiving Agents. Notification of the final allotment and refund of subscription monies, if any, will be made by 5/9/1433H (corresponding to 24/7/2012G) (see Section 16.9 (*Subscription Terms, Conditions and Instructions – Allocation and Refund of Surplus*)).

The Company has one class of share. Each Share entitles the holder to one vote, and each shareholder (a "**Shareholder**") with at least 20 Shares has the right to attend and vote at a general assembly (the "**General Assembly**"). No Shareholder benefits from any preferential voting rights. The Rights Issue Shares will entitle holders to receive dividends declared by the Company for subsequent financial years, if any. The Company does not expect to pay annual dividends to Shareholders until 2015 at the earliest at which time it will reconsider this policy based on the Company's retained earnings, capital expenditure requirements, financial condition, market conditions, the general economic climate and other factors (see Section 11 (*Dividend Policy*)).

An application has been made to the CMA for the admission of the Rights Issue Shares to Tadawul, all supporting documents required by the CMA have been supplied, and all relevant approvals pertaining to this Prospectus have been granted. Existing Shares are currently traded on the Exchange. Trading of the Rights Issue Shares is expected to commence on Tadawul soon after the final allocation of the Rights Issue Shares and refund of subscription monies has been determined (see page (xvi) "*Key Dates for Eligible Shareholders*"). Nationals of the Kingdom of Saudi Arabia ("**KSA**"), residents in the KSA, nationals of other Gulf Co-operation Council ("**GCC**") member countries, companies, banks and investment funds in the KSA, companies and establishments in the GCC, can trade in the Rights Issue Shares after they have been listed on the Exchange. Non-Saudi natural persons who are not residents in the KSA (a "**Foreign Investor**") are permitted to acquire an economic interest in the Rights Issue Shares by entering into a swap agreement with a person authorised by the CMA to acquire, hold and trade in shares on Tadawul on behalf of a Foreign Investor (the "**Authorised Person**"). Under such swap agreements, the Authorised Person will be the registered legal owner of such Rights Issue Shares.

The "*Important Notice*" should be considered carefully prior to making a decision to invest in the Rights Issue Shares. For an explanation of certain defined terms and certain technical terms used in this Prospectus relating to the telecommunications industry, see Section 1 (*Definitions, Abbreviations and Technical Glossary*).

Financial Advisors and Lead Underwriters

Saudi Fransi Capital

Al Rajhi Capital

Lead Manager

Saudi Fransi Capital

Co-Underwriters

Saudi Hollandi Capital

alinma investment

ALBILAD INVESTMENT CO.

Receiving Agents

Al Rajhi Bank

anb

BANK ALBILAD

BANK ALJAZIRA

NCB

riyad bank

alinma bank

SABB

Saudi Hollandi Bank

The Saudi Investment Bank

samba

Banque Saudi Fransi

This Prospectus includes information given in compliance with the Listing Rules issued by the CMA in the Kingdom of Saudi Arabia. The Directors, whose names appear on page (iv), collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The CMA and the Saudi Arabian Stock Exchange take no responsibility for the contents of this Prospectus, make no representations as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

This Prospectus is dated 14/8/1433H (corresponding to 4/7/2012G)

English Translation of the Official Arabic Prospectus.

Important Notice

This Prospectus provides details of information relating to the Company, the Offering and the Rights Issue Shares. When applying for the Rights Issue Shares, Eligible Shareholders will be treated as applying solely on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company's Head Office and, the office of the Lead Manager (in each case, as set out on pages (v) and (vi)) and branches of the Receiving Agents or by visiting the CMA's website (www.cma.org.sa) or the Company's website (www.sa.zain.com).

Saudi Fransi Capital Limited and Al Rajhi Capital Company have been appointed by the Company to act as Financial Advisors in relation to the Offering. The Company has appointed Saudi Fransi Capital Limited, Al Rajhi Capital Company, Alinma Investment Company, Albilad Investment Company and Saudi Hollandi Capital to act as Underwriters in relation to the Offering. The Company has also appointed Saudi Fransi Capital Limited to act as Lead Manager in relation to the Offering.

This Prospectus includes details given in compliance with the Listing Rules. The Directors, whose names appear on page (iv) of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

While the Company has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, the market and industry information herein are derived from external sources, and while none of the Company's advisors, whose names appear on pages (vi) and (vii) of this Prospectus (the "**Advisors**"), have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified, and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial condition of the Company and the value of the Shares may be adversely affected by future developments in inflation, interest rates, taxation, or other economic, political and other factors, over which the Company has no control (see Section 2 (*Risk Factors*)). Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Offering is intended to be, nor should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events.

This Prospectus is not to be regarded as a recommendation on the part of the Company, the Directors or the Advisors to participate in the Offering. Moreover, information provided in this Prospectus is of a general nature and has been prepared without taking into account individual investment objectives, financial situation or particular investment needs. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining independent professional advice in relation to the Offering and must rely on their own examination of the Company and the appropriateness of both the investment opportunity and the information herein with regard to the recipient's individual objectives, financial situation and needs, including the merits and risks involved in investing in the Offering. An investment in the Rights Issue Shares may be appropriate for some Eligible Shareholders and not others and Eligible Shareholders should not rely on another party's decision to invest or not to invest as a basis for their own examination of the investment opportunity and such Eligible Shareholders' individual circumstances.

The Offering is directed at, and may only be accepted by, registered holders of Shares on the Record Date (14/8/1433H (corresponding to 4/7/2012G). The distribution of this Prospectus and the sale of Rights Issue Shares to any persons and in any jurisdiction other than Saudi Arabia are expressly prohibited. The Company and the Underwriters require recipients of this Prospectus to inform themselves about and to observe all such restrictions.

The Offering is made on the basis that the Eligible Shareholders passed a resolution at the Capital Restructuring EGM held on 14/8/1433H (corresponding to 4/7/2012G) to approve the Capital Reduction, the Capital Increase and the Rights Issue.

Industry and Market Data

In this Prospectus, information and data on the telecommunications industry and the mobile segment in the Middle East and in the KSA in particular, have been obtained or derived from sources including (i) the Company's own estimates based upon primary and secondary market research collated from the Arab Advisors Group and Wireless Intelligence, (ii) information supplied to the Company by Oliver Wyman and (iii) the annual report 2010 published by the CITC (the "**CITC Annual Report 2010**").

The Company believes that third party information and data included in this Prospectus, including that supplied by the Arab Advisors Group, Wireless Intelligence, Oliver Wyman and the CITC, and extracted or derived from the CITC Annual Report, is reliable, but none of the Company, the Directors or the Advisors have independently verified such information and data, and no guarantee can be given as to its accuracy or completeness. Furthermore, the methodology for calculating customer numbers, ARPU and churn rates varies substantially and is not standardised across the worldwide telecommunications industry. Reported customer numbers, ARPU and churn rates may therefore vary from the respective numbers that may result from the use of a standard methodology.

Neither the Arab Advisors Group, Wireless Intelligence nor Oliver Wyman nor any of their respective affiliates, shareholders, directors or their relatives hold any shareholding or other interest in the Company. The Arab Advisors Group, Wireless Intelligence and Oliver Wyman have each given and not withdrawn their written consent to the use of information supplied by them to the Company in the manner and format set out in the Prospectus.

Financial and Statistical Information

The financial and statistical information contained in this Prospectus is subject to rounding. Accordingly, where numbers have been rounded up or down, the related percentages may not add up to 100 per cent.

Where statistical information has been sourced for publication in this Prospectus, the Company believes that the information represents the latest information available from the relevant particular source.

The audited financial statements for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G, and the accompanying notes included in this Prospectus have been prepared in compliance with the accounting standards promulgated by the Saudi Organisation for Certified Public Accountants ("**SOCPA**"). Except for the financial statements for the year ended 31 December 2011G and for the two quarters ended 30 September 2011G and 31 December 2011G which were reviewed by Deloitte, all other financial statements were audited or reviewed (as appropriate) by PricewaterhouseCoopers. The Company issues its financial statements in Saudi Arabian Riyals. The reports prepared by PricewaterhouseCoopers and Deloitte included in this Prospectus relate to the Company's historical financial information only.

Forecasts and Forward Looking Statements

Forecasts and forward looking statements set forth in this Prospectus have been prepared on the basis of certain stated assumptions. Future operating conditions may differ from the assumptions used and consequently no representation or warranty is made with respect to the accuracy or completeness of any of these forecasts.

Certain statements in this Prospectus constitute "forward-looking-statements". Such statements can generally be identified by their use of forward-looking words such as "plans", "intends", "estimates", "believes", "expects", "anticipates", "may", "will", "should", "would be" or the negative or other variation of such terms or comparable terminology. These forward-looking statements reflect the current views of the Company with respect to future events, and are not a guarantee of future performance. Many factors could cause the actual results, performance or achievements of the Company to be significantly different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Some of the risks and factors that could have such an effect are described in more detail in other sections of this Prospectus (including, but not limited to, Sections 2 (*Risk Factors*) and 4 (*The Company's Business and Strategy*)). Should any one or more of the risks or uncertainties materialise or any underlying assumptions prove to be inaccurate or incorrect, actual results may vary materially from those described in this Prospectus as anticipated, believed, estimated, planned or expected.

Pursuant to the requirements of the Listing Rules, the Company shall publish a supplementary prospectus if at any time after the Prospectus has been approved by the CMA and before Admission, it becomes aware that: (i) there has been a significant change in material matters contained in the Prospectus or any document required by the Listing Rules; or (ii) additional significant matters have become known that would have been required to be included in this Prospectus. With the exception of these two events, the Company does not intend to update or otherwise revise any industry or market information or forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Prospective investors should consider all forward-looking statements in light of these explanations and should not place undue reliance on forward-looking statements.

Definitions, Abbreviations and Glossary of Technical Terms

For an explanation of certain defined terms, abbreviations and technical terms relating to the telecommunications industry used in this Prospectus, see Section 1 (*Definitions, Abbreviations and Technical Glossary*).

Corporate Directory

Board of Directors

Table 1: Board of Directors[1]

Name	Nationality	Position	Executive/non-Executive	Independent/Non-independent	Number of Shares held directly following the Capital Reduction[2]	Percentage of Shares held indirectly
HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz	Saudi Arabian	Chairman	Non-Executive	Non-independent (representing all Founding Shareholders (except MTC))	1,000	6.875% indirect interest in the Company[3]
Hisham Abdulrahman Akbar	Kuwaiti	Director	Non-Executive	Non-independent (representing MTC)	1,000[4]	Nil
Nabeel Khalaf Said Bin Salamah	Kuwaiti	Director	Executive, Managing Director	Non-independent (representing MTC)	1,000[5]	0.004137% indirect interest in the Company[6]
Bader Nasser Al-Kharafi	Kuwaiti	Director	Non-Executive	Non-independent (representing MTC)	1,000[7]	0.0006% indirect interest in the Company[8]
Ossama Matta	Lebanese	Director	Non-Executive	Non-independent (representing MTC)	1,000[9]	Nil
Abdullah Ibrahim Al-Rakhis	Saudi Arabian	Director	Non-Executive	Non-independent (representing all Founding Shareholders (except MTC))	1,000	0.982% indirect interest in the Company[10]
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Saudi Arabian	Director	Non-Executive	Independent	1,000	0.021739% indirect interest in the Company[11]
Fahad Ibrahim Al Deghaither	Saudi Arabian	Director	Non-Executive	Independent	1,000	Nil
Ammar Abdulwahid Al Khudairy	Saudi Arabian	Director	Non-Executive	Independent	1,714	Nil

1 The independence of a Director has been determined in accordance with the Corporate Governance Regulations.
2 Each of the Directors is obliged to maintain a shareholding in the Company with a value of not less than SAR10,000, in accordance with Article 68 of the Companies Law.
3 HRH Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
4 Legally held by MTC.
5 Legally held by MTC.
6 Nabeel Khalaf Said Bin Salamah owns 712,800 shares in (i.e. 0.01655% of) MTC.
7 Legally held by MTC.
8 Bader Nasser Al-Kharafi owns 100,000 shares in (i.e. 0.0023% of) MTC.
9 Legally held by MTC.
10 Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakisa Holding Company.
11 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 3,478,261 shares in (i.e. 0.87% of) Almarai Company.

Table 2: Executive Management

Name	Nationality	Position	Number of Shares held directly following the Capital Reduction	Percentage of Shares held indirectly following the Capital Reduction
Fraser Mark Curley	British	Chief Executive Officer	Nil	Nil
Nabeel Khalaf Said Bin Salamah	Kuwaiti	Managing Director	1,000[12]	0.004137%[13]
Khalil Ibrahim Fawaz	Lebanese	Chief Financial Officer	Nil	Nil
Saud Abdullah Al Bawardi	Saudi Arabian	Chief Commercial Officer	Nil	Nil
Mohammad Abdulwahab Al-Marshed	Kuwaiti	Chief Technology Officer	Nil	Nil
Mohammad Abed Nadeem	Saudi Arabian	HR Director	28	Nil

Company Address

King Fahad Highway
P.O. Box 295814
Riyadh 11351
Kingdom of Saudi Arabia
Tel: +966 59 2993 400
Fax: +966 1 216 1600
www.sa.zain.com

Company's Authorised Representatives	Secretary to the Board of Directors
Ammar Abdulwahid Al Khudairy and Fraser Curley King Fahad Highway P.O. Box 295814 Riyadh 11351 Kingdom of Saudi Arabia Tel: +966 59 2993 400 Fax: +966 1 216 1600	Waleed Khalid Alhakeem King Fahad Highway P.O. Box 295814 Riyadh 11351 Kingdom of Saudi Arabia Tel: +966 59 2993 400 Fax: +966 1 216 1600

12 Legally held by MTC.
13 Nabeel Khalaf Said Bin Salamah owns 712,800 shares in (i.e. 0.01655% of) MTC.

Advisors and Agents

Financial Advisors
Saudi Fransi Capital Limited P.O. Box 23454 Riyadh 11426 Kingdom of Saudi Arabia Tel: +966 1 282 6666 Fax: +966 1 282 6823 www.fransicapital.com.sa
Al Rajhi Capital Company P.O. Box 5561 Riyadh 11432 Kingdom of Saudi Arabia Tel: +966 1 211 9292 Fax: +966 1 211 9299 www.alrajhi-capital.com

Saudi Legal Advisor to the Issuer
Al Jadaan & Partners Law Firm Fifth Floor, Al Umam Commercial Center Siteen Street Almalaz P.O. Box 3515, Riyadh 11481 Kingdom of Saudi Arabia Tel: +966 1 478 0220 Fax: +966 1 476 9332 www.aljadaan.com

International Legal Advisor to the Issuer
Clifford Chance LLP Building 6, Level 2 The Gate Precinct Dubai International Financial Centre P.O. Box 9380, Dubai United Arab Emirates Tel: +971 4 362 0444 Fax: +971 4362 0445 www.cliffordchance.com

Saudi and International Legal Advisor to the Financial Advisors
Khalid A. Al-Thebity Law Firm in affiliation with Dewey & LeBoeuf LLP King Fahad Road Sky Towers, 8th Floor P.O. Box 300807, Riyadh 11372 Kingdom of Saudi Arabia Tel: +966 1 416 9990 Fax:+966 1 416 9980 www.pattonboggs.com

Independent Auditor
Deloitte & Touche Bakr Abulkhair & Co Al Salam Building 1st Floor Main Olaya Road PO Box 213 Riyadh 11411 Kingdom of Saudi Arabia Tel: +966 1 463 0018 Fax: +966 1 463 0865 www.deloitte.com

Financial Due Diligence Consultant

KPMG Alfozan & Alsadhaan
KPMG Tower
Fifthe floor
Slah Aldeen Street
POBOX: 92876, Riyadh, 11663
Kingdom Of Saudi Arabia
Tel +966 1 8748670
Fax: +966 18748600
www.kpmg.com

Industry Consultants

Oliver Wyman FZ-LLC
Arjaan Offices
11th Floor
Dubai Media City, P.O. Box 500525
Dubai, United Arab Emirates
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Fax: +971 4 427 0534
www.oliverwyman.com

Arab Advisors Group
PO Box 2374
Amman 11821
Jordan
Tel: +962 6 582 8849
Fax: +962 6 582 8809
www.arabadvisors.com

GSM Media LLC
400 Northpark
1000 Abernathy Road
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Atlanta GA 30328, USA
Tel. +1 678 281 6600
Fax. +1 678 281 6601
www.wirelessintelligence.com

Media and Public Relations Consultant

M:Communications (London) Limited
Liberty House 611
Dubai International Financial Centre
PO Box 506663, Dubai
United Arab Emirates
Tel: +971 4 325 9675
www.mcomgroup.com

Marketing Consultant

AdvertOne
Al-Showaf International Company
Al-Safowa Center, Al-Sulamaniah
P O Box: 43307, Riyadh, 11561
Kingdom of Saudi Arabia
Tel: +966 1 2886632
Fax: +966 1 2886631
www.advert1.com

Lead Manager

Saudi Fransi Capital Limited
P.O. Box 23454, Riyadh 11426
Kingdom of Saudi Arabia
Tel: +966 1 282 6666
Fax: +966 1 282 6823
www.fransicapital.com.sa

Underwriters

Saudi Fransi Capital Limited P.O. Box 23454 Riyadh 11426 Kingdom of Saudi Arabia Tel: +966 1 282 6666 Fax: +966 1 282 6823 www.fransicapital.com.sa	السعودي الفرنسي كابيتال Saudi Fransi Capital
Al Rajhi Capital Company P.O. Box 5561 Riyadh 11432 Kingdom of Saudi Arabia Tel: +966 1 211 9292 Fax: +966 1 211 9299 www.alrajhi-capital.com	الراجحي المالية Al Rajhi Capital
Alinma Investment Company P.O. Box 66674 Riyadh, 11586 Kingdom of Saudi Arabia Tel: +966 920028000 Fax: +966 12185000 www.alinma.com	الإنماء للاستثمار alinma investment
Albilad Investment Company P.O. Box 140 Riyadh 11411 Tel: +966 1 203 9888 Fax: +966 1 203 9899 www.bankalbilad.com	شركة البلاد للاستثمار ALBILAD INVESTMENT CO.
Saudi Hollandi Capital P.O. Box 1467 Riyadh 11431 Kingdom of Saudi Arabia Tel: +966 1 4163133 Fax: +966 1 2169102 www.shb.com.sa	السعودي الهولندي المالية Saudi Hollandi Capital

Receiving Agents

Banque Saudi Fransi
P.O. Box 56006, Riyadh 11554
Kingdom of Saudi Arabia
Tel: +966 1 289 9999
Fax: +966 1 404 2311
www.alfransi.com.sa

Al Rajhi Bank
P.O. Box 28, Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 1 462 9922
Fax: +966 1 462 4311
www.alrajhibank.com.sa

Alinma Bank
P.O. Box 66674, Riyadh, 11586
Kingdom of Saudi Arabia
Tel: +966 920028000
Fax: +966 12185000
www.alinma.com

Bank AlBilad
P.O. Box 140, Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 1 479 8888
Fax: +966 1 479 8898
www.bankalbilad.com

The National Commercial Bank
P.O. Box 3555, Jeddah 21481
Kingdom of Saudi Arabia
Tel: +966 2 646 4999
Fax: +966 1 210 2070
www.alahli.com.sa

Samba Financial Group
P.O. Box 833, Riyadh 11421
Kingdom of Saudi Arabia
Tel: +966 1 477 4770
Fax: +966 1 479 9405
www.samba.com.sa

Saudi Hollandi Bank
P.O. Box 1467, Riyadh 11431
Kingdom of Saudi Arabia
Tel: +966 1 401 0288
Fax: +966 1 403 1104
www.shb.com.sa

Arab National Bank
P.O. Box 56921, Riyadh 11564
Kingdom of Saudi Arabia
Tel: +966 1 402 9000
Fax: +966 1 402 7747
www.anb.com.sa

Bank Aljazira
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia
Tel: +966 2 609 8888
Fax: +966 2 653 2478
www.baj.com.sa

Riyad Bank
P.O. Box 22622, Riyadh 11416
Kingdom of Saudi Arabia
Tel: +966 1 401 3030
Fax: +966 1 404 2707
www.riyadbank.com

SABB
P.O. Box 9084, Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 1 405 0677
Fax: +966 1 405 0660
www.sabb.com

The Saudi Investment Bank
P.O. Box 3533, Riyadh 11481
Kingdom of Saudi Arabia
Tel: +966 1 478 6000
Fax: +966 1 477 6781
www.saib.com.sa

Share Registrar

The Saudi Stock Exchange (Tadawul)
Abraj Attuwenya
700 King Fahad Road
P.O. Box 60612, Riyadh 11555
Kingdom of Saudi Arabia
Tel: +966 1 218 9999
Fax: +966 1218 1220
www.tadawul.com.sa

Principal Banks of the Company

Banque Saudi Fransi
P.O. Box 56006, Riyadh 11554
Kingdom of Saudi Arabia
Tel: +966 1 289 9999
Fax: +966 1 404 2311
www.alfransi.com.sa

Al Rajhi Bank
P.O. Box 28, Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 1 462 9922
Fax: +966 1 462 4311
www.alrajhibank.com.sa

Arab National Bank
P.O. Box 9802
Riyadh 11423
Kingdom of Saudi Arabia
Tel: +966 1 402 9000
Fax: +966 1 402 7747
www.anb.com.sa

SABB
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia
Tel: +966 1 405 0677
Fax: +966 1 405 0660
www.sabb.com

The above mentioned entities have given and, as at the date of this Prospectus, have not withdrawn their consent to the use of their names and logos, and the inclusion of the information provided by them, in this Prospectus.

The Offering

The Company	Mobile Telecommunications Company Saudi Arabia, a Saudi joint stock company established in accordance with Royal Decree No. M/48 dated 26/05/1428H corresponding to 12/06/2007G. The Company operates under Commercial Registration No. 1010246192 dated 4/03/1429H (corresponding to 12/03/2008G)
Nature of Offering	Offering to Eligible Shareholders to subscribe for Rights Issue Shares
Offer Price	SAR10 per Rights Issue Share
Nominal Value	SAR10 per Rights Issue Share
Total number of Shares immediately prior to Offering	480,100,000 with a nominal value of SAR10 each, all of which are fully paid
Company's capital immediately prior to the Offering	SAR4,801,000,000
Number of Rights Issue Shares	600,000,000 representing approximately 125% per cent. of the Company's existing share capital The Rights Issue Shares available for subscription shall be divided into two categories: (a) 345,380,936 Shares, representing approximately 58 per cent. of the Rights Issue Shares, shall be offered to the Eligible Shareholders for subscription in cash; and (b) 254,619,064 Shares, representing approximately 42 per cent. of the Rights Issue Shares, shall be offered for subscription to certain Founding Shareholders by the capitalisation of all or part of their respective amounts of the Shareholder Financing (see Section 10.2 (*Use of Proceeds - Capitalisation of Shareholder Financing*)).
Number of Rights Issue Shares underwritten	600,000,000
Amount of the Offering underwritten	SAR6,000,000,000
Total number of Shares immediately following the Offering	1,080,100,000
Company's capital immediately following the Offering	SAR10,801,000,000
Percentage increase in capital	The capital of the Company will be increased by SAR6,000,000,000 representing an increase of approximately 125% per cent. in the Company's share capital immediately prior to the Offering.
Total value of the Offering	SAR6,000,000,000, comprising: (i) a cash amount of SAR3,453,809,360, which, after deducting the Offering expenses of approximately SAR120,000,000, will be used for a number of different purposes (see Section 10 (*Use of Proceeds*)); and (ii) an amount of SAR2,546,190,640 which will be used to capitalise a certain amount of the Shareholder Financing (see Section 10 (*Use of Proceeds*)).
Offering expenses	Approximately SAR120,000,000, including the Lead Manager's fees
Total cash value of the Offering net of approximate Offering expenses	Approximately SAR3,333,809,360
Record Date	Close of trading on the date of the Capital Restructuring EGM, being 14/8/1433H (corresponding to 4/7/2012G)

Subscription method for Eligible Shareholders	Eligible Shareholders may obtain the Subscription Application Form only during the Offering Period from branches of the Receiving Agents. Eligible Shareholders who are individuals and who have participated in recent public offerings in Saudi Arabia may also be entitled to apply for Rights Issue Shares via the Internet, phone banking or an ATM through any of the Receiving Agents which provide these services. Amendments to and/or withdrawal of the Subscription Application Form shall not be permitted once the Subscription Application Form has been submitted. Upon submission, the Subscription Application Form shall represent a legally binding agreement between the Eligible Shareholder and the Company.
Start of Offering Period	20/8/1433H (corresponding to 10/7/2012G)
End of Offering Period	27/8/1433H (corresponding to 17/7/2012G)
Allocation date	5/9/1433H (corresponding to 24/7/2012G)
Shareholders eligible to subscribe for Rights Issue Shares	Registered holders of Shares on the Record Date
Eligibility Ratio	0.800167 being equal to the result of dividing the number of Existing Shares by the number of Rights Issue Shares
Effect on Eligible Shareholders who choose not to subscribe for Rights Issue Shares	Eligible Shareholders who do not subscribe for Rights Issue Shares will be subject to a decrease in the percentage of their ownership, and in their voting rights, in the Company. In accordance with the requirements of the CMA, Eligible Shareholders who do not exercise their right to subscribe for Rights Issue Shares may receive compensation, if any, to be calculated as shown in Section 16.3 (*Subscription Terms, Conditions and Instructions – Eligible Shareholders who do not subscribe to the Rights Issue Shares*).
Over-subscription for Unsubscribed Shares	Eligible Shareholders have the right to over-subscribe for Unsubscribed Shares in cash in addition to their entitlement to Rights Issue Shares. Such over-subscription can only be made at one of the following prices: 1. The Offer Price (i.e. SAR10 per Unsubscribed Share) 2. The Offer Price plus an amount equal to 30 per cent. of the difference between (i) the Company's share price at the close of trading on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction) and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number. 3. The Offer Price plus an amount equal to 60 per cent. of the difference between (i) the Company's share price at the close of trading on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction) and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number. 4. The Offer Price plus an amount equal to 90 per cent. of the difference between (i) the Company's share price at the close of trading on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction) and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number. The prices for Unsubscribed Shares will be as follows: SAR10 per Unsubscribed Share, SAR11.70 per Unsubscribed Share, SAR13.40 per Unsubscribed Share and SAR15.10 per Unsubscribed Share. Eligible Shareholders may only over-subscribe for Unsubscribed Shares at one of the above prices.

Allocation of Rights Issue Shares	Eligible Shareholders who apply for Rights Issue Shares and duly complete the Subscription Application Form and submit it to one of the Receiving Agents prior to the end of the Offering Period will be entitled to one Rights Issue Share for every 0.800167 Existing Shares that they hold. If the Rights Issue Shares have not been fully subscribed by the Eligible Shareholders, the Unsubscribed Shares will be allocated to those Eligible Shareholders who apply for more than their proportionate entitlement to Rights Issue Shares and who have applied at the highest price for such Unsubscribed Shares (as indicated above). If the aggregate number of Unsubscribed Shares bid for exceeds the number of Unsubscribed Shares, the Unsubscribed Shares will be allocated to those Eligible Shareholders applying for such Unsubscribed Shares *pro rata* to their existing shareholdings in the Company (see Section 16 (*Subscription Terms, Conditions and Instructions*)). The Underwriters shall purchase any Rights Issue Shares, that have not been subscribed for by eligible Shareholders.
Fractional Entitlements to Rights Issue Shares	Fractions of Shares may not be subscribed to and, wherever necessary, the number of Rights Issue Shares to which an Eligible Shareholders has a fractional entitlement shall be rounded down. Fractional Shares shall be accumulated in one portfolio account by the Lead Manager and then sold at the prevailing market price and the proceeds shall be distributed within 30 days to Eligible Shareholders who have participated in the Rights Issue on a *pro rata* basis to the number of fractions each such Shareholder is entitled to, by no later than 5/10/1433H (corresponding to 23/8/2012G (see Section 16 (*Subscription Terms, Conditions and Instructions*)).
Compensation	Provided there is sufficient demand for Rights Issue Shares at prices above the Offer Price which results in sufficient proceeds being raised from the sale of such Rights Issue Shares, the compensation payable to Eligible Shareholders who do not subscribe for all or part of their proportionate entitlement to Rights Issue Shares, if any, will be paid no later than 5/10/1433H (corresponding to 23/8/2012G) (see Section 16.3 (*Subscription Terms, Conditions and Instructions – Eligible Shareholders who do not subscribe to the Rights Issue Shares*)).
Use of Proceeds	The total value of the Offering, before deducting the Offering expenses of approximately SAR120,000,000, is expected to be approximately SAR6,000,000,000. This amount will comprise (i) a cash amount of SAR3,453,809,360 and (ii) an amount of SAR2,546,190,640 which will be used to capitalise an equivalent amount of Shareholder Financing (see Section 10 (*Use of Proceeds*)). The capitalisation of certain amounts of Shareholder Financing represents amounts received by the Company in the form of shareholder loans from the Founding Shareholders (save for Architectural Elite) on or around the date of the Company's incorporation. The cash proceeds from the Offering will be used for a number of different purposes as described in Section 10 (*Use of Proceeds*).
Excess Subscription Monies	Excess Subscription Monies, if any, will be returned to Eligible Shareholders who have participated in the Offering without any commission, charge or withholding by the relevant Receiving Agents. Notification of the final allotment and refund of Subscription Monies, if any, will be made by 5/9/1433H (corresponding to 24/7/2012G) (see Section 16.9 (*Subscription Terms, Conditions and Instructions – Allocation and Refund of Surplus*)).

Subscription Terms	The Offering is being made to, and is only capable of acceptance by, Eligible Shareholders. The Company retains the right to reject, in full or in part, any Subscription Application Form which is not in compliance with the terms of the Offering. Once submitted, Subscription Application Forms cannot be amended or withdrawn. The acceptance of Subscription Application Forms by the Company constitutes a binding agreement between a Subscriber and the Company (see Section 16 (*Subscription Terms, Conditions and Instructions*)).
Capitalisation of Shareholder Financing	Certain Founding Shareholders will subscribe for their proportionate entitlement of the Rights Issue Shares through capitalising all or part (as applicable) of their respective proportionate amount of the Shareholder Financing (see Section 10.2 (*Use of Proceeds – Capitalisation of Shareholder Financing*)).
Dividends	The Rights Issue Shares will be entitled to receive any dividends declared by the Company in the future. The Company does not expect to pay annual dividends to Shareholders until 2015 at the earliest at which time it will consider the Company's retained earnings, capital expenditure requirements, its financial condition, market conditions, the general economic climate and other factors. In the interim, the Company is focussing on developing its revenue base by making significant capital expenditures for the development of its mobile network and supporting operational infrastructure, as well as reducing its borrowings. In addition, the Company is required to seek the prior written consent of the Murabaha Banks under the Murabaha Facility prior to making any dividend payments (for further information, see Section 11 (*Dividend Policy*)).
Voting Rights	The Company has only one class of share. Each Share entitles the holder to one vote, and each Shareholder holding at least 20 Shares has the right to attend and vote at a General Assembly. No Shareholder has any preferential voting rights (see Section 15.6 (*Description of the Shares – Voting Rights*)).
Electronic Voting	Shareholders who are unable to attend the Capital Restructuring EGM in person will be able to vote via the electronic voting facility in advance of the meeting, or instruct a proxy to vote at the meeting, in favour of, or against, the resolutions to be proposed at the meeting.

Lock-in Period	Under the terms of the RFA, the Founding Shareholders were not permitted to dispose of any Shares for a period of three years from 21/03/1429H (corresponding to 29/03/2008G), being the date of issue of the Licence (the "Lock-in Period"). Accordingly, the Lock-in Period expired on 21/03/1432H (corresponding to 24/02/2011G). As at the date of this Prospectus, only Rakisa has made an application to remove this lock-in restriction. Subject to the following paragraph, the Founding Shareholders may now only dispose of their Shares after obtaining the approval of the CMA. In addition, prior to any disposal of Shares, the Founding Shareholders and ADIH[14] must receive the consent of the Murabaha Banks because both the Existing Shares held, and the Rights Issue Shares to be held, by the Founding Shareholders and ADIH are, or will be, pledged to the Murabaha Banks as part of the security package under the Murabaha Facility until the Murabaha Facility has been repaid in full. In addition, the CMA has imposed a restriction on the Founding Shareholders and ADIH from disposing of: (i) any of their Existing Shares; and (ii) the Rights Issue Shares subscribed to by them in the same proportion as the number of Existing Shares owned by them, in each case for a period of six months from the date of Admission. Following the expiry of this six month lock-in period, the Founding Shareholders and ADIH may only dispose of their Shares after obtaining the approval of the CMA, except that this restriction shall not apply to any Unsubscribed Shares allocated to them.
Listing of Shares	An application has been made to the CMA for the admission of the Rights Issue Shares to the Official List, and all relevant approvals pertaining to this Prospectus and all other supporting documents requested by the Authority have been granted. Trading in the Rights Issue Shares is expected to commence on the Exchange soon after the final allocation of the Rights Issue Shares and after the completion of all the necessary regulatory procedures (see *Key Dates for Eligible Shareholders* on page (xvi)).
Risk Factors	There are certain risks relating to an investment in the Offering. These risks can be generally categorised into (i) risks related to the Company; (ii) risks related to the telecommunications market in the KSA and the legal and regulatory environment in the KSA; and (iii) risks related to the Rights Issue Shares. These risks should be considered carefully prior to making an investment decision in the Rights Issue Shares (see Section 2 (*Risk Factors*)).
Costs	The Company will be responsible for all costs associated with the Offering, which are estimated to be approximately SAR120,000,000, and will be deducted from the gross proceeds of the Offering, amounting to SAR6,000,000,000. This figure includes the fees of the Financial Advisors, legal advisors (to the Company and the Financial Advisors), reporting accountants and the media and public relations consultants, as well as the Underwriters' fees, Receiving Agents' expenses, marketing expenses, printing and distribution expenses and other related expenses.

14 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa (a Founding Shareholder) on 15 May 2012G. Accordingly, the CMA has requested that ADIH be treated as a Founding Shareholder for the purpose of the lock-in.

Key Dates for Eligible Shareholders

Table 3: Timetable for the Offering

Capital Restructuring EGM and Record Date	14/8/1433H (corresponding to 4/7/2012G) and the close of trading on the Tadawul on that date
Commencement of Offering Period	20/8/1433H (corresponding to 10/7/2012G)
End of Offering Period, and deadline for submission of Subscription Application Forms	27/8/1433H (corresponding to 17/7/2012G)
Notification of final allotment and refund of any excess Subscription Monies (in the event of over-subscription)	5/9/1433H (corresponding to 24/7/2012G)
Expected date of commencement of trading in the Rights Issue Shares	Upon completion of all relevant procedures. Dates will be announced in the local press and on Tadawul's website.
Payment of compensation amounts (if any) to Eligible Shareholders that did not participate in the Offering and refund of fractions of Rights Issue Shares	Within thirty days of the notification of the allocation of Rights Issue Shares

The above timetable shows indicative dates. Actual dates will be conveyed through announcements appearing in national daily newspapers

How to Apply

The offering of the Rights Issue Shares is restricted to Eligible Shareholders only.

Eligible Shareholders who would like to participate in the Offering can obtain Subscription Application Forms during the Offering Period from branches of the Receiving Agents. Eligible Shareholders who have participated in recent public offerings in Saudi Arabia may also be entitled to apply for Rights Issue Shares via the Internet, phone banking or an ATM through any of the Receiving Agents which provide these services, provided that (i) the Eligible Shareholder holds an account at such Receiving Agent and (ii) there have been no amendments to the Eligible Shareholder's details since his last subscription in a public offering in Saudi Arabia, unless such amendments have been communicated to the relevant Receiving Agent.

Subscription Application Forms must be completed in accordance with the instructions described herein (see Section 16 (*Subscription Terms, Conditions and Instructions*)). Each Eligible Shareholder who is participating in the Rights Issue must agree to the terms and conditions and complete all relevant sections of the Subscription Application Form. The Company reserves the right to reject, in full or in part, any Subscription Application Form in the event any of the subscription terms and conditions are not met or the instructions are not duly and punctually followed. Amendments to and withdrawal of the Subscription Application Form shall not be permitted once the Subscription Application Form has been submitted. Furthermore, the Subscription Application Form shall, upon submission, represent a legally binding agreement between the Eligible Shareholder and the Company.

Summary of Key Information

This summary of key information is intended to give an overview of the information contained in this Prospectus. As such, it does not contain all of the information that may be important to prospective investors. Accordingly, this summary must be read as an introduction to this Prospectus, and recipients of this Prospectus are advised to read the entire Prospectus in full. Any decision to invest in the Rights Issue Shares by prospective investors should be based on a consideration of this Prospectus as a whole.

Your attention is drawn to the Important Notice (Industry and Market Data) on pages (i) to (ii) which contains a summary of the sources of the information used in this Summary of Key Information section (which includes information taken from the CITC Annual Report 2010).

Overview of the Company

Incorporation and History

Mobile Telecommunications Company Saudi Arabia was established as a Saudi joint stock company pursuant to Royal Decree No M/48, dated 26/05/1428H (corresponding to 12/06/2007G) with commercial registration no. 1012461692 dated 4/03/1429H (corresponding to 12/03/2008G) and was formed to operate a mobile telecommunications business in the KSA. The Council of Ministers Resolution No. 175 dated 25/5/1428H (corresponding to 11/6/2007G) approved the issue of a licence (the "**Licence**") to the Company to constitute a public telecommunications network and to hold the third facilities-based mobile cellular services licence to operate a 2G and 3G telecommunications network in the KSA. The Licence was issued to the Company by the CITC on 21/03/1429H (corresponding to 29/03/2008G), following the initial public offering ("**IPO**") of 630,000,000 Shares in February 2008G.

The Company entered into a management agreement with MTC pursuant to which MTC provides management, technical and operational services to the Company, including key management personnel (the "**Management Agreement**") (see 13.15.3 (*Legal Information – Material Contracts – Management Agreement*)).

The Company launched commercial GSM and 3G services on 26 August 2008G and has been trading for over three and a half years. As at 31 December 2011G, its network covered more than 88 per cent. of the population of the KSA, and it had approximately 7.7 million voice and data Customers.

Share Capital

The share capital of the Company is SAR4,801,000,000 consisting of 480,100,000 Shares. Prior to the Capital Reduction (as described below), there were 1,400,000,000 Shares in issue following the IPO, of which 700,000,000 Shares were issued against cash contributions from the Founding Shareholders (representing 50 per cent. of the Company's share capital), 70,000,000 Shares (representing 5 per cent. of the Company's share capital) were issued to the Public Pension Agency, and the balance of 630,000,000 Shares (representing 45 per cent. of the Company's share capital) were issued to the public pursuant to the IPO in February 2008G. The offer price for the Shares offered in the IPO was SAR10 each.

Summary of Capital Reduction

Prior to the Offering and the Capital Increase, the Company carried out a reduction of its share capital pursuant to which the Company reduced its share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) by cancelling one Share for every 1.5219 Shares in issuance, which resulted in the cancellation of 919,900,000 Shares (the "**Capital Reduction**"). Fractional entitlements to Shares following the Capital Reduction were accumulated in one portfolio to be sold through the Tadawul at the prevailing market price, with the proceeds of such sale to be distributed within 30 days of the Capital Restructuring EGM *pro rata* to Shareholders who had fractional entitlements to Shares.

The Capital Reduction was undertaken to extinguish the losses the Company had accumulated up to 30 September 2011G.

The Shareholders approved the reduction in the share capital of the Company at the Capital Restructuring EGM. In addition, the Capital Reduction required certain waivers from the Murabaha Banks. The Capital Reduction resulted in the cancellation of 919,900,000 Shares *pro rata* to each Shareholders' proportionate shareholding at the relevant time. The Capital Reduction therefore extinguished most of the Company's accumulated losses *pro rata* to the amount of Shares cancelled.

An independent accountants' limited review report stating the reasons for the Capital Reduction, and the effect of the Capital Reduction on the Company's obligations, was presented to the Shareholders at the Capital Restructuring EGM (the "**Independent Auditor's Report**").

Shareholding Structure of the Company

The Founding Shareholders comprise the members of the consortium that qualified for the Licence. The following table sets out the current shareholding composition of the Company:

Table 4: Shareholding Structure of the Company prior to the Capital Reduction and following the Capital Reduction (but prior to the Offering)

Shareholder	No. of Shares held prior to the Capital Reduction	No. of Shares held following the Capital Reduction	Percentage Shareholding
Founding Shareholders			
Mobile Telecommunications Company K.S.C.	350,000,000	120,025,000	25.000%
Saudi Plastic Factory	96,250,000	33,006,875	6.875%
Faden Trading Contracting Establishment	96,250,000	33,006,875	6.875%
Ashbal Al-Arab Contracting Establishment	35,000,000	12,002,500	2.500%
Almarai Company	35,000,000	12,002,500	2.500%
Al Jeraisy Development Company Limited	17,500,000	6,001,250	1.250%
Architectural Elite Establishment for General Contracting	17,500,000	6,001,250	1.250%
Rakisa Holding Company	13,750,000	4,715,268	0.982%
Al Sale Al Sharkiya Company Limited	8,750,000	3,000,625	0.625%
Other Shareholders			
ADIH[15]	30,000,000	10,287,857	2.143%
Public shareholders	700,000,000	240,050,000	50.000%
Total	1,400,000,000	480,100,000	100.000%

Source: the Company

The ownership structure of each of the Founding Shareholders is set out in Section 5 (*Founding Shareholders, Corporate Structure and Governance*).

Licence

The Licence enables the Company to establish, operate and maintain a facilities-based public mobile cellular network in the KSA for the provision of local, national and international mobile cellular services. Since the Service Launch, the Company has provided mobile cellular coverage of the main cities, villages and highways required by the Licence. The Company is obliged to continue to provide coverage in accordance with the terms of the Licence pursuant to the relevant CITC Regulations.

15 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa on 15 May 2012G.

Products and Services

The Company has developed and launched a range of products and services that it believes are simple to understand and use, and provide Customers with value for money. The Company offers tailored consumer and business packages or bundles in relation to voice, data (non-voice) and roaming services.

Company's Vision

The Company's vision is to become the preferred choice for voice, messaging, multimedia, call management, data and other telecommunications services in the KSA and to build a trusted and effective telecommunications operation for the largest market in the Middle East.

Summary of Competitive Advantages and Opportunities

The Company has several advantages that enable it to compete effectively with other mobile telecommunications operators in the KSA, particularly by supporting its unique positioning and enabling it to build and maintain its market share as the market grows. Management believes that its principal competitive advantages and opportunities are:

- **Market size and dynamics**

The KSA is the largest telecommunications market in the GCC with around 27 million inhabitants in 2010[16] and more than 10.8 million visitors per year in 2010[17]. The KSA had the twentieth largest economy in the world[18] with a GDP PPP of approximately SAR2,097,000,000,000 (approximately US$559,000,000,000) in 2010[19]. These factors, amongst others, have contributed to significant growth in mobile subscriptions from 3.0 million in 2001 to 51.6 million in 2010[20].

- **Relationship with the MTC Group**

On 13 March 2011G, MTC received an unsolicited non-binding offer from a consortium consisting of Kingdom Holding Company and Bahrain Telecommunications Company B.S.C. (together, the "**Consortium**") to purchase MTC's entire 25 per cent. shareholding in the Company. Following preliminary discussions between MTC and the Consortium, MTC entered into a non-binding term sheet with the Consortium on 5 April 2011G. However, during the course of the transaction process, both MTC and the Consortium elected not to proceed and they consequently terminated discussions on 29 September 2011G.

MTC has subsequently re-affirmed its strong support for the Company in areas such as strategic leadership, operating support, the appointment of a new and highly experienced management team and the provision of significant financial support, such as capitalising SAR1,500,000,000 (US$400,000,000) of its Shareholder Financing.

- **Experienced management team**

The Company's management team comprises individuals with extensive experience in the mobile telecommunications sector, in particular in the Middle East, who have been instrumental in growing the Company's market share. In addition, the Company's management team has recently been reinforced by individuals with substantial expertise in strategy execution, managing financial risk, planning, building and managing the transformation of networks and services, whilst developing a strong branding strategy and introducing innovative products.

- **Continued high quality customer service**

The Company's management believes that the Company's customer services, including its call centres and website, are user-friendly and effective. The Company's customer service satisfaction level in relation to its call centres is significantly higher than that of its competitors, as a result of several initiatives that have been successfully implemented by the Company. According to the IPSOS Loyalty Survey dated December 2010, the Company's call centres showed superior performance when compared to

16 Source: Central Department of Statistics and Information of KSA – preliminary results of 2010 census.
17 Source: Saudi Commission for Tourism & Antiquities – Tourism Statistics 2010.
18 Source: World Bank - World Databank.
19 Source: World Bank - World Databank.
20 Source: World Cellular Information Service.

the competition in most of the relevant call centre survey components. These components included, among other things, the ability to solve problems during the first call, the ability to follow up in a timely manner, waiting time, ease in connecting to the call centre, clarity and ease of use of the interactive voice response, employee competence and clarity of information provided. This positive rating is the result of several initiatives that have been successfully implemented by the Company. In addition to a high level of customer service, the Company provides multiple self-care functionalities online.

- **Culture of product and service innovation**

The introduction of new and innovative products, services and pricing and the Company's continuous efforts to position itself as the best value proposition for consumers has been one of the key success factors behind the growth of the Company's mobile Customer base.

- **Strong brand positioning and recognition**

The key objective of the Company in marketing its products and services is to convey the Zain brand, its values and customer offerings in a positive and proactive manner in order to differentiate the Company from its competitors, leveraging the recognition that the Zain brand enjoys throughout the Middle East. The Company continues to draw on each aspect of its branding to drive growth and profitability and does this through a variety of initiatives, including sponsoring high profile sporting and educational events.

- **Corporate social responsibility**

The Company has built a profile of being socially responsible and involved in the community. It was recognized by the King Khaled Award in the category of "Best Smart Philanthropy" in 2011, and has been, and remains, actively involved in multiple charitable and sociable activities.

- **Strong distribution network and partner relationships**

The Company has around 200 branded stores in the KSA and a network of more than 3,000 authorised points of sale, that give it a range of distribution channels across the country, helping to support the strong acquisition of new Customers. In addition, the Company has strong relationships with distribution partners that have telecommunications expertise and a high level of retail knowledge, and has implemented a commission scheme in order to incentivise high performance. The Company plans to extend its distribution network by significantly increasing the number of its flagship stores to cover all of the major cities in KSA between now and 2015.

- **Effective outsourcing model**

An integral part of the Company's strategy has been to develop a solid outsourcing model that optimises its cost structure and efficiencies by partnering with experienced equipment and service providers. The Company believes that, by partnering with the best service providers in specific areas, such as NSN, Huawei and Etisal, it is able to exploit the benefits from its outsourcing partners' experience.

For further information on the Company's Competitive Advantages, please refer to Section 4.6 (*The Company's Business and Strategy – Company's Competitive Advantages and Opportunities*).

Summary of the Company's Strategy

The Company's long term aim is to secure the best possible returns for Shareholders. The Company pursues this aim through the implementation of the following strategic initiatives.

- **Become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation**

The Company is continuing to position itself as a strong alternative to its competitors in relation to the young population in the Saudi market in general, and to young Saudi and expatriate executives, as well as students. In particular, it intends to attract such Customers (and thereby increase ARPU figures) by marketing its improved network capabilities, expanding and enhancing its range of mobile product and service offerings, maintaining new technology offerings, such as LTE, continuing the rollout of 3G and upgrading its current network.

- **Increase focus on Customer retention and enhancing the experience of the Company's Customers**

The Company intends to reinforce its efforts to implement marketing and promotional strategies and to enhance its customer care and contact centres. This will enable it to maintain and increase loyalty amongst existing Customers and to attract new ones. The Company believes that expansion of Customer numbers and the retention of Customers can be achieved by providing a consistent customer experience.

- **Enhance the strength of the Zain brand**

The Company aims to maintain and strengthen its vibrant brand image that resonates with its Customers and distinguishes it from other mobile telecommunications operators. The Company's goal is to attract and retain Customers through a targeted marketing message and service offerings that are straightforward, flexible and good value.

- **Accelerate the rollout of mobile broadband**

The Company believes that innovative services, extensive geographical coverage and a high quality network are critical success factors in the MBB market in the KSA and it is committed to accelerating the rollout of its broadband network to support the anticipated growth. To achieve this, the Company will upgrade its network to HSPA+ and continue its roll-out of LTE across the KSA.

- **Develop the most effective sales and distribution channels in the KSA market**

The Company intends to seek and engage alternative distribution channels during 2012 and 2013 to ensure that the distribution channel network is as diversified as possible, allowing for a more effective targeting of specific customer segments. It has been continuously implementing several strategic sales projects across its retail, distribution and business channels, and has focussed on improving the quality of its agents, their knowledge, materials and skills and its processes.

Summary of the Capitalisation of Shareholder Financing

A total amount of SAR2,546,190,640 of the Shareholder Financing is to be capitalised into Shares pursuant to the Rights Issue. Certain Founding Shareholders will subscribe for their proportionate entitlement of Rights Issue Shares through the capitalisation of all or part (as applicable) of their respective proportionate amount of the Shareholder Financing and therefore no cash will be paid for the Rights Issue Shares issued against such amounts of the Shareholder Financing (see Section 10 (*Use of Proceeds – Capitalisation of Shareholder Financing*)).

KSA Mobile Industry Overview

The KSA is the most populated country in the GCC with a population of approximately 27,100,000 persons in 2010. One of the key components of the KSA economy is oil, the revenues of which support other industry and market sectors and assist in fostering economic development. The KSA is member of the World Trade Organisation and is ranked as one of the best countries in the Middle East in which to invest by the World Bank. Its population is young, highly urbanised and enjoys a relatively high level of disposable income[21]. This population profile is interested in advanced technological products and services and therefore will benefit from the growth of the mobile telecommunications industry in the KSA.

The KSA telecommunications market is dominated by mobile services, with approximately 51.6 million mobile subscriptions recorded by the end of 2010, resulting in a mobile penetration rate (i.e. the number of subscriptions divided by the total population) in the KSA of 186 per cent.[22]. Mobile penetration is expected to increase to 235 per cent. by the end of 2015, with nearly 72.3 million SIM cards in the market[23]. The KSA mobile telecommunications market is highly competitive, with three main operators, the Company, STC and Mobily. Management believes that mobile revenues will continue to increase due to increased penetration and new technologies with higher ARPU, in particular mobile broadband and LTE. Subscriptions for mobile broadband services increased by approximately 107 per cent. during 2010[24].

21 Source: "Doing Business in the Arab World 2010", World Bank.
22 Source: CITC Annual Report 2010.
23 Source: Wireless Intelligence, 16 November 2011.
24 Source: CITC Annual Report 2010.

Summary of Financial Information

The summary financial information of the Company set out below should be read in conjunction with Section 9 (*Management's Discussion and Analysis of Financial Condition and Results of Operation*) of this Prospectus and the Company's audited and unaudited interim financial statements and related notes included at the end of this Prospectus.

Table 5: Balance sheet

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Assets			
Current assets	1,849,936	2,602,609	2,432,170
Cash and cash equivalents	505,792	702,117	780,273
Net accounts receivable	1,007,247	1,463,166	1,006,574
Inventories	39,422	28,799	43,617
Net prepayments and other receivables	297,475	408,527	601,706
Non-current assets	25,980,177	25,452,828	24,311,591
Net properties and equipment	3,846,700	4,298,200	4,058,813
Net intangible assets	22,133,477	21,154,628	20,252,778
Total assets	27,830,113	28,055,437	26,743,761
Liabilities			
Current liabilities	6,234,384	7,454,112	15,510,828
Notes payable	2,152,219	-	915,876
Short term borrowing facility	-	2,193,750	-
Syndicated Murabaha financing from banks	-	-	9,747,638
Accounts payable	1,814,792	2,104,503	1,609,284
Due to related parties	51,365	117,294	26,673
Deferred revenue	251,259	451,342	434,392
Accrued expenses and other liabilities	1,964,749	2,587,223	2,731,184
Derivative financial instruments	-	-	45,781
Non-current liabilities	12,973,250	14,471,913	6,939,868
Notes payable	-	659,221	153,937
Advances from shareholders – non-current portion	3,468,827	3,665,497	4,018,550
Long-term borrowing facility	-	-	2,223,529
Syndicated Murabaha financing from banks	9,494,023	9,655,693	-
Employee termination benefits	10,400	17,096	23,201
Due to related parties	-	339,776	520,651
Derivative financial instruments	-	134,630	-
Total liabilities	19,207,634	21,926,025	22,450,696
Shareholders' equity	8,622,479	6,129,412	4,293,065
Share capital	14,000,000	14,000,000	14,000,000
Accumulated losses	(5,377,521)	(7,735,958)	(9,661,154)
Hedging reserve	-	(134,630)	(45,781)
Total liabilities and shareholders' equity	27,830,113	28,055,437	26,743,761

Source: Financial Statements. Units: SAR thousand

Table 6: Results of Operations

	Audited, in SAR '000			Audited, as a % of revenues		
	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Revenue	3,004,052	5,934,370	6,699,060	100.00%	100.00%	100.00%
Cost of revenue	(2,127,026)	(3,403,922)	(3,498,893)	(70.81%)	(57.36%)	(52.23%)
Gross profit	877,026	2,530,448	3,200,167	29.19%	42.64%	47.77%
Distribution and marketing exp.	(1,573,741)	(1,848,666)	(1,972,132)	(52.39%)	(31.15%)	(29.44%)
General and administrative expenses	(375,898)	(351,143)	(329,185)	(12.51%)	(5.92%)	(4.91%)
Depreciation and amortisation	(1,394,310)	(1,494,220)	(1,710,328)	(46.41%)	(25.18%)	(25.53%)
Loss from operations	(2,466,923)	(1,163,581)	(811,478)	(82.12%)	(19.61%)	(12.11%)
Commission income	1,316	655	138	0.04%	0.01%	0.00%
Financial charges	(633,742)	(1,195,511)	(1,113,856)	(21.10%)	(20.15%)	(16.63%)
Net loss for period	(3,099,349)	(2,358,437)	(1,925,196)	(103.17%)	(39.74%)	(28.74%)

Source: Financial Statements.

The following table sets out the changes in cash and cash equivalents during the relevant periods by category of activity.

Table 7: Cash and Cash Equivalents

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash and cash equivalents	505,792	702,117	780,273

Source: Financial Statements. Units: SAR thousand

Summary of Risk Factors

There are certain risks relating to an investment in the Rights Issue Shares, including risks related to the Company, risks related to the KSA telecommunications market and the legal and regulatory environment and risks related to the Rights Issue Shares. These risks are set out in further in Section 2 (*Risk Factors*) and should be considered carefully prior to making an investment decision on the Rights Issue.

Risks related to the Company

- Operating history
- Role of MTC
- Licence for the use of the Zain brand and trademark
- Interconnection and roaming services
- Dependence on outsourcing
- Dependence on a number of key third party distributors
- Roll-out and coverage obligations
- Customer credit risk
- Financing risk and funding requirements
- Seasonal variations in service use
- Unexpected business interruption or breach of security measures
- Dependence on key personnel

- Nationalisation targets and employment requirements
- Economic risks
- Foreign exchange and interest rates

Risks related to the KSA telecommunications market and the legal and regulatory environment

- Telecommunications Regulations
- The Licence
- Dependence upon developing the KSA mobile telecommunications market
- Competition
- Legal or regulatory disputes
- Frequency spectrum allocation
- Churn rates
- Changing consumer behaviour and future technologies
- Intellectual property protection
- Potential risks of mobile telephone handsets and hands-free earpieces, and wireless base stations

Risks related to the Rights Issue Shares

- Control by the Founding Shareholders
- Liquidity and volatility in the share price
- Dividend payments
- Dilution of existing shareholdings
- Expiry of the Lock-in Period

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1 Definitions, Abbreviations and Technical Glossary

Definitions and Abbreviations

The following sets out certain definitions and abbreviations used in this Prospectus.

Defined Term	Definition
ADIH	Abu Dhabi Investment House PJSC.
AED	United Arab Emirates Dirham, the lawful currency of the United Arab Emirates.
Admission	Admission of the Right Issue Shares to listing on the Official List and to trading on the Exchange in accordance with Article 19 of the Listing Rules.
Advisors	The Company's advisors in relation to the Offering whose names appear on page (vi) of this Prospectus.
Architectural Elite	Architectural Elite Establishment for General Contracting, a Founding Shareholder of the Company.
Articles of Association	The articles of association of the Company.
ATM	Automated Teller Machine.
Audited Financial Statements	The Company's audited financial statements for the financial years ended 31 December 2009G and 31 December 2010G and the notes thereto, which have been audited by PricewaterhouseCoopers and the audited financial statements for the year ended 31 December 2011G and the notes thereto, which have been audited by Deloitte.
Authorised Person	A person authorised by the CMA to acquire, hold and trade in shares on Tadawul on behalf of a Foreign Investor.
Authority or CMA	The Capital Market Authority of the KSA.
Banque Saudi Fransi or BSF	Banque Saudi Fransi
Board or Board of Directors	The Company's Board of Directors.
Business Day	A day on which commercial banks in the KSA are open for the transaction of normal business.
By-Laws	The by-laws of the Company, as amended from time to time.
CAGR	Compound Annual Growth Rate.
Calyon	Formerly, Calyon, now known as "Crédit Agricole - CIB".
Capital Increase	The increase in the Company's share capital from SAR4,801,000,000 to SAR10,801,000,000 by the issue of the Rights Issue Shares.
Capital Restructuring EGM	The EGM held on 14/8/1433H (corresponding to 4/7/2012G) to consider and approve the Capital Reduction, Capital Increase and the Rights Issue.
Capital Reduction	The reduction of the Company's share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) which was approved at the Capital Restructuring EGM.
CITC	Communications and Information Technology Commission.
CITC Annual Report	The annual report published by the CITC.
CITC Ordinance	The ordinance of the CITC issued by resolution of the Council of Ministers No. 74 dated 5/03/1422H (corresponding to 27/05/2001G), as amended from time to time.
CITC Regulations	Legal instruments issued by the CITC by way of implementing regulations or circulars (which do not include the Telecommunications Act, the Telecommunications By-Laws, the CITC Ordinance, the Interconnection Guidelines and the Rules of Procedure).
CML	Capital Markets Law, issued by Royal Decree No. M/30, dated 02/06/1424H (corresponding to 31/07/2003G), as amended from time to time.
Companies Regulations	Companies Regulations, issued by Royal Decree No. M/6, dated 22/3/1385H, (corresponding to 22/07/1965G), as amended from time to time.

Defined Term	Definition
Company	Mobile Telecommunications Company Saudi Arabia, a Saudi joint stock company, established in accordance with the Royal Decree No M/48 dated 26/05/1428H (corresponding to 12/06/2007G).
Corporate Governance Regulations	Corporate Governance Regulations issued by the CMA pursuant to Resolution No. 1/212/2006, dated 21/10/1427H (corresponding to 12/11/2006G), as amended from time to time.
Customer	A customer of the Company, being either Pre-paid or Post-paid.
Deloitte	Deloitte & Touche Bakr Abulkhair & Co.
Directors	The members of the Board of Directors set out in Section 5 (*Founding Shareholders, Corporate Structure and Governance*).
Eligibility Ratio	The result of dividing the number of Existing Shares by the number of Rights Issue Shares, being 0.800167.
Eligible Shareholder(s)	Registered holder(s) of Shares as at the Record Date.
Exchange or Tadawul	The Saudi Stock Exchange (the automated Saudi securities trading system).
Existing Financing	The Murabaha Facility, the Shareholder Financing, the Subordinated Facility and the Motorola Vendor Financing.
Existing Shares	The number of Shares in issue prior to the Capital Increase and as at the date of this Prospectus, being 480,100,000 Shares.
Extraordinary General Assembly, EGM or Extraordinary General Meeting	An extraordinary general meeting of the Shareholders convened in accordance with the By-Laws.
Faden	Faden Trading Contracting Establishment, a Founding Shareholder of the Company.
Financial Advisors	The financial advisors to the Company in relation to this Offering, whose names appear on page (vi) and (vi) of this Prospectus.
Financial Statements	The Audited Financial Statements.
Foreign Investor	Non-Saudi natural persons who are not residents in the KSA
Founding Shareholders	MTC, Saudi Plastic Factory, Faden, Rakisa, Ashbal Al-Arab Contracting Establishment, Almarai Company, Al Jeraisy Development Company Limited, Architectural Elite and Al Sale Al Sharkiya Company Limited.
GCC	Gulf Co-operation Council.
GDP	Gross domestic product.
GDP PPP	Gross domestic product (purchasing power parity).
Government	Government of the KSA.
Grievances Board	The Board of Grievances established by Royal Decree No. M/51 dated 17/07/1402H (corresponding to 11/05/1982G) to hear among other things, cases of compensation filed against the Government or an independent public corporate entity as a result of its actions.
Huawei	Huawei Tech. Investment Saudi Arabia Co., Ltd., a supplier to the Company.
Independent Auditor's Report	The independent auditor's limited review report stating the reasons for the Capital Reduction, and the effect of the Capital Reduction on the Company's obligations, presented at the Capital Restructuring EGM.
Interconnection Guidelines	Interconnection Guidelines issued by CITC Decision No. 25/1424 dated 23/09/1424H (corresponding to 18/11/2003G).
IMF	International Monetary Fund.
IPO	The initial public offering of 630,000,000 shares in the Company.
IPSOS	IPSOS, an independent research company with operations in various countries worldwide, including the MENA region and Saudi Arabia, specialising in survey based research.

Defined Term	Definition
ISP Licence	The Company's Type B Class Licence for the provision of ISP services with effect from 24/01/1431H (corresponding to 10/01/2010G).
Issuer	The Company.
ITS	International Turnkey Systems.
ITS Outsourcing Agreement	The outsourcing agreement between Zain Group Holding Bahrain SPC and ITS dated May 2009 for the supply of information technology infrastructure and application services by ITS.
KSA or Saudi or Saudi Arabia	The Kingdom of Saudi Arabia.
KWD	Kuwaiti Dinar, the lawful currency of the State of Kuwait.
Lead Manager	Saudi Fransi Capital Limited.
LIBOR	London Interbank Offered Rate.
Licence	The third facilities-based mobile cellular services licence to operate mobile telecommunications in the KSA issued by the CITC on 21/03/1429H (corresponding to 29/03/2008G).
Licence Fee	The annual licence fee paid by the Company to the CITC pursuant to the Licence.
Listing Rules	The Listing Rules issued by the CMA pursuant to Article 6 of the Capital Markets Regulations promulgated under Royal Decree No M/30 dated 2/6/1424H (corresponding to 31/07/2003G), as amended from time to time.
Mada	Mada Leletisalat Company, a limited liability company incorporated in the KSA by the Founding Shareholders for the purposes of trading in the KSA in the pre-operating phase, prior to incorporation of the Company.
Management	The executive management of the Company.
Management Agreement	Has the meaning given in Section 13.15.3 (*Legal Information – Material Contracts – Management Agreement*).
Management Fee	The quarterly management fee paid to MTC by the Company pursuant to the Management Agreement which has not been paid in cash since the Management Agreement come into fores and instead accrues for repayment following the maturity of the Murabaha Facility.
Maturity Date	The maturity date under the Motorola Vendor Financing, being 12 December 2012G.
MCIT	Ministry of Communications and Information Technology of Saudi Arabia.
MENA	Middle East and North Africa.
Mobily	Etihad Etisalat Company.
MoCI	Ministry of Commerce and Industry of Saudi Arabia.
Motorola	Motorola, Inc., a supplier to the Company.
Motorola Arabia	Motorola Arabia, Inc., a supplier to the Company.
Motorola Vendor Financing	The payment of US$198,777,197 (approximately SAR745,414,489) to Motorola (and its affiliates) for the supply of goods and services which has been deferred until December 2012.
MTC	Mobile Telecommunications Company K.S.C., one of the Founding Shareholders and a company incorporated under the laws of Kuwait.
MTC Group	MTC and its subsidiaries. The term "MTC Group" is used for definitional purposes only and is not itself a legal entity.
Murabaha Banks	Each of the financial institutions with commitments under the Murabaha Facility, being Banque Saudi Fransi, Calyon, Al Rajhi Bank, National Bank of Kuwait, Arab National Bank, The Saudi British Bank, Gulf Bank K.S.C. and Standard Bank plc.

Defined Term	Definition
Murabaha Facility	The Murabaha facility of US$2,600,000,000 (approximately SAR9,751,000,000), divided into tranches of US$875,000,000 (approximately SAR3,281,250,000) and SAR6,468,750,000, entered into between the Company as purchaser and Banque Saudi Fransi as investment agent dated 10 August 2009G and as amended on 11 October 2009G.
Net Revenues	The total revenues received by the Company from providing mobile services commercially, less the dues to any other domestic and international telecommunications service providers that are reflected in the settlement results of these services.
NSN	Nokia Siemens Networks Oy., a supplier to the Company.
Offering or Rights Issue	The proposed issue of the Rights Issue Shares at the Offer Price to Eligible Shareholders on the basis of 1.2497 Rights Issue Shares for every Existing Share held as at the Record Date, on the terms of, and subject to, the conditions set out in this Prospectus.
Offering Period	The period starting from 20/8/1433H (corresponding to 10/7/2012G) and lasting 8 days up to and including 27/8/1433H (corresponding to 17/7/2012G).
Offer Price	SAR10 per Rights Issue Share.
Official List	The list of securities maintained by the CMA in accordance with the Listing Rules.
Oliver Wyman	Oliver Wyman FZ-LLC, a global management consulting firm and an advisor to the Company.
Ordinary General Assembly	An ordinary general meeting of the shareholders convened in accordance with the By-Laws.
Over-Subscribing Shareholder	An Eligible Shareholder who applies for a greater number of Rights Issue Shares than the number of its Rights Issue Shares.
PricewaterhouseCoopers	PricewaterhouseCoopers Al Juraid.
Rakisa	Rakisa Holding Company, a Founding Shareholder of the Company.
Receiving Agents	The receiving agents for the Company in relation to the Subscription Monies, whose names appear on pages (ix) and (x) of this Prospectus.
Record Date	The close of trading on Tadawul on the day of the Capital Restructuring EGM, being 14/8/1433H (corresponding to 4/7/2012G).
Resolution	The resolution passed by the Shareholders at the Capital Restructuring EGM approving the recommendation of the Board to increase the authorised share capital of the Company pursuant to the Rights Issue.
RFA	Request for Applications for Licensing of Public Mobile Services in KSA, issued by the CITC in Riyadh on 21/09/1427H (corresponding to 14/10/2006G).
Rights	The rights of an Eligible Shareholder to subscribe for 1.2497 Rights Issue Shares for every Existing Share held as at the Record Date under the Rights Issue.
Rights Issue Shares	600,000,000 Shares to be offered pursuant to the Offering to Eligible Shareholders.
Rules of Procedure	CITC Rules of Procedure dated 17/04/1424H (corresponding to 17/06/2003G), as amended from time to time.
SAMA	Saudi Arabian Monetary Agency.
SAR or Saudi Riyals	Saudi Arabian Riyal, the lawful currency of the KSA.
Senior Secured Creditors	The banks and financial institutions who are the financing parties to the Murabaha Facility.
Service Launch	The date that services were first offered by the Company to members of the public in the KSA, being 25/08/1429H (corresponding to 26/08/2008G).
Settlement Agreements	The settlement agreement dated 14/7/1429H (corresponding to 18 July 2008G) and its supplement dated 27/10/1429H (corresponding to 28 October 2008G) entered into by Rakisa and ADIH.

Defined Term	Definition
Share	An ordinary share in the Company with a nominal value of SAR10 each.
Shareholder	A registered holder of Shares.
Shareholder Financing	The shareholder loans advanced by certain of the Founding Shareholders and ADIH to the Company.
Shareholder Financing Settlement Agreements	The agreements between the Company, the Financial Advisers, each of the Founding Shareholders (save for Architectural Elite and Rakisa) and ADIH whereby each such Shareholder has agreed to subscribe for Rights Issue Shares pursuant to the Offering through capitalising all or part (as applicable) of their respective proportionate amount of the Shareholder Financing.
Short Term Vendor Refinancing	A term facility in the amount of approximately SAR2,193,750,000 divided into tranches of US$468,000,000 and SAR438,750,000, in respect of the refinancing of certain vendor financing dated 8 June 2010 between, amongst others, BNP Paribas as facility agent and each of BNP Paribas, Crédit Agricole – CIB, National Bank of Kuwait, Banque Saudi Fransi and DBS Bank Ltd as lenders, which has now been repaid.
SIBOR	Saudi Interbank Offered Rate
SME	Small and medium-sized enterprise
SOCPA	Saudi Organisation for Certified Public Accountants.
SOCPA Standards	The accounting standards promulgated by SOCPA.
Subordinated Facility	A short-term loan in the amount of approximately SAR2,250,000,000 divided into tranches of US$100,000,000 and SAR1,875,000,000, in respect of the refinancing of the Short Term Vendor Refinancing
STC	Saudi Telecommunications Company.
Subscriber	Each Eligible Shareholder that subscribes for the Rights Issue Shares.
Subscription Application Form	The share application form in connection with the Offering.
Subscription Monies	The monies paid by each Subscriber, pursuant to the terms of the Offering, to acquire Rights Issue Shares.
Telecommunications Act	Telecommunications Act issued by Royal Decree M/12, dated 12/3/1422H (corresponding to 4/6/2001G), as amended from time to time.
Telecommunications By-Laws	Telecommunications By-Laws issued by Resolution 11, dated 17/05/1423H (corresponding to 27/7/2002G), as amended from time to time.
Telecommunications Regulations	The Telecommunications Act, the Telecommunications By-Laws, the CITC Ordinance, the Interconnection Guidelines and the Rules of Procedure.
Trademark Licensing Agreement	The trademark licensing agreement entered into between the Company and MTC as described in Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*).
UAE	United Arab Emirates.
Underwriters	Saudi Fransi Capital Limited, Al Rajhi Capital Company, Alinma Bank, Bank Al Bilad and Saudi Hollandi Bank.
Underwriting Agreement	The underwriting agreement to be entered into between the Company and the Underwriters in connection with the Offering.
Unsubscribed Shares	Rights Issue Shares for which the priority right to subscribe was not exercised by the Eligible Shareholders.
US$ or US dollar	United States dollar, the lawful currency of the United States of America.
ZTE	ZTE Corporation and ZTE (HK) Limited Saudi Arabia, collectively.

Technical Glossary

The following technical glossary provides a meaning for certain technical terms used in this Prospectus.

Term	Meaning
2G	Second generation mobile telephone network technology, such as GSM.
3G	Third generation mobile telephone network technology with increased bandwidth from 2G technology.
4G	Fourth generation mobile telephone network technology. 4G is a successor to 3G and 2G standards and provides a comprehensive and secure all-IP based service where facilities such as IP telephony, ultra-broadband access and streamed multimedia can be provided to users.
Access charges	The costs of interconnection and costs of national and international roaming.
ARPU	Average Revenue Per User (calculated for the relevant period).
Bandwidth	A range of frequencies occupied by a signal. The capacity of a telecommunications line to carry signals is measured according to bandwidth. The necessary bandwidth is the amount of spectrum required to transmit the signal without distortion or the loss of information.
BlackBerry	BlackBerry is a trade name of Research In Motion, which is used for a range of smartphones.
BSC	Base Station Controller.
BTS	Base Transceiver Station for GSM.
Churn	The number of customers who end their relationship (voluntarily or involuntarily) with a telecommunications company in a given period. A Pre-paid Customer of the Company is churned by the Company if he does not make a chargeable event within the preceding 90 day period prior to the applicable date. A Post-paid Customer of the Company is churned by the Company if he has terminated his contract or been disconnected by the Company for failing to pay his invoice within 90 days at the date of receiving the relevant invoice.
Churn rate	Churn divided by the average number of Customers during a specified period.
Coverage Area	The requirement imposed on the Company under the Licence to provide 2G coverage for approximately 94 per cent. of the population of the KSA, and 3G coverage for approximately 73 per cent. of the population of the KSA, as well as coverage of at least 540 cities and 67 highways in the KSA within five years from Service Launch.
Dark fibre	Backbone fibre.
DWDM	Dense Wavelength Division Multiplexing, an optical technology used to maximise bandwidth over existing high capacity fibre-optic carrier network backbones.
Dongle	Any USB mobile stick or wireless broadband adapter that users connect to laptops and netbooks to obtain wireless Internet access.
Downlink	The transmission path by which radio or other signals are sent from a satellite to one or more ground stations or receivers.
DNS	Domain Name System.
FDD	Frequency Division Duplex
Fixed FBP Licence	Facilities-based provider licence for fixed services in the KSA. A facilities-based provider means a service provider who builds, owns and operates a public telecommunications network. Fixed services are electronic communications services between fixed or nomadic apparatus or stations.
GHz	Gigahertz, a measure of frequency.

Term	Meaning
GSM	Global System for Mobile Communications. A leading digital cellular system that uses narrowband Time Division Multiple Access (TDMA) technology whereby a single frequency can support multiple, simultaneous data channels.
GSM Association	A global trade association representing approximately 700 GSM mobile phone operators across the world. The primary goals of the association are to ensure that GSM mobile phones and wireless services work globally and are easily accessible, enhancing their value to individual customers and national economies, while creating new business opportunities for operators and their suppliers.
HSDPA or 3.5G	High-Speed Downlink Packet Access, an enhanced 3G (third generation) mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, also known as "3.5G", "3G+" or "turbo 3G". It allows networks based on Universal Mobile Telecommunications System (UMTS) to have higher data transfer speeds and capacity.
HSPA	High-Speed Packet Access, comprising the HSDPA and HSUPA protocols.
HSPA+	High-Speed Pocket Access Plus, an upgrade to existing HSPA networks.
HSUPA	High-Speed Uplink Packet Access, is the same technology as HSDPA but relates to uplinks as opposed to downlinks.
IBS	In-Building Solutions.
iDEN technology	Integrated Digital Enhanced Network is a mobile telecommunications technology, developed by Motorola, which provides its users the benefits of a trunked radio and a cellular telephone. iDEN places more users in a given spectral space, compared to analog cellular and two-way radio systems, by using speech compression and time division multiple access.
Internet	A collection of interconnected networks spanning the entire world, incorporating private, university, corporate, government and research networks around the globe, all using the IP communications protocol.
Internet Protocol or IP	A standardised method of transporting information across the Internet in packets of data.
IRU	Indefeasible Right to Use.
ISP	Internet Service Provider.
ITU	International Telecommunication Union.
LTE	Long Term Evolution, the high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
MBB	Mobile broadband.
Mbps	Megabits per second, a measure of bandwidth.
MCS	Mobile Cellular Services.
MHz	Megahertz, a measure of frequency.
MMS	Multimedia Message Service, a method of transmitting graphics, video clips, sound files and text messages over wireless networks using the WAP protocol.
MSC	Mobile Switching Centre.
MVNO	Mobile Virtual Network Operator, an entity that purchases spectrum capacity from a mobile telecommunications network operator and re-sells it under its own brand.
National Frequency Plan	The plan set by the CITC for regulating and managing frequencies in the KSA.
National Numbering Plan	A plan prepared, published and managed by the CITC to assign numbers and number ranges to service providers and users.

Term	Meaning
Node B	A base transceiver station for Universal Mobile Telecommunications Technology.
PBX	Private branch exchange, which is a private telephone network used within an enterprise.
Penetration	Number of SIM cards divided by the total population.
Post-paid	Relating to customer accounts where subscription fees and tariffs are paid in arrears on a regular (e.g. monthly) basis. A Post-paid Customer is considered a Customer provided he has not voluntarily terminated his contract or been disconnected by the Company during the preceding period of 90 days.
Pre-paid	Relating to Customer accounts paid in advance for a fixed amount of airtime and services. A Pre-paid Customer is considered a Customer provided he has made a chargeable event (e.g. a call or SMS) within the preceding period of 90 days.
RAN	Radio Access Network.
Reference Interconnection Offer	An offer conforming to the requirements of the Interconnection Guidelines.
SIM	Subscriber Identity Module, a smart card containing the telephone number of the subscriber, encoded network identification details, the personal identification number and many other user data such as the phone book.
SMS	Short Message Service, a form of text messaging on mobile phones.
TABS	Telecommunication Advances Billing Solution, a proprietary integrated software package.
Uplink	A transmission path by which radio or other signals are sent from a ground station to a satellite.
USB	Universal Serial Bus. A type of serial bus that allows peripheral devices (including disks, modems, printers and digitisers) to be easily connected to a computer.
USF	The Universal Service Fund envisaged under Universal Access / Universal Service Policy Document dated 21/5/1427H (corresponding to 17/06/2006G), as described in Section 6 (*Regulatory Environment*).
VAS	Value added services.
VLR	Visitor Location Register.
VoLTE	Voice over Long Term Evolution.
WAP	Wireless Application Protocol, a secure specification that allows users to access information instantly via handheld wireless devices such as mobile phones, pagers, two-way radios, smartphones and other communicators.
WCDMA	Wideband Code Division Multiple Access, the radio access scheme used for 3G mobile telephony systems.

2 Risk Factors

Before deciding whether to subscribe for any Rights Issue Shares, prospective investors should carefully consider all of the information contained in this Prospectus, particularly the risk factors described below. The risk factors are not exhaustive, and there could be other risks currently unknown to, or considered immaterial by, the Company that may affect its operations. The Company's business, prospects, financial condition, results of operations and cash flows could be adversely and materially affected if any of the following risks, which the Directors currently believe to be material, actually occur, or if any other risks that the Directors have not identified or that they currently consider to be immaterial, occur or become material risks. The trading price of the Existing Shares or the Rights Issue Shares could decrease due to any of these or other risks. Accordingly, Eligible Shareholders who acquire any Rights Issue Shares may lose all or part of their investment.

2.1 Risks Related to the Company

2.1.1 Operating history

Whilst the Company only launched commercial services on 26 August 2008G, it has managed to acquire a significant share of the mobile telecommunications market in the KSA. However, this may not be indicative of its future performance. Furthermore, during this period the Company has not been able to generate the earnings necessary to fund its operations, continue to grow its business or repay its debt obligations. Accordingly, the Company has faced substantial business and financial risks, and has suffered significant losses.

As at 31 December 2011G, the Company's Customer base had grown to approximately 7.7 million Customers and the Company's operations for the seven consecutive quarters ended 30 September 2011G have generated both positive EBITDA and positive cashflow from operations. However, the business and financial risks faced by the Company may be exacerbated in the future by the continued presence of the Company's two competitors, STC and Mobily, both of which have been established and operating in the KSA for many years longer than the Company. As a result, they each have more established customer bases, long-standing vendor and supplier relationships and well-developed infrastructure. In addition, the penetration rate for mobile services in the KSA as at December 2010 remained relatively high at 186 per cent.[25], which will inevitably make it more challenging for the Company to gain further market share and to continue to grow its business.

In order to continue to successfully compete in the KSA, the Company must continue to develop relationships with Customers, vendors, suppliers and Governmental and regulatory authorities, expand its coverage and capacity in the KSA, manage its anticipated growth, introduce new products to the market in a timely and effective manner, and develop management information and other systems, as well as take other steps necessary to conduct its business activities and to ensure uninterrupted service.

Failure by the Company to continue to develop necessary relationships on favourable terms or to implement its business plan in a timely and cost effective manner, could have a material adverse effect on its business, prospects, financial condition and results of operations.

2.1.2 Role of MTC

2.1.2.1 Management Agreement

The Company and MTC entered into the Management Agreement, which has a term of 25 years and is due to expire on or around 29/03/2033G (corresponding to 27/12/1454H) (see Section 13.15.3 (*Legal Information – Material Contracts – Management Agreement*)). Under the terms of the Management Agreement, the services to be provided by MTC to the Company include:

- building a mobile network and ongoing day-to-day maintenance, repair and security of the mobile network;
- managing the ongoing day-to-day operations of the Company;
- developing business plans and appropriate performance monitoring metrics; and
- providing customer service.

25 Source: CITC Annual Report 2010.

Pursuant to the Management Agreement, the Company pays an annual fee to MTC and, in addition, MTC licences certain Zain trademarks, including the Zain brand, to the Company (see Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*)).

The Management Agreement may be terminated by the Company in the event, for example, that MTC is in default of a material obligation which has a material adverse effect on the Company (and such default continues un-remedied for a period of 60 Business Days), or if MTC's ownership in the Company falls below 15 per cent. of the issued share capital. In the latter case, MTC is obliged under the Management Agreement to use its reasonable efforts to assist the Company in locating an alternative provider/manager within a 60 day period following such dilutive event or notice of the intended sale by MTC of such corresponding number (or all) of its Shares. MTC has the right to terminate the Management Agreement in the event the Company is in material default of its obligations and fails to remedy such default within 60 Business Days, or in the event the Company fails to pay any amounts owing to MTC exceeding in aggregate US$500,000 within 60 days' notice of the failure to pay such amounts.

If the Management Agreement is not renewed upon its expiry on or around 27/12/1454H (corresponding to 29/03/2033G) or is terminated in accordance with its terms and the Company fails to secure the provision of similar services by an alternative provider and/or enter into separate licensing agreement(s) for the continued use of the Zain brand, there could be a material adverse effect on the Company's business, prospects, financial condition, reputation and results of operations.

2.1.2.2 Shareholding in the Company

On 13 March 2011G, MTC received an unsolicited non-binding offer from a consortium consisting of Kingdom Holding Company and Bahrain Telecommunications Company B.S.C. (together, the "**Consortium**") to purchase MTC's entire 25 per cent. shareholding in the Company. Following preliminary discussions between MTC and the Consortium, MTC entered into a non-binding term sheet with the Consortium on 5 April 2011G. However, during the course of the transaction process, both MTC and the Consortium elected not to proceed and they consequently terminated discussions on 29 September 2011G.

MTC has subsequently re-affirmed its strong support for the Company in areas such as strategic leadership, operating support, the appointment of a new and highly experienced management team and the provision of significant financial support, such as through the capitalisation of SAR1,500,000,000 (US$400,000,000) of its Shareholder Financing (see Section 4.6.2 (*The Company's Business and Strategy – Company's Competitive Advantages and Opportunities – Relationship with the MTC Group*)).

If MTC fails or ceases to support the Company to this extent, or at all, or if MTC seeks to dispose of its shareholding in the Company at a future date, it could have a material adverse effect on the Company's business, prospects, financial condition, reputation and results of operations.

2.1.3 Licence for use of the Zain brand and trademark

Under the terms of the Management Agreement, MTC grants the Company a licence to use, amongst other things, any brand owned and used by MTC, including the Zain brand during the term of the Management Agreement. Any licence to use a trademark or a brand in the KSA must be documented pursuant to a written licence agreement that is required to be registered with the trademark authorities. Accordingly, on 2/8/1431H (corresponding to 14/07/2010G), the Company entered into a separate legally binding trademark licensing agreement with MTC for the use of the Zain trademark (the "**Trademark Licensing Agreement**") (see Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*)). On 15/11/1431H (corresponding to 23/11/2010G), the Company registered the Trademark Licensing Agreement with the authorities in the KSA to ensure, amongst other things, that third parties are given notice of the existence of the trademark licence. Trademark registration certificates were issued by the authorities on 1/2/1432H (corresponding to 5/01/2011G) confirming that the Company has been licensed to use the trademarks owned by MTC. However, the Trademark Licensing Agreement remains effective only until termination of the Management Agreement (see 15.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*)). Accordingly, should the Management Agreement be terminated, the Company would no longer have the right to use the Zain brand and MTC could successfully challenge the Company's use of the Zain name and associated logos due to the consequent termination of the Company's right to use the trademarks under the Trademark Licensing Agreement. If the Company no longer has the use of the Zain brand and trademark, there could be a material adverse effect on the Company's business, prospects, financial condition, reputation and results of operations.

2.1.4 Interconnection and roaming services

The Company's ability to provide high quality and commercially viable telecommunications services depends on its ability to interconnect with local telecommunications networks and services as well as other international telecommunications operators through international carriers. Geographical areas of the KSA not yet covered by the Company's network are served through national roaming agreements with Mobily and STC. The Company also relies on several hundred other telecommunications operators for the provision of international roaming services for its Customers.

While the Company has interconnection and international roaming agreements in place with other telecommunications operators, it has no direct control over the quality of their networks and the interconnections and international roaming services they provide. Any difficulties or delays in interconnecting with other networks and services, or the failure of any operator to provide reliable interconnections or roaming services on a consistent basis, could result in a loss of Customers or a decrease in traffic, which could adversely and materially affect the Company's business, prospects, financial condition, results of operations and cash flows.

2.1.5 Dependence on outsourcing

In addition to the Company's reliance on MTC's management and operational expertise under the Management Agreement, the Company pursues an outsourcing model that seeks to optimise its cost structure and efficiencies and minimise operational expenses through partnering with experienced service providers who assist with a significant portion of the Company's business, including network infrastructure and equipment, customer service call centres, warehousing and data centres. In relation to the majority of its outsourced services, the Company does not currently have the internal resource or capability to perform such services, particularly without incurring significant costs or causing disruptions to its operations. Should the Company seek to reduce its reliance on outsourced services, there can be no assurance that the Company would be successful in finding adequate internal resources (through, for example, recruiting skilled employees).

In relation to network infrastructure and equipment, the Company has made substantial equipment purchases from NSN, Motorola, Huawei and ZTE, and it relies on NSN (which has now been assigned the relevant agreements by Motorola, pursuant to the terms of NSN's acquisition of Motorola Network Solutions' assets in April 2011), Huawei and ZTE as outsourcing partners to manage the Company's network. In addition, it partially outsources its customer contact centre operations to Etisal. The Company is reliant upon these partners to provide continuous and reliable services, particularly with regards to ongoing operations and maintenance support. The Company's ability to grow and meet the needs of its Customer base depends in part on its ability to source adequate supplies of network equipment and software on a timely basis and in part on providing a high level of customer service. The Company does not have direct operational or financial control over its key service providers or outsourcing partners. In addition, the Company cannot predict with any certainty the unexpected termination of an outsourcing contract.

The inability or unwillingness of the Company's key service providers and outsourcing partners to provide adequate services, equipment and supplies on a timely basis and at attractive prices could materially and negatively impact the Company's ability to attract Customers or offer attractive product offerings, either of which could give rise to a breach of the terms of the Licence and/or adversely and materially affect the Company's business, prospects, financial condition, results of operations and cash flows.

2.1.6 Roll-out and coverage obligations

Under the terms of the Licence, the Company must comply with specific roll-out and coverage obligations within the first five years after Service Launch (see Section 7.1.9 (*Licence and Interconnection – Licence -Network Roll-out and Coverage*). In order to comply with these obligations, the Company must continue to invest in and develop its network infrastructure and equipment, and use the facilities made available to it by third parties.

If the Company fails to comply with its roll-out and coverage obligations, the board of the CITC may impose a penalty on the Company. Under the Telecommunications By-Laws, the range of penalties available to the CITC would include amending, suspending, revoking or refusing to renew the Licence. If the CITC was to impose any of these penalties, the Company's ability to operate would be impaired, which could materially and adversely affect its business, prospects, financial condition, results of operations and cash flow.

2.1.7 Dependence on a number of key third party distributors

The ability of the Company to continue to distribute its products and services depends, to a large extent, on securing and maintaining a number of key distributors, retail distributors and business partners. A significant number of the Company's key distribution channels are managed and operated by third parties. For example, a significant proportion of new Customers originate through indirect channel partners. Services may cease to be provided by third parties due, for example, to a contract period expiring or a contract being terminated, and the Company cannot guarantee that chosen suppliers will be able to provide the functions or services for which they have been contracted.

Although the Company may replace third party distributors or decide to perform certain distribution functions itself, the Company cannot ensure that such substitution can be accomplished in a timely manner or without significant costs or disruptions to its operations. The Company's failure to maintain key distribution relationships, or any disruptions or failures by third party distributors (including the failure of the Company's key distribution partners to procure sufficient Customers), could have a material adverse effect on the Company's business, prospects, financial condition, results of operations and cash flows.

2.1.8 Financing risk and funding requirements

The Company has a significant amount of debt and is subject to restrictive covenants which could have consequences that could shape the future direction of its business operations (see Section 8.1 (*The Financing Agreements - Summary of the Financing Structure*)). As at 31 December 2011G, the Company's total debt was approximately SAR17,059,530,000[26]. The level of the Company's indebtedness, and the associated restrictive covenants imposed on the Company under the terms of certain of its financing facilities, has important ongoing consequences for the Company, including:

- increasing the Company's obligations under its debt instruments;
- limiting cash flow available for general corporate purposes, including capital expenditure and acquisitions, due to a significant portion of the Company's cash flow from operations being dedicated to servicing its debt. In addition, capital expenditure must not exceed the amounts projected in the Company's financial model delivered to the Murabaha Banks pursuant to the Murabaha Facility;
- limiting the Company's ability to obtain additional debt financing which is not already envisaged by its commercial financiers for working capital, capital expenditures or acquisitions;
- potentially limiting the Company's flexibility to react to competitive and other changes in its industry and economic conditions generally; and
- to the extent that no hedging strategy is in place with respect to a facility or if a hedging strategy does not provide sufficient coverage, exposing the Company to risks inherent in fluctuations of interbank offered rates or exchange rates. A significant portion of the Company's financing costs are calculated by reference to variable benchmark rates and are denominated in US dollars.

Due to the scope of the covenants applicable to the Company under the Murabaha Facility, there have been a number of incidences where the Company has failed to satisfy the compliance obligations required by the Murabaha Banks thus resulting in the Company being in default of the terms of the Murabaha Facility and requiring the Company to seek appropriate waivers from the Murabaha Banks. For example, the Company has obtained a waiver from the Murabaha Banks in connection with making operational expenditure payments to certain of its network suppliers that were not envisaged at the outset of the Murabaha Facility. This was to ensure the Company's commercial operations would not be disrupted as a result of some of the restrictive covenants under the terms of its Murabaha Facility. Although the Company has been successful to date in obtaining waivers for its previous defaults, a continuing event of default which is neither waived by the banks nor remedied by the Company (to the extent such an event

26 Includes the Murabaha Facility, the Shareholder Financing, the Subordinated Facility and the Motorola Vendor Financing.

is capable of remedy), entitles its commercial financiers (by majority bank consent) to:

- cancel any unutilised amounts under the relevant facility;
- declare all outstanding amounts under the relevant facility to be immediately due and payable; and
- in the case of the Murabaha Facility, under which security interests have been granted in favour of the Murabaha Banks, enforce any security interests pledged or assigned in favour of the relevant financiers.

Further, the financiers under the Murabaha Facility and the Subordinated Facility have the right to refuse to roll-over the utilised amounts under the Murabaha Facility and/or the Subordinated Facility (as applicable) at the end of each relevant period if there is a continuing event of default.

Other than in respect of the Company's Shareholder Financing and the Motorola Vendor Financing, an acceleration of any debts owed under one of its commercial facilities could result in a cross-default in respect of the Company's other commercial facilities, such as the Murabaha Facility. In addition, the termination or breach of certain of the Company's material agreements could result in a breach by the Company of certain of its covenants under the Murabaha Facility, which may also lead to a cross-default under the Subordinated Facility (see Section 8.1 (*The Financing Agreements – Summary of the Financing Structure*)).

The Company is dependent, to a significant extent, on the credit support provided by MTC in respect of the Company's commercial facilities, including a sponsor support undertaking in favour of the Murabaha Banks, a guarantee in favour of its Subordinated Facility financiers, and a sponsor arrangement letter in favour of the Motorola Vendor Financing financiers.

The Company cannot be certain that its future business will generate sufficient cash flow from operations, or that future borrowings will be available to it on acceptable terms or in an amount sufficient to enable it to pay interest or principal on its debt, or to fund its other liquidity needs, or that it will continue to receive the same levels of support from MTC. In addition, the value of the Company's tangible assets may limit its ability to obtain further financings on a secured basis (to the extent such financings are permitted under its current facilities). If the Company incurs additional indebtedness, the consequential obligations could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

2.1.9 Customer credit risk

Although approximately 90 per cent. of the Company's Customer base consists of Pre-paid Customers, the Company, in common with other mobile operators, is exposed to bad debt risk from Post-paid Customers. This risk is particularly significant in the KSA compared to other jurisdictions. Notwithstanding this, the Company intends to pursue Post-paid Customers in the future because such Customers tend to exhibit higher ARPU levels. It is a challenge to avoid bad debtors in the KSA and the Company believes that Customers who are bad debtors or who are blacklisted by other operators could, with relative ease, subscribe for a new account with the Company.

SIMAH, the Saudi credit bureau, provides all telecom operators in the KSA with access to a list of customers who are generally considered to be a credit risk, which is expected to reduce the number of bad debtors among Post-paid Customers. However, reliance on this database by the Company is unlikely to eliminate all customer credit risk to which the Company is exposed. The inability of the Company to accurately assess the credit quality of initial or ongoing customers or a deterioration in the KSA economy affecting consumers' credit-worthiness in general could result in unanticipated levels of customer defaults, which could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

2.1.10 Unexpected business interruption or breach of security measures

The Company is able to provide services only insofar as it can protect its infrastructure and networks from damage or interruptions in operations due to capacity restrictions, adverse weather conditions, commotion, earthquakes, fires, power loss, hardware and software defects, computer viruses, telecommunications failures, transmission cable cuts, human error, unauthorised access or similar events.

Although the Company has put in place disaster recovery systems in Riyadh and Jeddah and has implemented measures in its network design and architecture to guarantee business continuity, the Company's business activities could be interrupted or materially affected in the event of a partial or complete breakdown of any of its information technology or communications systems. Any disturbance of the system, accident or breach causing interruption in the Company's operations could affect its ability to provide services to its Customers and could have a material effect on its revenues and operating income. Such disturbances could also have a material adverse effect on the image and reputation of the Company and reduce the confidence of its Customers, which could lead, in particular, to a loss of such Customers. In addition, the Company could be required to bear additional costs in order to repair any damage caused by such disturbances. To the extent that any such disruption results in a loss of, or damage to, Customers' data or applications, or inappropriate disclosure of confidential information, the Company may incur liability as a result. Such failures, breakdown, interruptions, disruptions or costs could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

2.1.11 Seasonal variations in service use

The Company's business is affected by seasonal variations in network use. For example, the Company depends to a degree on additional revenues generated in the quarters in which overseas pilgrims visit the KSA over the Hajj and Umrah periods. In the third and fourth quarters of 2010, the KSA had more than 3.6 million religious visitors (out of a total of 4.9 million religious visitors in the entire year)[27]. This represents a significant opportunity for further revenue generation for mobile operators in the KSA. The Company's results will be affected negatively if it fails to deliver strong customer growth in the relevant quarter(s) in which Hajj and Umrah occur. The mobile business in the KSA generally, and in the Pre-paid business in particular, is significantly seasonal and is often disproportionately dependent on the results during these periods. The Company's business has experienced a similar pattern in its operating history and management expects this pattern to continue in the future. If the Company's customer expansion in the quarter(s) in which Hajj and Umrah occur fails to meet the Company's expectations, it could adversely affect the Company's results of operations and cash flows.

2.1.12 Nationalisation targets and employment requirements

The Company has employed and plans to continue to employ Saudi nationals in numerous roles, which enables it to meet government-prescribed targets relating to the employment of Saudi nationals. The Ministry of Labour recently launched the "Nitaqat" programme which is designed to encourage companies to recruit Saudi nationals and to gradually increase the percentage of Saudi nationals in their workforce. Under the "Nitaqat" programme, a company's compliance with the nationalisation requirements is measured against the percentage of Saudi nationals in its workforce compared to the average percentage of nationalisation at companies operating in the same sector. The companies are categorised into the following four categories:

- the Red Category: this applies to companies which do not comply with the requirements of the "Nitaqat" programme. The percentage of Saudi nationals in these companies is below a certain percentage threshold;
- the Yellow Category: this applies to companies which do not comply with the requirements of the "Nitaqat" programme, however the percentage of Saudi nationals in their workforce is above a certain percentage threshold;
- the Green Category: this applies to companies which comply with the requirements of the "Nitaqat" programme; and
- the Excellent Category: this applies to companies which comply with the requirements of the "Nitaqat" programme and the percentage of Saudi nationals in these companies is above a certain percentage.

According to a certificate of the Ministry of Labour in 20/3/1432H (corresponding to 29/10/2011G), the Company is placed in the Green Category, meaning it is compliant with the requirements of the "Nitaqat" programme. However, it may be difficult for the Company to recruit and retain the same percentage of Saudi nationals and consequently may cease to comply with the requirements of the "Nitaqat" programme. If the Company fails to continue to comply with the requirements of the "Nitaqat"

27 Source: Saudi Commission for Tourism & Antiquities – Tourism Statistics 2010.

programme, it may be categorised as falling within the Yellow or Red Categories (depending on the extent to which it is non-compliant with the "Nitaqat" programme). In such an event, the Company could be subject to a number of sanctions and restrictions in its dealings with government departments and authorities, including:

- the suspension of the Company's applications for work visas;
- the suspension of the Company's applications to transfer the sponsorship of an employee or a potential employee;
- the Company's expatriate employees will be prevented from changing their occupation in their work visas;
- the Company may not open files with the Ministry of Labour; and
- the Company's expatriate employees may transfer their employment and work visas to companies falling under the Green and Excellent Categories without the Company's consent.

The Company also provides financial assistance to its Saudi workforce to develop their technical competencies through training courses that help to prepare them to assume senior roles within the organisation. The Company's Human Resources Department allocates a certain amount of its budget to training that is tailored to meet the needs of Company employees. Each department at the Company also has a budget to sponsor employees to attend specific technical training sessions.

The occurrence of all or any of the above events could have a material adverse effect on the Company's business prospects, financial condition and results of operations.

2.1.13 Dependence on key personnel

The Company and its performance are largely dependent on the experience, technical know-how and commercial abilities of its personnel. The Company's management team comprises individuals with extensive experience in the mobile telecommunications sector. The success of the Company depends, in part, on the continued service of its management team and key employees and its ability to attract, retain and motivate qualified personnel.

Furthermore, competition for personnel with relevant expertise is intense in the KSA market due to the scarcity of qualified individuals in the mobile telecommunications industry. In order to retain skilled and qualified individuals, the Company may need to offer higher compensation and other benefits. The Company is not insured against the detrimental effects to its business resulting from the loss or dismissal of key personnel and it cannot assume that it will be able to attract and retain key personnel that will help it to achieve its business objectives.

If the Company is not able to retain key personnel, or fails to attract new qualified personnel to support the growth of its business, it could experience a material adverse effect on its business, prospects, financial condition and results of operations.

2.1.14 Foreign exchange and interest rates

The Company has non-Saudi Riyal denominated liabilities (the majority of which are in US dollars) and enters into non-Saudi Riyal denominated transactions with suppliers and vendors. For as long as its financial statements are denominated in Saudi Riyals, it will be exposed to transaction foreign exchange risks. In addition, the Saudi Riyal is pegged at a fixed rate to the US dollar. The KSA may, in the future, remove or alter the peg, causing the US dollar denominated value of the Company's assets and liabilities to fluctuate. Other than its Shareholder Financing, a very significant portion of the Company's debt financing obligations are denominated in US dollars and the financing costs calculated by reference to variable benchmark rates.

Whilst arrangements covering over 85 per cent. of the principal amount of the Murabaha Facility have been implemented to hedge against the Company's exposure to funding expense fluctuations, there can be no assurance that the Company's hedging strategy will be successful in managing all of the Company's exposure risks. Therefore, there remains a risk that foreign exchange and benchmark rate fluctuations will materially adversely affect the Company's business, prospects, financial condition and results of operations.

2.1.15 Economic risks

The contribution of the oil sector to the KSA's GDP continues to be substantial despite the Government's continuing diversification policy. Fluctuations in oil prices, in particular material declines in such prices, could have a direct adverse impact on the KSA's economy and economic activity. Such impact may adversely affect companies operating in the KSA, including the Company.

2.2 Risks related to the KSA telecommunications market and the legal and regulatory environment

2.2.1 Telecommunications Regulations

The business of the Company is subject to regulation by the Government. The regulatory framework within which the Company operates is still under development in order to liberalise the sector and competition. This evolving framework may constrain the Company's ability to implement future business strategies and limit its flexibility to respond to changing market conditions and to meet its business objectives and plans, as currently envisaged. There can be no assurance that the applicable laws of the KSA or the regulatory framework will not change further or be interpreted in a manner that could materially and adversely affect the Company's operations.

Under the Telecommunications Regulations, the board of the CITC has the ability (other than in the case of an unauthorised re-assignment of the Licence, where the approval of the Minister of Communication and Information Technology is required) to suspend, revoke or not renew the Licence or impose penalties against all licensed telecommunications providers including the Company (see Section 7.1 (*Licence and Interconnection - Licence*)). The CITC also has the power to regulate content broadcasting activities. Any such actions against the Company or affecting it, or the imposition of penalties, could materially adversely affect the Company's business, prospects, financial condition and results of operations.

2.2.2 The Licence

The Company's right to operate is based on it holding the Licence which was issued to the Company by the CITC on 21/03/1429H (corresponding to 29/03/2008G). Pursuant to the CITC Decision No. 136/1427 (the Regulatory Framework on Fixed and Mobile Services Licensing) dated 17/09/1427H (corresponding to 10/10/2006G), the licensing regime may move towards a service-neutral regime. The intended timing for the introduction of a new service-neutral regime has not been announced, but the Company believes that there may, in time, be a possibility that the Licence may need to be reissued or amended to reflect this new regime although, if this were to happen, the Company believes that the licences held by STC and Mobily would also be reissued or amended in a similar manner. See Section 6 (*Regulatory Environment*) for further information on this subject.

In the event that the Company is unable to perform certain key services, it may risk being in breach of the terms of the Licence (and, in such circumstances, the board of the CITC may exercise its powers to suspend or revoke the Licence (see Section 2.2.1 (*Risk Factors – Risks related to the KSA telecommunications market and the legal and regulatory environment – Telecommunications Regulations*))), which could materially adversely affect the Company's business, prospects, financial condition and results of operations.

2.2.3 Dependence upon developing the KSA mobile telecommunications market

The development of the Company's business depends on the future level of demand for mobile telecommunications in the KSA. Factors influencing demand include general economic conditions, the development of the 2G, 3G and LTE (4G) markets, the number of customers and their usage trends, the emergence of new technologies, competition and future improvements in the quality and development and availability of fixed-line and mobile telephone services in the KSA. Other factors that may affect the business are the costs of attracting new customers, the competitiveness of the Company's tariffs and the price of handsets.

Given the multitude of factors, many of which are outside the Company's control, it is difficult to predict with any degree of certainty the future growth of the mobile telecommunications sector in the KSA. If growth forecasts turn out to be too optimistic or growth declines in the future, mobile telephone penetration levels in the KSA may be affected and, in turn, the Company's customer and revenue projections could be negatively affected. Any developments in the KSA telecommunications sector that negatively affect the Company or its business could materially adversely affect the Company's business, prospects, financial condition and results of operations.

2.2.4 Competition

STC and Mobily are the two alternative providers of mobile telecommunications services in the KSA serving approximately 45 per cent. and 39 per cent. of the KSA customers respectively as at 31 December 2010G[28]. In addition to the competition the Company faces from other communications services providers (such as fixed-line operators, ISPs and satellite communications services providers), the Company faces competition from STC, Mobily and any new entrants or providers of mobile telecommunications services who may be licensed by the CITC. Although the Minister of Communications and Information Technology (also being the Chairman of CITC) announced in November 2011 that there were no plans to licence a fourth infrastructure-based mobile operator, if this position was to change, such fourth operator would increase the competition faced by the Company.

His Excellency also announced in November 2011 that three mobile virtual network operators will be licensed during the first half of 2012. MVNOs are companies that do not own their infrastructure or network but buy network capacity from existing licensed network operators in order to offer to customers their own-branded mobile telephone subscriptions and value-added services. In a number of competitive mobile telephone markets around the world, MVNOs have emerged as an attractive and competitive alternative for the provision of telecommunications. There are several examples of MVNOs operating in the Middle East, such as Reena (Majan Telecommunications) in Oman, and Friendi in Oman and Jordan. The introduction of MVNOs into the KSA market could pose additional competition in the mobile telephone sector. Even though the Company has established itself to capture any upside of hosting MVNOs by implementing the required technical infrastructure, the Company cannot determine at this stage the extent to which MVNOs entering the KSA market may encroach upon the Company's business (or that of STC or Mobily, which is business that the Company continuously aims to capture).

An additional source of competitive pressure may be the usage of secondary brands to target specific niches. In the KSA, the Company has entered into an agreement with Friendi to use Friendi's trademark as a secondary brand of the Company. There is a risk that competitors may follow the same practice and introduce additional secondary brands to target specific segments, which may have a material adverse effect on the Company's future growth, business prospects, financial condition and results of operations.

Since 2005, there has been continued pressure on profitability in the mobile telephone sector, with declining ARPUs for the KSA market as a whole (although the Company managed to increase its ARPU during its first two years of operation). As a result, there has been an acceleration in competitive pressures which has led to the introduction of lower tariffs by the Company and its competitors. This may lead to a protracted period of reduced tariffs that the Company could find difficult to sustain, leading to possible loss of market share on the part of the Company, or resulting in a material adverse effect on the Company's business, prospects, financial condition, reputation and results of operations. In addition the entry of an additional new operator into the KSA market in the future may encourage other operators to continue to aggressively reduce tariffs.

Competition may affect the Company's expected market share, ability to acquire new customers, marketing costs and tariff structures and other factors which may materially impact the Company's future growth, business prospects, financial condition and results of operations

2.2.5 Legal or regulatory disputes

The Company is currently involved (as claimant) in four disputes with the CITC (as defendant) relating to the CITC's decisions in relation to compelling the Company to charge roaming costs, the costs of providing termination services, the application of number portability by other telecommunications services operators and the termination of international calls passing through the Company's network, the outcomes of which remain uncertain (see Section 13.14 (*Legal Information – Litigation*)). Although litigation and regulatory proceedings are inherently unpredictable and therefore the outcome is uncertain, the four outstanding disputes with the CITC may or may not have a material adverse effect on the Company's financial condition or results of operations. A verdict in favour of the CITC may have a material adverse effect on the Company's business, prospects, financial condition, results of operations and cash flows.

28 Source: Wireless Intelligence, 16 November 2011G.

2.2.6 Frequency spectrum allocation

The number of customers that can be accommodated on a mobile telecommunications network is constrained by the amount of spectrum allocated to the operator and is also affected by customer usage patterns and the quality and design of network infrastructure. Spectrum is a continuous range of frequencies within which the radio waves have certain specific characteristics. Beyond a certain point, however, it may become impracticable to effectively manage spectrum in densely populated metropolitan areas for reasons of cost or technological limitations.

If the Company's future growth rate significantly exceeds the projections estimated in its business plan, the range of spectrum currently allocated to the Company's network may not be sufficient to accommodate its Customer base after the end of 2012. Additional frequency bands may, where possible, be assigned by the CITC to meet the needs of the Company to carry out its services and meet its obligations under the Licence, in compliance with regulatory procedures and against payment of fees for such frequencies. However, additional frequency assignments will be made only where the Company can demonstrate existing or reasonably projected customer demand, as well as demonstrating that frequencies already assigned are being utilised effectively to the complete satisfaction of the CITC. There can be no assurances that the CITC will award additional spectrum to the Company, that it will not make such an award to a competitor of the Company or that it will not make any such award to any other party.

2.2.7 Changing consumer behaviour and future technologies

The telecommunications industry is characterised by technological innovation and change, including an increasing pace of change in existing telecommunications systems, industry standards and ongoing improvements in the capacity and quality of technology. Technological advances have led to a number of new developments in the telecommunications industry including multiple forms of mobile telecommunications, cable television-based or linked telecommunications services, wireless local loop and telephone services that circumvent conventional tariff structures and other technologies that are being or may be developed in the future.

The Company's commercial success depends on the number of Customers it is able to attract and retain, its ability to increase revenues, limit churn, update existing networks and services and successfully launch new value added services. If the Company is unable to anticipate Customer preferences or industry changes, or if it is unable to modify its services on a timely basis, it may lose Customers. Alternatively, if the Company is not able to acquire new technologies or services from third-party developers, or if such acquisition is costly or delayed, this could reduce the Company's growth and profitability. The Company's operating results would also suffer if its new products and services are not responsive to the needs of its Customers, are not appropriately timed with market opportunity or are not effectively brought to market. In response to the technological changes, the Company continues to invest in, and research, new technologies and services, such as 3G, MBB and the long-term evolution (LTE) towards the fourth generation of radio technology (4G). The Company commercially launched its LTE offering in Riyadh, Jeddah, Dammam, Khobar and Abha in September 2011, and expects to launch in additional cities in the short term.

The provision of pervasive, advanced, user-friendly services will depend on the widespread availability of affordable 3G and LTE handsets. 3G handsets are currently more expensive than existing 2G handsets and, similarly, LTE handsets are more expensive than 3G handsets during this early stage of their adoption. If LTE handsets do not decrease in price sufficiently or customers are not willing to pay more for LTE handsets, then the Company's ability to provide such services to a large number of customers may be reduced.

The Company cannot guarantee the commercial success of any of its current or planned initiatives and their failure could materially and adversely affect the Company's business, prospects, financial condition and results of operations

2.2.8 Churn rates

Analysis undertaken by the Company has shown that the Pre-paid segment of the mobile telecommunications market in the KSA is characterised by high levels of churn relative to other Middle Eastern markets. The Company believes this is a consequence of a highly competitive market.

This has created pressure in sales channels to discount Pre-paid SIM cards in order to try to maintain business and commission revenue levels, leading to an advantageous situation for customers. Customers can buy SIM cards loaded with credit for a discount, effectively making it cheaper to buy a new SIM card than to buy a recharge voucher. As a result, the Pre-paid market is now characterized by a high level of churn with customers buying new SIM cards as a means to obtain call credits.

The Company intends to address this by implementing a cost-effective approach to customer acquisitions. However, if this fails to reduce the Company's churn rates or the Company's churn rates are worse than those of its competitors, there could be a material adverse effect on the Company's business, prospects, financial condition and results of operations.

2.2.9 Potential risks of mobile telephone handsets and hands free earpieces, and wireless base stations

In recent years, concerns have been expressed about the potentially harmful effect of electromagnetic emissions from handsets and hands-free earpieces on the health of mobile telephone users. In addition, there has been research into the potentially harmful effects of exposure to the electromagnetic fields around wireless base stations on the health of those living, working or spending a significant amount of time near wireless base stations. Any actual or perceived health risk associated with the use of mobile communication devices or spending time near wireless base stations, press reports thereon or any litigation relating thereto, could adversely affect the Company through a reduction in its customer growth rate, Customer base, ARPU or otherwise. Any one or more of these factors could have a material adverse effect on the Company's business prospects, financial condition and results of operations.

2.2.10 Intellectual property protection

The Company depends on the Zain brand and relies primarily on trademarks and similar intellectual property rights to protect the brand and branded products. The Company uses such intellectual property pursuant to the general terms of the Management Agreement and the more specific terms of the Trademark Licensing Agreement. MTC registers, or intends to register, all of the trademarks that it currently allows the Company to use in the markets in which they are used though in many cases it cannot be certain that these trademarks have not been registered by another party in the past in other jurisdictions. Although MTC seeks to register trademarks wherever practicable, it may not be able to adequately protect its trademarks and the use of such trademarks which are not adequately protected may result in liability for trademark infringement, trademark dilution or unfair competition.

2.3 Risks related to the Rights Issue Shares

2.3.1 Control by the Founding Shareholders

Assuming each of the Founding Shareholders takes up their Rights in full, following the Offering the Founding Shareholders will own 50 per cent. of the Shares in issue immediately following the Offering. If the Founding Shareholders subscribe only for the number of Rights Issue Shares to which they are entitled by capitalising their respective proportion of the Shareholder Financing (see Section 10.2 (*Use of Proceeds – Capitalisation of Shareholder Financing*), they will own approximately 42 per cent. of the Shares in issue immediately following the Offering. In either case, the Founding Shareholders will, therefore, be able to influence all matters requiring Shareholder approval, including significant corporate expenditures and the appointment of Directors (except as restricted by the Companies Regulations).

As a result, the Founding Shareholders could exercise their Shareholder rights in a manner that may not be in the best interests of other Shareholders or that could have a significant effect on the Company's business, prospects, financial condition and results of operations including significant corporate transactions and capital adjustments.

2.3.2 Liquidity and volatility in the Share price

Investors may not be able to resell their Shares (including the Rights Issue Shares) at or above the Offer Price, or at all, as the market price of the Shares after the Offering may be adversely affected by factors within and outside the Company's control, including, but not limited to, variations in the Company's results of operations, market conditions, or changes in Government regulations.

Eligible Shareholders should be aware that the value of an investment in the Shares (including the Rights Issue Shares) may go down as well as up. The market price of the Shares could be volatile and subject to significant fluctuations due to a change in sentiment in the market regarding the Shares. Stock markets have, from time to time, experienced significant price and volume fluctuations that have affected market prices for securities and which may be unrelated to the Company's performance or prospects. Furthermore, the Company's operating results and prospects from time to time may be below the expectation of market analysts and the market generally. Any of these events could result in a decline in the market price of the Shares.

2.3.3 Dividend payments

The distribution of dividends will be dependent upon a number of factors and the payment of dividends is currently subject to restrictions imposed by the Senior Secured Creditors (see Section 11 (*Dividend Policy*)). The Company does not expect to pay dividends to Shareholders until 2015 at the earliest at which time it will consider the Company's retained earnings, capital expenditure requirements, financial condition, market conditions, the general economic climate and other factors. Nevertheless, there can be no assurance that any dividend will ever be paid, nor can there be an assurance as to the amount, if any, which will be paid in any given year. The future ability of the Company to pay a dividend may also be subject to the terms and conditions of other financing agreements entered into by the Company or to be entered into in the future. Furthermore, the dividend policy of the Company may change from time to time.

2.3.4 Dilution of existing shareholdings

If Eligible Shareholders do not take up their Rights by the latest date for receipt of applications and payments in full that are set out in this Prospectus, their proportionate ownership and voting interests in the Company will be reduced and the percentage that their Existing Shares represent in the share capital of the Company immediately following the Offering will be reduced accordingly. In addition, Eligible Shareholders as at the Record Date who take up their Rights in full may suffer some dilution of their interest in the Company as their entitlement will be rounded down to the nearest whole number of Rights Issue Shares. Such Shareholders will, however, be able to subscribe for additional Rights Issue Shares, which may enable them to maintain or increase their proportionate interest in the Company.

2.3.5 Expiry of the Lock-in Period

Under the terms of the RFA, the Founding Shareholders were not permitted to dispose of any Shares for a period of three years from 21/03/1429H (corresponding to 29/03/2008G), being the date of issue of the Licence (the "**Lock-in Period**"). Accordingly, the Lock-in Period expired on 21/03/1432H (corresponding to 24/02/2011G).

Subject to the following paragraph, the Founding Shareholders may now only dispose of their Shares after obtaining the approval of the CMA. In addition, prior to any disposal of Shares, the Founding Shareholders and ADIH[29] must receive the consent of the Murabaha Banks because both the Existing Shares held, and the Rights Issue Shares to be held, by the Founding Shareholders and ADIH are, or will be, pledged to the Murabaha Banks as part of the security package under the Murabaha Facility until the Murabaha Facility has been repaid in full.

In addition, the CMA has imposed a restriction on the Founding Shareholders and ADIH from disposing of: (i) any of their Existing Shares; and (ii) the Rights Issue Shares subscribed to by them in the same proportion as the number of Existing Shares owned by them, in each case for a period of six months from the date of Admission. Following the expiry of this six month lock-in period, the Founding Shareholders and ADIH may only dispose of their Shares after obtaining the approval of the CMA, except that this restriction shall not apply to any Unsubscribed Shares allocated to them.

Sales of substantial amounts of the Shares by any Founding Shareholder, or the perception that these sales may occur, could adversely affect the market price of the Shares.

29 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa (a Founding Shareholder) on 15 May 2012G. Accordingly, the CMA has requested that ADIH be treated as a Founding Shareholder for the purpose of the lock-in.

3 Market Overview

This section provides an overview of the KSA telecommunications market. The information in this section has been derived from third party sources, being primary and secondary market research collected from: (i) the Arab Advisors Group; (ii) Wireless Intelligence; (iii) Oliver Wyman; and (iv) the CITC Annual Report 2010.

Arab Advisors Group is a member of the Arab Jordan Investment Bank Group. It is a research, analysis and consulting company headquartered in Amman, Jordan that covers more than 19 countries in the Middle East and Africa region. The firm specialises in the telecommunications, media and technology sectors as well as the financial markets sector. It provides information that includes historical market data and forecasts, overviews of competitive and regulatory landscapes, and analyses of market opportunities and risk assessments. Arab Advisors Group provides its services through a paid subscription service.

Wireless Intelligence is an online database that provides historical and forecast data by way of a paid subscription service covering the connections, operations and financials of more than a thousand telecommunications operators and mobile virtual network operators across 225 countries. Wireless Intelligence is part of GSM Media LLC, a subsidiary of GSMC Limited based in Atlanta, USA.

Oliver Wyman is a global management consulting firm specialising in strategy, operations, risk management, organisational transformation and leadership development. Oliver Wyman has assisted the Company in the collation and analysis of reports about the mobile telecommunications industry in the KSA.

The KSA is the largest country in the GCC, covering approximately 2,149,690 square kilometres (830,000 square miles) of land and with a population of approximately 27,100,000[30]. One of the key components of the KSA economy is oil, the revenues from which support other industry and market sectors and assist in fostering economic development. The general wealth of a significant proportion of the KSA population (and the resulting high levels of disposable income), the relatively young population and the high degree of urbanisation, in addition to the regulatory environment and the protection provided to investors, were all contributing factors in the World Bank's decision in 2010 to rank the KSA as the "best business environment" in the Middle East[31].

3.1 Macro-Economic Environment

The KSA has recently shown robust economic indicators, with GDP PPP increasing from approximately SAR1,527,555,000,000 (US$407,348,000,000) in 2000 to approximately SAR2,097,136,000,000 (US$559,236, 000,000) in 2010[32], at a CAGR of 3 per cent. The KSA was the twentieth largest economy in the world in 2010[33]. This growth has resulted in a significant increase in public spending that has diversified the economy, revamping other industry and market sectors, especially the services sector. Inflation has remained under control over recent years, with a 9.9 per cent. peak in 2008, which was fuelled by increases in the costs of rent, food and oil prices, falling back to 5.4 per cent. in 2010[34].

Table 8: Key Macro-Economic Indicators

Key Indicators (US$ and SAR)	2005	2006	2007	2008	2009	2010
Gross domestic product, PPP (billions)	SAR1,840 (US$491)	SAR1,898 (US$522.8)	SAR1,936 (US$516)	SAR2,018 (US$538)	SAR2,021 (US$539)	SAR2,097 (US$559)
GDP PPP/capita	SAR76,523 (US$20,406)	SAR76,526 (US$20,407)	SAR75,911 (US$20,243)	SAR77,119 (US$20,565)	SAR75,390 (US$20,104)	SAR76,403 (US$20,374)
Inflation, average consumer prices (%)[35]	0.7	2.2	4.2	9.9	5.1	5.3

Source: World Databank and IMF

30 Source: Central Department of Statistics and Information of KSA.
31 Source: "Doing Business in the Arab World 2010". World Bank.
32 Source: World Bank - World Databank.
33 Source: World Bank – World Databank.
34 Source: IMF, World Economic Outlook Database, September 2011.
35 Source: World Bank - World Databank.

The KSA became a member of the World Trade Organisation on 11 December 2005. The key sectors of the KSA that were, and are, most likely to be affected as a result of this development are construction, banking, telecommunications, insurance, retail and wholesale commerce, as well as other service-related sectors. The Saudi Arabian General Investment Authority was created in 2000 as part of the ongoing process of economic liberalisation, with the objective of managing the investment environment in the KSA with a view to improving the overall economic prosperity of the country. The economic growth of the KSA has led to investments in "mega" projects, including the four economic cities that are being constructed and other projects attracting multibillion dollar investment from the Government and private sector[36]. These projects are expected to further improve the economic environment and increase the number of educated and qualified expatriates working in the KSA.

The fiscal surplus of the KSA has also been used to reduce Government debt and to facilitate capital spending with the objective of creating a strong economic base for future growth in both oil and non-oil sectors. As at 31 October 2011G, Standard & Poor rated the KSA's domestic and foreign credit ratings at AA-[37].

3.2 Demographic Profile

The KSA's total population reached approximately 27,100,000 in 2010, of which approximately 18,700,000 were Saudi nationals, representing 69 per cent. of the total population, and approximately 8,400,000 were non-Saudi nationals, representing 31 per cent. of the total population[38]. The KSA population has seen significant growth in recent years, increasing at a 2.5 per cent. CAGR from 2001 to 2009, as set out in the table below.

Table 9: KSA Population[39]

Population	2001	2007	2008	2009	2010
Population (Mln individuals)	21.0	24.3	24.9	25.5	27.1

The KSA population is young compared to the populations of other jurisdictions. According to the latest census, 78 per cent. of the population was under the age of 40, with 32 per cent. of the population being under 14 years of age[40]. The Company believes that this distribution pattern, together with the relatively high disposable income enjoyed by Saudi families, is one of the major factors for the proliferation of technological products and services.

The KSA population is expected to exhibit steady growth over the next ten years, with an increase to 30,641,000 estimated by 2015[41], representing 2.1 per cent. CAGR between 2010 and 2015[42]. The Company expects this increase in population to help drive growth in the demand for mobile telecommunications services.

3.3 Overview of the Telecommunications Industry in the KSA

With a population of approximately 27.1 million people in 2010, the KSA is the most populated country in the GCC and, as such, one of the largest telecommunications markets in the region. The telecommunications market is dominated by mobile telecommunications services, and the CITC reported that there were approximately 51.6 million subscribers by the end of 2010, a mobile penetration of 186 per cent.[43]. The KSA mobile market has three main operators: (i) STC, the incumbent; (ii) Mobily, which entered the market in 2005, and; (iii) the Company, which launched its operations in August 2008.

36 Source: Saudi Arabian General Investment Authority at http://www.sagia.gov.sa/en/Why-Saudi-Arabia/Economic-cities/.
37 Source: Standard & Poor's website, 31 October 2011.
38 Source: Central Department of Statistics and Information of KSA.
39 Source: Central Department of Statistics and Information of KSA.
40 Source: Central Department of Statistics and Information of KSA.
41 Source: IMF, World Economic Outlook Database, September 2011.
42 Source: World Economic Outlook Database, September 2011, International Monetary Fund.
43 Source: CITC Annual Report 2010.

Table 10: Subscriptions and Penetration (Mobile)

Mobile	2001	2007	2008	2009	2010
No. of active subscriptions (Mln)	3.0	28.0	36.0	44.8	51.6
Mobile penetration (%)	12%	113%	138%	167%	186%

Source: CITC Annual Report 2010

Mobile broadband growth has escalated in recent years, with a significant increase in wireless broadband connections, which grew by approximately 488 per cent. during 2009 to over 1.4 million wireless broadband subscriptions (i.e. over 51 per cent. of all broadband connections in the KSA) and by approximately 107 per cent. during 2010, to approximately 2.9 million subscribers (around 66 per cent. of all broadband connections in the KSA)[44]. Despite the high growth rates in 2009 and 2010, the Company believes that there is still potential for additional growth in broadband services, especially in many suburban and rural areas. Broadband subscribers (both fixed-line and mobile) are expected to grow from 4.4 million in 2010 to 9.1 million in 2015, representing a CAGR of 15 per cent[45].

The fixed-line voice services market is dominated by STC. Etihad Atheeb Group entered the fixed market in June 2009. The number of fixed-line subscriptions grew from 3,300,000 to 4,160,000 between 2001 and 2010, a CAGR of 3 per cent., which is low when compared to a CAGR of 40 per cent. in mobile phone subscriptions during the same period[46]. Slow growth is expected in the fixed-line voice services market and, although it is likely that the number of fixed-line voice services subscriptions will continue to rise, growth of the sector will not keep pace with population expansion, resulting in a decrease of fixed-line voice services penetration. It is likely that the substitution of fixed-line voice services by mobile voice services will also put downward pressure on fixed-line growth.

Table 11: Fixed Line Penetration

Fixed	2001	2007	2008	2009	2010
No. of fixed lines in service (Mln)	3.3	4.0	4.1	4.2	4.1
Fixed line penetration (%)	15.2%	15.9%	15.8%	15.5%	15.0%

Source: CITC Annual Report 2010

The telecommunications market is regulated by the CITC. The CITC, established in 2001, is responsible for the regulation of the telecommunications sector, including enforcing rules and licensing operators, as well as resolving disputes in accordance with the Telecommunications Act. The Telecommunications Act was one of the key initial steps towards gradual market liberalisation, leading to the privatisation of STC, the licensing of a second mobile operator in 2004 (Mobily) and the issuance of the Licence to the Company in 2008. Competition in the telecommunications market has resulted in major developments in terms of service offerings, quality of service, customer care, reduced prices and customer growth. Since 2001, telecommunications sector revenues have been steadily growing at a CAGR of around 13 per cent., increasing from approximately SAR19,800,000,000 (approximately US$5,000,000,000) in 2001 to approximately SAR60,600,000,000 (approximately US$16,200,000,000) in 2010[47].

Table 12: Telecom Revenues

Telecom revenues (Bln)	2001	2008	2009	2010
Fixed & data revenues	SAR11.8	SAR11.2	SAR13.5	SAR15.5
Mobile revenues	SAR8.0	SAR38.0	SAR39.0	SAR45.1
Total revenues	SAR19.8	SAR49.2	SAR52.5	SAR60.6

Source: CITC Annual Report 2010

44 Source: CITC Annual Report 2010.
45 Source: BMI (Business Monitor International), Saudi Arabia Telecommunications Report 2011.
46 Source: CITC Annual Report 2010.
47 Source: CITC Annual Report 2010.

3.4 Overview of the Mobile Telecommunications Market in the KSA

The mobile telecommunications sector is the main driver of growth of the KSA's telecommunications market and has evolved substantially since 1996, when the Ministry of Post, Telegraph and Telephone introduced a GSM 900 service (which was awarded to STC in 1998).

Prior to Mobily entering the market in 2005, STC was the sole provider of mobile services, through its subsidiary Al Jawal. In 2002, the number of mobile lines exceeded the number of fixed lines in service for the first time, despite the fact that mobile penetration was only 23 per cent. by the end of the year[48]. The limited promotion of Pre-paid mobile services by STC contributed to the relatively low mobile telephone penetration levels in the KSA. Pre-paid mobile services were introduced in 2002, with relatively high tariffs compared to operators in other MENA and GCC countries. In 2003, Pre-paid customers accounted for less than 55 per cent. of all mobile customers in the KSA[49]. However, the percentage of Pre-paid mobile customers increased significantly during the years following 2008, due to new products and services offered by STC, Mobily and the Company during that period. In 2008, the percentage of Pre-paid accounts surpassed 80 per cent. of total SIMs.

Since the introduction of 2G telecommunications services in 1996, the number of voice and data mobile subscriptions has grown from 3.0 million in 2001, a penetration rate of 12 per cent.[50], to 51.6 million by the end of 2010, a penetration rate of up to 186 per cent[51]. The table below displays the growth of mobile penetration in the KSA compared to the other countries of the GCC between 2004 and 2010.

Table 13: Mobile Penetration

Mobile penetration	2004	2005	2006	2007	2008	2009	2010
Bahrain	79%	86%	94%	107%	131%	122%	140%
KSA	40%	60%	81%	113%	138%	167%	186%
Kuwait	95%	103%	105%	111%	124%	150%	162%
Oman	33%	53%	71%	91%	117%	145%	161%
Qatar	63%	80%	85%	98%	112%	120%	150%
UAE	95%	111%	128%	166%	196%	204%	197%

Sources: CITC and other relevant national regulators, save for figures for Qatar (from 2004 to 2008, inclusive) and Kuwait, which were sourced from Wireless Intelligence, 16 November 2011G

Even though KSA's mobile penetration is above most other GCC countries, the Company believes that there is still scope for growth in customer acquisitions in the KSA. Analysts estimate that penetration is expected to grow to 235 per cent. by the end of 2015, with over 72.3 million voice and data SIM cards in the market[52], which would be an increase of more than 20 million mobile voice and data subscriptions over the four years from 2011.

The Company believes that revenue from mobiles will continue to grow because of increasing mobile penetration and the adoption of new technologies, especially mobile broadband (in particular with the growth of LTE availability), that promote higher ARPU. These two factors are expected to increase mobile revenues as a percentage of GDP in KSA so that they are closer to the regional average of 3 per cent.

Table 14: Telecom revenues as a percentage of GDP

	KSA	Egypt	UAE	Morocco	Oman	Kuwait
Telecom revenues as a percentage of GDP (2010)	2.5%	3.7%	2.8%	5.4%	2.2%	4.1%

Sources: Euromonitor International, IMF, November 2011

48 Source: CITC Annual Report 2010.
49 Source: CITC Annual Report 2010.
50 Source: CITC Annual Report 2010.
51 Source: CITC Annual Report 2010.
52 Source: Wireless Intelligence, 16 November 2011.

3.5 Competition

The telecommunications market in the KSA is highly competitive. There are currently three GSM service providers, STC, Mobily and the Company. STC and Mobily have the two largest customer bases in the KSA mobile telecommunications market respectively, with the Company in third place. There is also one operator with iDEN technology, Bravo, which the Company does not currently consider to be a competitor given the specific characteristics of the iDEN technology.

The following table sets out the development of the respective market shares of the three largest mobile telecommunications operators, from 2004 until 2010:

Table 15: Market Share

Market share	2004	2005	2006	2007	2008	2009	2010
STC	100%	76%	70%	61%	53%	47%	45%
Mobily	-	24%	30%	39%	41%	41%	39%
The Company	-	-	-	-	6%	12%	16%

Source: Wireless Intelligence, 16 November 2011G

The MCIT has stated that it is not planning to licence a fourth mobile network operator[53]. Furthermore, market analysts and commentators believe that a fourth mobile network operator will not be licensed until the respective shares that STC, Mobily and the Company have in the mobile telecommunications market in the KSA are more evenly held.

STC, Mobily and the Company also compete indirectly with fixed-line voice and data service providers. Until 2007, STC was the only fixed-line operator but in April 2007 the CITC approved bids for three consortia to obtain new Fixed FBP Licences, of which, as at the date of this Prospectus, only Atheeb Consortium has launched operations. It is difficult to predict at this stage the impact that the possible entry of the other two licensed fixed-line operators would have on competition in the KSA telecommunications market and the Company's business and operations. Despite the CITC's efforts to stimulate investment in the fixed-line sector, fixed-line penetration has remained at approximately 15 per cent. of the KSA population since 2008[54], which is a level similar to most other countries in the GCC.

In relation to MVNOs, His Excellency the Minister of Communications and Information Technology (and Chairman of CITC) has stated that three MVNOs will be licensed in the first quarter of 2012 to operate in the KSA. These MVNOs will provide additional competition in the mobile telecommunications market place in the KSA.

Competition may increase in the future because of a modification to the Regulatory Framework on Fixed and Mobile Services Licensing dated 10 October 2006G. This framework adopts a technology-neutral, service-specific regime for the issuance of new fixed-line and mobile licences. However, this may become a service-neutral regime, but the timing of the implementation of such a regime has not been specified. If such a regime is introduced, the current providers of fixed-line or other telecommunications services in the KSA could also become licensed to provide mobile services, thereby potentially increasing competition for the Company.

3.5.1 Impact of Mobily's entry into the Market

Etihad Etisalat Company was awarded the second mobile telecommunications licence (both 2G and 3G) in the mobile telecommunications market in the KSA in August 2004, and launched its services under the Mobily brand at the end of May 2005. The introduction of competition in the KSA increased mobile penetration to a total of 20 million customers in the KSA at the end of 2006[55], reflecting an overall mobile penetration rate in the KSA of 81 per cent. at the end of 2006[56].

53 Source: Global Telecoms Business, 18 November 2011.
54 Source: CITC, Annual Report 2010.
55 Source: CITC, Annual Report 2010.
56 Source: CITC, Annual Report 2010.

Mobily's pricing strategy reduced prices in the KSA mobile telecommunications market and resulted in Mobily gaining a market share of approximately 30 per cent. by the end of 2006.[57]

As a result, the proportion of Pre-paid customers in the KSA also increased. At the end of 2004, STC reported 86 per cent. of its customers were Pre-paid customers. This figure slightly decreased to 85 per cent. by the end of 2005. Mobily's percentage of Pre-paid customers was 83 per cent. at the end of 2005. The overall proportion of Pre-paid customers in the KSA market decreased from approximately 86 per cent. at the end of 2004 to 83 per cent. at the end of 2006[58].

By the end of the second quarter of 2008, immediately prior to Service Launch, Mobily had attained a market share of 42 per cent.[59] which it maintained until the fourth quarter of 2009.

3.5.2 Development of the Company's operations

The Company has had significant success in acquiring a share of the mobile telecommunications market in the KSA since it commenced operations in August 2008. By the end of 2008, four months after the Service Launch, the Company had acquired two million Customers, representing a 6 per cent. share of the mobile telecommunications market in the KSA. During 2009, the Company increased its Customer numbers by more than three million, reaching a total of 5.2 million Customers by the end of 2009 and representing a market share of 12 per cent. During the fourth quarter of 2011, the Company carried out a thorough review of its database, to improve the accuracy of its Customer statistics. This resulted in the number of Customers falling from 9.9 million in the third quarter of 2011 to approximately 7.7 million as at 31 December 2011G, giving the Company a market share of 13.8 per cent.[60] From the end of 2007 to the end of 2010, STC saw a decrease in its market share from 61 per cent. at the end of 2007 to 45 per cent. at the end of 2010, while Mobily's market share was 39 per cent. at the end of 2007 and at the end of 2010.[61]

The Company's entry into the market has also further accelerated mobile penetration and increased competitiveness, resulting in reducing prices and increasing promotional activities. The focus on mobile data services has also been enhanced since the Service Launch.

3.5.3 ARPU

The Company operates in a highly competitive market, subject to downward pricing pressures. Nevertheless, the KSA's ARPU in 2010 was above the regional average ARPU of SAR72 for the countries stated in the table below.

Table 16: ARPU (Middle East)

Blended ARPU, SAR/month	2006	2007	2008	2009	2010
Bahrain	131.3	127.5	116.3	105.0	101.3
Iraq	56.3	45.4	46.9	45.4	47.3
Jordan	70.1	63.0	57.0	50.6	46.5
KSA	147.0	113.6	97.5	80.3	78.0
Oman	141.4	130.5	115.5	95.3	86.6
United Arab Emirates	171.0	146.3	133.9	127.5	120.0
Yemen	48.8	29.3	28.9	25.5	22.5

Source: Arab Advisors Group

57 Source: Wireless Intelligence, 16 November 2011.
58 Source: CITC, Annual Report 2010.
59 Source: Wireless Intelligence, 16 November 2011.
60 Source: Company.
61 Source: Wireless Intelligence, 16 November 2011.

In line with the regional trend, ARPU in the KSA has witnessed a consistent decrease since 2006 as STC's dominance was challenged by the entry of Mobily in 2005 and the Company in 2008, and as the quest for market share significantly increased pressure on pricing. This increased pressure on customer acquisition and retention (including rate reductions, promotional offers and an increase in lower usage customers). As a consequence, the average ARPU in the KSA has decreased from approximately SAR98 during 2008 to approximately SAR78 during 2010[62].

The decrease in prices has increased the affordability of mobile services and therefore increased mobile penetration, especially among low-income sectors of the population.

The Company expects that the continued growth in the KSA economy, the substitution of fixed-line services by mobile telecommunications, the KSA's growing population and average income levels, and the increasing demand for mobile broadband services, content and other value added services will create a favourable environment for growth in its revenues, which should offset the effects of increased competition.

62 Source: Arab Advisors Group.

4 The Company's Business and Strategy

The following information should be read in conjunction with the more detailed information appearing elsewhere in this document, including the financial and other information in Section 9 (Management's Discussion and Analysis of Financial Condition and Results of Operation).

4.1 Introduction and Incorporation

Mobile Telecommunications Company Saudi Arabia was established as a Saudi joint stock company pursuant to: (i) Royal Decree No. M/48 dated 26/05/1428H (corresponding to 12/06/2007G) and (ii) Resolution of the Minister of Commerce and Industry No. 81/Q dated 04/03/1429H (corresponding to 12/03/2008G). The Company was issued with Commercial Registration No. 1010246192 on 4/03/1429H (corresponding to 12/03/2008G).

The Company is one of the three licensed public mobile telecommunications operators in the KSA. It offers mobile telecommunications services, including mobile broadband services, for individuals and businesses throughout the KSA. The Company operates under the brand name Zain and its Existing Shares are listed on the Tadawul.

4.2 Share Capital

The Company's Shareholders consist of a number of established international and Saudi companies and entities, including the Founding Shareholders who collectively own 50 per cent. of the Company's Existing Shares. MTC owns 25 per cent. of the Existing Shares and, pursuant to the terms of the Management Agreement, provides to the Company certain management and technical services (see Section 13.15.3 (*Legal Information – Material Contracts – Management Agreement*) and, in addition, permits the Company to use the Zain brand (see Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*). Pursuant to the RFA, the Founding Shareholders were subject to the Lock-in Period, which prohibited them transferring any Shares prior for a period of three years from the date of issue of the Licence. The Lock-in Period expired on 21/03/1432H (corresponding to 24/02/2011G). Subject to the following paragraph, the Founding Shareholders and ADIH may now only dispose of their Shares after obtaining the approval of the CMA. In addition, prior to any disposal of Shares, the Founding Shareholders and ADIH must receive the consent of the Murabaha Banks because both the Existing Shares held, and the Rights Issue Shares to be held, by the Founding Shareholders and ADIH are, or will be, pledged to the Murabaha Banks as part of the security package under the Murabaha Facility until the Murabaha Facility has been repaid in full.

In addition, the CMA has imposed a restriction on the Founding Shareholders and ADIH from disposing of: (i) any of their Existing Shares; and (ii) the Rights Issue Shares subscribed to by them in the same proportion as the number of Existing Shares owned by them, in each case for a period of six months from the date of Admission. Following the expiry of this six month lock-in period, the Founding Shareholders and ADIH may only dispose of their Shares after obtaining the approval of the CMA, except that this restriction shall not apply to any Unsubscribed Shares allocated to them.

Prior to the Offering, the Company carried out a reduction of its share capital pursuant to which the Company reduced its share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) by the cancellation of 919,900,000 Shares on a *pro rata* basis to each Shareholder's shareholding in the Company.

The Shareholders approved the reduction in the share capital of the Company at the Capital Restructuring EGM dated 14/8/1433H (Corresponding 4/7/2012G). In addition, the Capital Reduction required certain waivers from the Murabaha Banks. The Capital Reduction resulted in the cancellation of 919,900,000 Shares *pro rata* to each Shareholders' proportionate shareholding at the relevant time. The Capital Reduction therefore extinguished part of the Company's accumulated losses *pro rata* to the amount of Shares cancelled.

The following table sets out the shareholding composition of the Company before the Capital Reduction and after the Capital Reduction (but prior to the Offering):

Table 17: Shareholding Structure of the Company prior to the Capital Reduction and following the Capital Reduction (but prior to the Offering)

Shareholder	No. of Shares held prior to the Capital Reduction	No. of Shares held following the Capital Reduction	Percentage Shareholding
Founding Shareholder			
Mobile Telecommunications Company K.S.C.	350,000,000	120,025,000	25.000%
Saudi Plastic Factory	96,250,000	33,006,875	6.875%
Faden Trading Contracting Establishment	96,250,000	33,006,875	6.875%
Ashbal Al-Arab Contracting Establishment	35,000,000	12,002,500	2.500%
Almarai Company	35,000,000	12,002,500	2.500%
Al Jeraisy Development Company Limited	17,500,000	6,001,250	1.250%
Architectural Elite Establishment for General Contracting	17,500,000	6,001,250	1.250%
Rakisa Holding Company	13,750,000	4,715,268	0.982%
Al Sale Al Sharkiya Company Limited	8,750,000	3,000,625	0.625%
Other Shareholders			
ADIH[63]	30,000,000	10,287,857	2.143%
Public shareholders	700,000,000	240,050,000	50.000%
Total	1,400,000,000	480,100,000	100.000%

Source: The Company

4.3 The Licence

The CITC issued an official notification and qualified a consortium formed by the Founding Shareholders on 22/06/1428H (corresponding to 08/07/2007G) to establish the third mobile telecommunications operator in the KSA. The Licence was issued to the Company by the CITC on 21/03/1429H (corresponding to 29/03/2008G). The terms of the Licence provide for a Licence term of 25 Hijri years from the date of issue, subject to a right of renewal. The Licence permits the Company to install, own and operate mobile cellular networks for the provision of public mobile cellular services in the KSA, provided such services conform to international standards. The scope of the services to be provided pursuant to the Licence includes voice, data, multimedia and other VAS.

The Licence requires the Company to comply with specific roll-out and coverage obligations, including 2G coverage for approximately 93 per cent. of the population of the KSA, and 3G coverage for approximately 74 per cent. of the population of the KSA, as well as coverage of at least 540 cities and 67 highways in the KSA within five years of Service Launch (see Section 7.1 (*Licence and Interconnection – Licence*)), as set out in the table below.

Table 18: Licence coverage requirements

Percentage of population to be covered	Service Launch	Service Launch + 1 year	Service Launch + 2 years	Service Launch + 3 years	Service Launch + 4 years	Service Launch + 5 years
2G minimum population coverage requirement	53.42%	63.87%	70.95%	80.3%	87.88%	93.06%
3G minimum population coverage requirement	43.45%	50.95%	61.07%	65.81%	69.89%	73.69%

Source: CITC

63 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa on 15 May 2012G.

Since the Service Launch, the Company has provided mobile cellular coverage of the main cities, villages and highways required by the Licence. The Company is obliged to continue to provide coverage in accordance with the terms of the Licence pursuant to the relevant CITC Regulations.

Under the terms of the Licence, a range of spectrum has been allocated to the Company:

- 2 x 10 MHz (bandwidth) of 900 MHz spectrum;
- 2 x 10 MHz (bandwidth) of 1800 MHz spectrum; and
- 2 x 10 MHz in both spectrums (1920-1980 MHz and 2110-2170 MHz) for 3G band.

In addition to the initial fee of SAR22,910,002,026 (approximately US$6,110,000,000), the terms of the Licence require the Company to pay certain other fees during the term of the Licence, calculated in accordance with a specific formula which is related to net revenues (see Section 7.1 (*Licence and Interconnection – Licence*)).

4.4 Business Review

4.4.1 Product and service offerings

The Company aims to increase market penetration by offering competitive product packages that are designed to address a comprehensive range of Customer needs. In line with this strategy, the Company has rolled out a range of products and services that it believes are simple to understand, easy to use and which provide Customers with value for money. The Company intends to continue developing its portfolio of products and services to suit the evolving needs of its Customers and the KSA mobile telecommunications market.

The products and services currently offered by the Company are summarised below:

Table 19: Overview of the Company's Products and Services

	Pre-paid Packages		Post-paid Packages	
Residential	International	Targeted at the expatriate community with special rates to international destinations	Weekend	Customers who use their phones during weekends receive an equivalent amount of credit to use during the following week
	Weekend	Customers who use their phones during weekends receive an equivalent amount of credit to use during the following week	1+1	Customers receive the equivalent amount of credit used during one month to use as free credit during the following month
	1+1	Customers receive the equivalent amount of credit used during one month as free credit to use during the following month	Mazaya 35	Monthly fee of SAR35. The package offers add-ons for friends and family, data, SMS, international calls and BlackBerry services
	Zain Super	Customers have the option to get a 50% discount on all services by paying a weekly fee	Mazaya 175	The package offers add-ons for friends and family, data, SMS, international calls and BlackBerry services
Business	SME Pre-paid	Multi-line package targeted at SMEs	SME Post-paid	Multi-line package targeted at SMEs
	Injaz	Package targeted at the small office/home office sector	Corporate	Multi-line package for corporate Customers

	Pre-paid Packages		Post-paid Packages	
MBB	Daily, Weekends, Weekly, Monthly	Unlimited broadband access for the relevant period	Monthly	Unlimited monthly broadband access
	Standard, Broadband 2G, Plus and Premium	An allowance of 1, 2, 5 and 10 GB respectively		
	Delight	Pay per use package		

The development of the Company's products and service offerings has been focused on three major segments: (i) residential; (ii) business; and (iii) MBB. Within these segments, the Company offers different products and services that attempt to satisfy the communication needs and profiles of Customers.

For the residential market, the Company has shifted its strategy from mass market acquisition to a more segmented approach, after having captured a significant percentage of residential Customers during the first two years of commercial operations. The Company aims to establish a strong emotional link with its Customers and avoids an approach based purely on competitive pricing and promotions. The Company has developed different innovative packages that help to strengthen the market perception that the Company's propositions are tailored to Customers' needs and offer value for money. Examples of the Company matching its products to its Customer needs are:

- "Weekend Package" – For every Riyal spent by a Customer on a Thursday or a Friday, the Company credits the Customer two Riyals to use from Saturday to Wednesday.
- "Zain Super" – a package where Customers enjoy discounts on all services for a weekly fee, allowing them to tailor their tariff according to their needs.
- "International Package" – Customers can register two international numbers and benefit from a discount on all international calls made to such numbers.
- "Mazaya Package" (Post-paid only) – Customers can customize the package to their needs by adding services to their basic package.
- "Unlimited MBB" – Four mobile broadband packages which allow Customers to enjoy unlimited mobile broadband access for a day, 3 days, week or a month

For the business market, the Company has packages for the different tiers of Customers – small office/home offices, SMEs and larger corporate Customers. Each package can be tailored to the needs of clients through adding new services. The Company provides additional flexibility for its business Customers through different contractual components, as well as through numerous packaging options (e.g. Pre-paid, Post-paid and hybrid offerings) that increase the business Customer's ability to control costs. In addition, the Company offers integrated mobile and fixed solutions for corporate Customers ("Zain Gate"), which allow connection to a PBX and the routing of fixed calls to mobiles through the Company's SIM cards instead of fixed line, substantially reducing call rate costs for large businesses. To ensure that a high quality of customer service is provided to business Customers, the Company has established a dedicated call centre which provides customised support for businesses. A service account manager is assigned to each business account to manage business enquiries as efficiently as possible and minimise the administrative burden on the business Customer.

For the MBB market, the Company intends to capitalise on its LTE network rollout in order to position itself as the most innovative MBB provider. The Company has complemented its LTE rollout with a range of marketing activities, such as the launch of a range of MBB products providing unlimited capacity so that Customers can choose the product best suited to their needs. This "unlimited" range fits naturally with the high download and uploads speeds offered by the LTE technology. In addition, the Company has launched new bundles for handsets and subscriptions that combine different offerings from other partners, such as computer manufacturers. The Company intends to continue launching products as innovative as its "unlimited" and "pay-per-day" offers.

The company offers four main types of MBB packages:

- "Pay as you go", where there are no subscription fees or monthly fees. The Customer is charged based on the capacity used.
- "Volume packages", where the Customer has a specific data allowance (e.g. 1GB, 5GB), valid for a limited time period.
- "Unlimited packages", where the Customer has an uncapped amount of data to be consumed in a limited time (e.g. one day, three days, one week, one month).
- "Pay per day", where the Customer is charged a fixed amount for a daily usage below 20 MB. If the daily limit is exceeded, the additional usage is charged according to the regular tariff.

4.4.1.1 Voice services

The Company offers high-quality voice services to Pre-paid and Post-paid Customers. Pre-paid and Post-paid packages allow domestic and international calling, in addition to pre-activated international roaming for Pre-paid Customers. Pre-paid packages are available in a range of re-charge amounts and benefit from a wide variety of re-charge methods. Post-paid packages entitle the Customer to benefit from bundled monthly minutes, competitive call rates and itemised bilingual billing. In addition to standard voice services, voice service includes additional calling features such as voicemail, missed call notification, call barring, call waiting, voice short message services, conference call and call forwarding. The Company anticipates that voice services are expected to increase by approximately 10 to 15 per cent. CAGR over the next four years, as a consequence of the increased demand for Post-paid and business services.

4.4.1.2 Data services

At the end of the 2010, non-voice services represented approximately six per cent. of the Company's revenues. Non-voice services are services other than "pure" voice transmissions between mobile terminals, and are considered as value added services by the mobile telecommunications industry. Due to the increasing demand for Internet access, multimedia and content services, the Company anticipates that revenues from non-voice services will increase by approximately 45 to 55 per cent. CAGR over the next four years.

The Company offers the following non-voice services:

- **Short message services**

The SMS service allows Customers to send, and reply, to text-based messages to, and from, Customers of the Company and of other operators. All subscription packages offer SMS message services for national and international destinations. Customers are also able to send text messages whilst roaming with other networks with which the Company has roaming agreements.

- **Multimedia messaging services**

MMS enables Customers to send multi-coloured images, sounds, different text sizes and videos to other mobile phones or e-mail accounts. The facility is automatically available to all Customers and charges vary depending on the message size and whether the message is sent to a local or an international recipient.

- **Content services**

The Company offers "content" services to Customers who choose such services. The service operates with a SIM toolkit that allows Customers to enjoy a wide range of informative, entertaining and interactive content. These services include subscription channels, downloads (pictures, ringtones, games, applications, themes), ring-back tones and mobile television. The Customer can also replace his standard caller tone with additional tones. In addition, the Company has a special content service that the targets football fans who are able to follow local and international championships via the Company's comprehensive coverage of football leagues, including those leagues based in Saudi, Italy, Spain and the UK.

- **Video services**

Pre-paid and Post-paid Customers with 3G handsets can perform two-way video calls with one other. Video calls can either be made between two Company lines or between a Company line and a Mobily line. Customers can also record videos or short voice messages and send them to the voicemail box of other Customers via a "Video Mail" service. The service includes voice, video and fax mail options. Customers with handsets that support streaming and are able to access WAP can also follow television content. Also, if a Customer subscribes via the Company's special content service related to football, he can watch televised matches on his mobile device.

- **Mobile broadband**

Mobile broadband Customers can access the Internet through their devices, be it via dongles, smartphones or devices with built-in support for mobile broadband (e.g. tablets, netbooks and some notebooks), at speeds at or above 1.5 Mbps over the Company's 3G, 3.5G or LTE networks. By comparison, recommendation I.113 of the ITU Standardization Sector defines broadband as a "transmission capacity that is faster than primary rate Integrated Services Digital Network (ISDN) at 1.5 or 2.0 Megabits per second".

- **Advance credit service**

The Company has launched an advance credit service for its Pre-paid Customers which provides Customers with the ability to complete phone calls, even if they do not have sufficient credit. These Customers are eligible to receive up to SAR5 advanced credit, which is deducted from the next re-charge that is made by them.

- **Credit transfer service**

The credit transfer service allows Pre-paid Customers to transfer credit to other Pre-paid Customers of the Company. The amount transferred cannot exceed SAR50 or be less than SAR5. Bonus credit cannot be transferred and transfers from the initial balance of a new line are not permitted. With this service, Customers can transfer talk time to friends and family or use it as a tool to control employee costs.

4.4.2 Roaming services

Customers enjoy roaming facilities with more than 500 international operators as a result of the MTC Group's existing roaming agreements (see Section 13.15.7 (*Legal Information – Material Contracts – Interconnection, National and Network Services Agreements*)).

Customers can roam internationally using the same mobile number. Pre-paid Customers benefit from a roaming service that is activated by default through their SIM cards and Post-paid Customers can access international roaming by calling the customer service call centre to activate the service. The Company is looking to enhance the services available to higher-value Customers when they are travelling outside the KSA.

4.4.3 Network

4.4.3.1 GSM Network

Given the widespread global usage of GSM, its benefits in terms of service quality and the fact that the MTC Group operates the GSM network, the Company chooses to operate GSM for its operations in the KSA. GSM is used by over 5 billion people across more than 219 countries and territories[64]. Its ubiquity allows for international roaming arrangements to be made between mobile phone operators, providing customers with the use of their mobile telephones in most parts of the world.

GSM differs from its preceding technologies because the signalling and speech channels are digital. This technology is referred to as a second generation (2G) mobile telephone system. This also facilitates the widespread implementation of non-voice communication applications.

64 Source: GSMA website as at 19 July 2010G.

4.4.3.2 3G and 3.5G Network

3G and 3.5G are the terms given to the third generation of mobile telephone communication systems technology. These offer higher data rates and, consequently, enhanced services compared to 2G platforms. 3G and 3.5G capabilities and features include the following key elements:

- enhanced multimedia services (voice, data, video and remote control);
- applicability for all popular applications, including mobile telephone, email, paging, fax, videoconferencing and web browsing; and
- broad bandwidth and high speed data transmission (upwards of 2 Mbps).

The Company offers 3G coverage in the key locations of the KSA (including the main cities and highways), and the Company's 3G coverage reached over 76 per cent. of the KSA population by the end of 2011.

Enhanced 3G mobile telephony technologies, such as HSDPA, HSUPA and HSPA+ (together, known as 3.5G), provide increased performance by, amongst other things, refining the protocols by which handsets and base stations communicate. These improvements lead to a better utilisation of the existing radio bandwidth provided by WCDMA. The Company provides HSPA services to its users in 28 major cities and towns across the KSA.

4.4.3.3 LTE (4G) network

As with 3G, LTE provides an additional layer of increased efficiency and use of spectrum resources. The Company believes that LTE will be an important driver of growth in the MBB market and, as such, entered into an agreement with Motorola and Huawei in February 2010 to build the largest LTE network in the KSA.

The Company commercially launched its LTE offering in Riyadh, Jeddah, Dammam, Khobar and Abha in September 2011, and expects to launch in additional cities such as Madina, Taef and Khamis Mushait. The Company was the first operator in the KSA and in the GCC to provide LTE as a mobile service. The Company has budgeted to invest significant capital to launch around 500 new LTE sites and update over 1,000 existing sites to provide LTE. This investment is to promote widespread access to the Company's offering of LTE in the KSA and ensure that it operates smoothly.

4.4.4 Transmission

In order to accelerate the deployment of 2G, 3G and LTE networks, the Company has depended heavily on leasing capacities, at significant cost, from a number of providers in order to connect each of its locations around the KSA.

The Company has decided to partially reduce its capacity leasing costs by signing an agreement with an affiliate of Saudi Electricity Company ("**SEC**") to lease infrastructure facilities. This agreement allows the Company to benefit from SEC's infrastructure on an immediate basis, without it having to cover the sizable costs of investing in such infrastructure. This agreement will enable the Company to accelerate the rollout of new access technologies such as LTE whilst minimising both capital expenditure and related operating expenses.

4.4.5 Interconnectivity

Interconnectivity is a requirement of the CITC that is imposed on all licensed fixed-line and mobile telecommunications operators. It enables customers of one carrier to call, and send data to, customers of competing operators. The Company has adhered to this requirement by entering into agreements with fixed-line and mobile telecommunications operators establishing interconnectivity links with all telecommunications carriers including STC and Mobily.

At the end of each billing cycle, each operator calculates its interconnection charges by setting off its revenue from incoming traffic from each competing network against the amount of outgoing traffic towards each competing network.

4.4.6 International Gateway

Pursuant to the terms of the Licence, the Company is authorised to install, operate and maintain its own international gateway to provide access to international destinations. Accordingly, in practice, Company is authorised, *inter alia*, to:

- operate both terrestrial and satellite transmission links as part of the gateway plan;
- route international traffic from other networks customers that are roaming onto MTC Group networks through its international gateway;
- determine international tariffs for its Customers subject to the provisions of the Telecommunications Act;
- terminate incoming international calls into the KSA on its network and receive settlement rates from international operators; and
- provide value added services.

The Company has two international gateways, one in Jeddah (built in 2010) and the second in Riyadh (built in 2011), which have served to reduce costs and dependence on other international gateway operators. These gateways manage traffic to and from all international destinations.

4.4.7 Vendors and Suppliers Arrangements

The Company has entered into agreements with NSN, Motorola and Huawei for the provision of relevant network supply arrangements, as more fully described in Section 13.15.5 (*Legal Information - Material Contracts - Network Supply Agreements*).

4.4.8 Operations and Maintenance

The Company employs qualified employees with the aim of ensuring effective network operation, strong performance, service quality and overall customer satisfaction. The Company contracts with experienced suppliers for all of its critical operations, and regularly verifies that they are providing their services at maximum efficiency and minimum cost.

In order to reduce costs and improve quality, the Company is revising its existing operations and maintenance capabilities, a good example of which is the Company's investment in dark fibre which will help reduce leased line costs. The Company has also undertaken an equipment swapping programme whereby it replaced its existing suppliers to accelerate the modernization of its network.

In addition, the Company continues to enhance its capabilities to manage the operations and maintenance of the network, which are complemented by managed services through expert support from outsourcing partners. The Company expects to achieve further efficiencies and cost savings by continuing its move to a fully outsourced model for both network and IT, and by evolving its network to a single RAN model.

4.4.9 Billing Management System

The Company believes that it is a leader in the market with regards to billing its Customers. Post-paid Customers are provided with facilities that enable them to review and query their bills online.

The Company operates with a system named "TABS" (Telecom Advanced Billing Solution) which is a proprietary integrated software package designed by International Turnkey Systems for mobile, ISP and traditional fixed network services. This billing capability provides the Company with a system that has served the Company reliably and met its commercial requirements during its lifetime. The current implemented billing platform has been designed to support the Company's growth and provide flexibility to include new product offerings, which will be enhanced by moving to a convergent billing model.

4.4.10 Distribution Arrangements

The Company uses direct and indirect sales and distribution channels, supported by a dedicated sales support team, to ensure operational efficiency.

The Company has developed and pursued a strategy to broaden and deepen its distribution channels in order to increase Customer numbers and optimise the distribution of its products and services to its Customer base. The Company has drawn on its understanding of its marketplace to develop a commission scheme that encourages all parts of the distribution network to deliver on time and to customers' satisfaction.

The Company has developed a distribution model that the Company management believes is one of the best in the market. The Company has recently undertaken an extensive review of its channels and, as a result, terminated arrangements with underperforming channels and independent points of sale. The Company subsequently sourced and engaged alternative distribution channels to ensure that the distribution channel network is as diversified as possible. For example, in line with the Company's intention to seek to expand the availability of mobile recharge options to its Customers in a cost effective manner, the Company has continued to develop its electronic distribution network across the KSA. By the end of 2010, the Company achieved approximately 25 per cent. of mobile recharges (as a percentage of the Company's total airtime sales) through electronic, paperless methods.

4.5 Employees

As at 31 December 2011G, the Company employed 845 full-time permanent employees, compared to 628 employees as at 31 December 2010G and 457 employees as at 31 December 2009G. As at 31 December 2011G, the Company's workforce represented 26 nationalities and was comprised of individuals from a wide variety of backgrounds. This multicultural outlook is highly beneficial for the Company as it enables it to better market and promote its offerings to its wide Customer base. For an overview of Saudi and non-Saudi employees during 2009, 2010 and 2011, see Section 5.17 (*Founding Shareholders, Corporate Structure and Governance – Employees*).

As at 31 December 2011G, Saudi nationals comprised approximately 70 per cent. of the employees at the Company. A certificate from the Ministry of Labour dated 20/3/1432H (corresponding to 29/10/2011G), places the Company in the Green Category, meaning it was compliant with the requirements of the "Nitaqat" programme (see Section 5.15 (*Founding Shareholders, Corporate Structure and Governance* - Nationalisation)). The Company remains committed to its programme of employing Saudi nationals (in accordance with the circular issued by the Minister of Labour on 1/06/1423H (corresponding to 10/08/2002G)), aims to retain the best KSA talent available and seeks to promote the employment of the KSA nationals. For example, the Company has established the "Fresh Graduate Program" in order to identify and train talented university graduates in the KSA.

Employee turnover has averaged approximately 12 per cent. per annum over the past two years. The Company regularly analyses and implements industry best practices in respect of retention strategies, for example, paying bonuses to top performers.

4.6 Company's Competitive Advantages and Opportunities

Management believe that the Company benefits from the following competitive advantages and opportunities:

4.6.1 Market size and dynamics

The telecommunications market in general, and the mobile segment in particular, is largely driven by macro-economic factors and, as such, is benefiting from the development of the economy and the growth in the population of the KSA. The KSA was the twentieth largest economy in the world in 2010[65], with a GDP PPP of approximately SAR2,097,136,000,000 (US$559,236,000,000)[66]. The KSA's GDP PPP per capita has remained stable over the last decade and was US$20,374 in 2010[67]. The KSA is the largest telecommunications market in the GCC with around 27 million inhabitants[68] and more than 10.8 million

65 Source: World Bank - World Databank.
66 Source: World Bank - World Databank.
67 Source: World Bank - World Databank.
68 Source: Central Department of Statistics and Information of KSA – preliminary results of 2010 census.

visitors per year[69]. These factors have, in part, contributed to significant growth in mobile subscriptions during the period 2005 to 2010, with mobile penetration in the KSA rising from 60 per cent. at the end of 2005 to 186 per cent. at the end of 2010, amounting to a total of approximately 51.6 million[70] subscriptions.

4.6.2 Relationship with the MTC Group

The benefits of the Company's association with the MTC Group are believed to include:

(a) **MTC Group's expertise in building mobile networks in the Middle East**

MTC Group has over 28 years' experience in establishing, building and managing mobile telecommunications operations, and currently holds licences in six countries with a commercial presence in a further two. As at 31 December 2011G, it had over 40.2 million active mobile customers in the countries where it conducts commercial operations.

(b) **MTC Group's financial relationships**

The MTC Group's existing financial relationships and access to funds assist the Company in exploiting opportunities to access multiple sources of financing that facilitate the Company's operations, marketing and expansion strategies.

(c) **Economies of scale and MTC Group's commercial relationships**

The MTC Group's existing commercial relationships assist the Company to exploit opportunities, benefit from economies of scale and, accordingly, reduce costs. For example, MTC Group has supported and continues to support the Company's operations by negotiating and agreeing advantageous terms with equipment vendors in respect of the ongoing development of the network. MTC Group also continuously supports the Company in its negotiations with device vendors. The Company also leverages from MTC Group's roaming agreements. In addition, the Company benefits from the brand awareness created by the investment in advertising from other Zain-branded operations in regional media (for example, from television channels that broadcast across the GCC).

(d) **Renewed support from MTC following aborted sale of shareholding in the Company**

On 13 March 2011G, MTC received an unsolicited non-binding offer from a consortium consisting of Kingdom Holding Company and Bahrain Telecommunications Company B.S.C. (together, the "**Consortium**") to purchase MTC's entire 25 per cent. shareholding in the Company. Following preliminary discussions between MTC and the Consortium, MTC entered into a non-binding term sheet with the Consortium on 5 April 2011G. However, during the course of the transaction process, both MTC and the Consortium elected not to proceed and consequently they terminated discussions on 29 September 2011G.

MTC has subsequently re-affirmed its strong support for the Company in areas such as strategic leadership, operating support, the appointment of a new and highly experienced management team and the provision of significant financial support, such as through the capitalisation of SAR1,500,000,000 (US$400,000,000) of its Shareholder Financing.

(e) **Experienced management team**

The Company's management team comprises individuals with extensive experience in the mobile telecommunications sector, in particular in the Middle East, who have been instrumental in growing the Company's market share. In addition, the Company's management team has recently been reinforced by individuals with substantial expertise in strategy execution, managing financial risk, planning, building and managing the transformation of networks and services, whilst developing a strong branding strategy and introducing innovative products. The Company believes that the cumulative experience of its management team is one of its key strengths.

69 Source: Saudi Commission for Tourism & Antiquities – Tourism Statistics 2010.
70 Source: CITC, Annual Report 2010.

4.6.3 Continued high quality customer service

The Company's management believes that the Company's customer services, including its call centres and website, are user-friendly and effective. High quality customer service is essential to attract new Customers and retain existing Customers. According to the IPSOS Loyalty Survey dated December 2010[71], the Company's call centres showed superior performance when compared to the competition in most of the relevant call centre survey components.

These components include, among other things, the ability to solve problems during the first call, the ability to follow up in a timely manner, waiting time, ease in connecting to the call centre, clarity and ease of use of the interactive voice response, employee competence and clarity of information provided. This positive rating is the result of several initiatives that have been successfully implemented by the Company, including: (i) value-based routing whereby higher value Customers are given priority in call queues; (ii) customer service agents having the ability to contact back office and functional areas to resolve Customer enquiries more efficiently; (iii) skills-based units within the customer service departments to support new services; (iv) deploying new innovative channels such as a self-care Internet portal where Customers can access information on their accounts over the Internet; and (v) the introduction of language-based interactive voice response options (in Arabic, English and Urdu). In addition, the Company operates a dedicated business call centre for its business customers.

To further improve the customer experience, the Company offers a broad suite of self-care functions via its portal, SMS and IVR interfaces. For example, Customers can do all of the following without the assistance of an agent: add or remove services (such as BlackBerry packages, international calling or roaming); pay for services (Pre-Paid and Post-Paid); access payment history and bills; change the monthly credit limit; check the status of complaints; and receive mobile broadband settings. The Company believes this makes a significant contribution to the high quality of its customer service and intends to continue developing these self-care functions.

4.6.4 Culture of product and service innovation

The introduction of new and innovative products, services and pricing and the Company's continuous efforts to position itself as the best value proposition for consumers has been one of the key success factors behind the growth of the mobile Customer base that the Company experienced over its first three and a half years of commercial operations.

During 2011, the Company introduced "Friends+", a tariff plan targeted at the youth market, offering reduced rates for calls to up to five other Customers of the Company, "Zain Super", a flexible discount plan allowing Customers to select the level of price discount to their individual usage, as well as "Zain Unlimited", which provides any Customer with unlimited calls for a fixed weekly fee. In mobile broadband, Zain introduced the "Delight" product, which offers competitively-priced Pre-paid internet access via a USB modem. The Company also launched the first FDD LTE network in the KSA, in a promotional package comprising a modem and unlimited MBB usage.

4.6.5 Strong brand positioning and recognition

The Company's brand positioning in relation to its Customers is essential to achieve its aim of attracting and retaining a diverse mix of Customers. The Company believes that the Zain brand gives the Company the credibility, awareness and appeal of a recognized regional brand, broadly communicated in regional media across multiple countries in the Middle East. The key objective of the Company in marketing its products and services is to convey the Zain brand, its values and customer offerings in a positive and proactive manner in order to differentiate the Company from its competitors, leveraging the recognition that the Zain brand enjoys throughout the Middle East. Management believes that customers identify with brands and products that reflect their values, so the Company focuses its marketing efforts on leveraging the emotional attributes of the Zain brand: "spirited, imaginative, optimistic, strong, caring, sociable, daring and colourful". The Company seeks to align its brand and services portfolio to reflect these attributes and, in turn, enhance the customer experience in order to build customer loyalty to the Zain brand.

The Company continues to draw on each aspect of its branding to drive growth and profitability and does this through a variety of initiatives, including sponsoring high profile sporting and educational events.

71 Source: IPSOS Loyalty Survey (Zain KSA SAT Plan Wave 1) dated December 2010.

4.6.6 Corporate Social Responsibility

The Company has built a profile of being socially responsible and involved in the community. It was recognized by the King Khaled Award in the category of "Best Smart Philanthropy" in 2011, and has been, and remains, actively involved in multiple charitable and sociable activities, sponsoring the Education Conference in Prince Sultan University and supporting, among others, the Disabled Children Association, the Prince Salman Charity Housing Association, the Kelena Charity Organisation, the Hearing Impaired Association and the Ibaa Orphans Charity Association.

4.6.7 Strong distribution network and partner relationships

The Company has around 200 franchised Zain-branded stores in the KSA and a network of more than 3,000 authorised points of sale, that facilitate a distribution channel reach that spans the KSA, helping to support the acquisition of new Customers. In addition, the Company has strong relationships with distribution partners that have telecommunications expertise and a high level of retail knowledge, with capabilities developed in other markets, which allow the Company's distribution networks to benefit from global best practices. The Company's products are designed to require minimal sales assistance which enables them to be distributed in a cost-effective way through third party channels and points of sale.

The Company enjoys commercial relationships with direct and indirect channel partners. Indirect channel partners, such as independent points of sale, kiosks and other alternative channels, including the leading chain of bookstores in the KSA, account for a significant majority of the total SIM and recharge card sales for the Company. The Company's direct distribution channels include flagship stores owned by the Company and fully branded outlets managed by its retail partners. The Company manages its indirect channels through a group of distribution partners made up of leading national retailers. The Company is intending to significantly increase the number of its flagship stores (which are owned and operated by the Company) across all of the major cities in the KSA between now and 2015 in order to improve its Customers' experience.

The Company strives continuously to find new, easier distribution channels for existing and potential Customers to access the Company's products and services. For example, 25 per cent. of mobile recharges (as a percentage of the Company's total airtime sales) were being sold electronically by the end of 2010.

4.6.8 Effective outsourcing model

An integral part of the Company's strategy has been to develop a solid outsourcing model that optimises its cost structure and efficiencies. The Company believes that by partnering with experienced equipment and service providers in specific areas, such as NSN, Huawei and Etisal, it is able to exploit the benefits from its outsourcing partners' experience, who assist with a significant portion of the Company's business. The Company sees the model as an effective and efficient way to manage the growth of its Customer base, to improve its value proposition and to increase the quality of its services. The Company has signed service agreements in several different areas, from network infrastructure, equipment roll-out and maintenance, to customer service call centres, packaging and warehousing, as well as distribution.

4.7 Company's Strategy

The Company's long term aim is to secure the best possible returns for Shareholders while maintaining high standards of internal organisation and corporate governance. The Company pursues this aim through the implementation of the following strategic initiatives.

4.7.1 Become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation

Based on data published by analyst reports[72], the Company's Customer acquisition level during the first year of operations was the highest in the KSA for a new entrant. The Company acquired 3 million Customers in its first seven month of operations whereas Mobily acquired 2.3 million customers in its first eight months of operations. The Company has also been one of the most successful third entrants

72 Source: Analyst report on the Company by BMG Financial Advisors dated June 2009.

in the global telecommunications market and has developed its Customer base against the backdrop of a highly penetrated market. The Company's mobile Customer base increased from approximately 7.2 million as at 30 September 2010G to approximately 9.8 million Customers as at 30 September 2011G. However, during the fourth quarter of 2011, the Company carried out a thorough review of its database, to improve the accuracy of its Customer statistics. This resulted in the number of Customers reducing from 9.9 million in the third quarter of 2011 to approximately 7.7 million as at 31 December 2011G following the elimination of dormant subscribers in the Company's customer database. In addition, the Company's gross margin and profit increased significantly during 2010 and in the first three quarters of 2011, reflecting the positive impact of new products and initiatives.

The Company believes that it has achieved this growth through its continued product and service development, ongoing marketing innovation and market segmentation strategies. The Company focuses on key market segments where it can position itself as having a sustainable competitive edge. The Company's priority segments are youth, Saudi and expatriate executives, and businesses. The Company's strategy is to market itself as a credible alternative to its competitors in relation to these customers. It intends to attract such customers (and thereby increase ARPU figures) by marketing its improved network capabilities, expanding and enhancing its range of mobile products and services, maintaining new technology offerings and continuing to roll out 3G, which is key for mid and higher value customers using smartphones, as well as continuing to expand its LTE services. In line with this strategy, the Company has launched several products that helped to strengthen its position in the segments, offering new MBB packages, BlackBerry packages and the re-vamped "Mazaya" package. It also launched products for SME and corporate customers to build its position in the business segment of the mobile telecommunications market.

In addition, the Company believes that pilgrims visiting the holy sites of the KSA comprise a unique market segment opportunity and are a distinctive feature of the KSA's mobile telecommunications market. In 2010, the KSA had approximately 10.8 million overseas visitors, including Hajj and business visitors. These visitors have typically generated a substantial amount of traffic on the mobile telecommunications networks in the KSA which has generated increased revenues for each of the telecommunications operators who have captured a portion of this market. In order to target this segment more effectively, in 2011 the Company expanded its existing Hajj network with additional permanent sites and a number of 'cells on wheels'. These 'cells on wheels' can be moved around the El Mashaaer region to help the Company maintain its network capacity and coverage during the busy Hajj period. In addition to the expansion of the Hajj network, the Company has also undertaken the Ramadan expansion project, which maintained services in Makkah and Madinah during Ramadan peak traffic, and a broader expansion of its network throughout the Makkah region.

4.7.2 Focus on Customer retention and enhancing the experience of Customers

The Company intends to continue implementing marketing and promotional strategies to maintain and increase loyalty amongst existing Customers and to attract new ones. The Company believes that one of the key drivers of customer acquisition and retention is a consistent customer experience at each stage where the Customer interacts with the Company. This ranges from the point of sale, via the Company's strong retail distribution network, to call centres with segmented and specialised support, in addition to innovative channels such as self-care portals and online payment tools.

In order to enhance the customer experience, the Company intends to continue expanding its reach by increasing the number of shops it has across the KSA. Currently, it has more than 3,000 authorised points of sale and aims to have the widest distribution network of all operators in the KSA to help to ensure that services are easily accessible by Customers. The Company has made a concerted effort to expand its distribution network to areas beyond the largest cities, successfully reaching previously untapped markets with a high proportion of high-value customers. The Company intends to continuously upgrade its infrastructure to provide a better quality of customer service and employs well-educated and motivated staff who can respond to Customers' needs. The Company has recently undertaken a program to improve its sales agents' skills and knowledge across all channels, comprising an overhaul of the sales and distribution processes. In addition, the Company continuously invests in retaining its most valuable Customers with impromptu rewards and is planning to launch a broader loyalty programme to further boost retention of its Customer base, offering innovative reward schemes based on the length of time that Customers remain with the Company and their usage of the Company's services.

4.7.3 Enhance the strength of the Zain brand

The Company was launched under the brand name Zain, which the Company believes enables it to leverage the benefits of the regional Zain brand. The Trademark Licensing Agreement between MTC and the Company grants the Company a licence to use certain trademarks, including the Zain brand (see Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*)). Pursuant to the Management Agreement, the Company is obliged to pay an annual fee to MTC for its use of the Zain brand.

The Company aims to maintain and strengthen its vibrant brand image that resonates with its Customers and distinguishes it from other mobile telecommunications operators by focusing on the positioning of its emotional brand to reflect the key values of its target customers. The Company's goal is to attract and retain customers through building brand loyalty and service offerings that are straightforward, flexible and good value. The Company intends to continue to enhance brand awareness and build brand loyalty through targeted marketing, advertising, product packaging, point of sale materials and innovative services.

4.7.4 Accelerate the rollout of MBB

The Company has been investing in its MBB offering and intends to continue to improve it in order to capture the anticipated growth in broadband usage by customers. The Company believes that MBB usage will continue growing at a fast rate and become a significant revenue stream for the Company. The Company believes that innovative services, extensive geographical coverage and a high quality network are critical success factors in the MBB market in the KSA. The Company is also committed to accelerating the rollout of its broadband network to support this anticipated growth. By September 2011, MBB coverage (including 3G) reached 76 per cent. of the KSA population covering 541 cities and villages, and 59 highways in the KSA, in addition to providing HSPA services in 42 cities of the KSA.

In order to establish itself as a leading provider of MBB, the Company introduced certain innovative MBB promotions to the KSA market in 2010, including the cash-back offer for dongles and discounts for Customers entering into long-term contracts for MBB. When the Company introduced its first LTE offering in September 2011, its promotion included a free modem and unlimited MBB. The Company intends to continue developing new and targeted MBB products, including specialised packages for youth and business Customers, as well as offers that include computer and mobile handsets for both Pre-paid and Post-paid Customers.

4.7.5 Develop the most effective sales and distribution channels in the KSA market

The Company is developing and pursuing a strategy to broaden and deepen its distribution channels in order to increase Customer numbers and optimise the distribution of its products and services to its Customer base. The Company has drawn on the MTC Group's extensive experience across the Middle East to design and commission a system that encourages all parts of the distribution network to deliver on time and to customers' satisfaction.

The Company continuously assesses its partner network, by identifying alternative distribution channels to ensure that its distribution channel network is as diversified as possible, to enable more effective targeting of specific customer segments. For example, the Company is continuing to develop its electronic distribution network across the KSA to expand the availability of mobile recharge options to its customers in a cost-effective manner. This has allowed mobile recharges made through electronic, paperless methods to grow from approximately 5 per cent. of the Company's total airtime sales by the end of 2009 to 25 per cent. by the end of 2010.

The Company is continuously implementing strategic sales projects across its retail, distribution and business channels. This has included a drive to increase the number of, and improve the experience in, its consumer points of sale, enhancing its systems for delivery of its products and services. In addition, the Company revamped its commission scheme to improve its distribution channels and introduced incentive schemes to align the performance of distribution partners with the Company's objectives. Across all channels, the Company has focused on improving the quality of its agents, their knowledge, materials and skills and its processes.

5 Founding Shareholders, Corporate Structure and Governance

5.1 Introduction

The Founding Shareholders include MTC and a number of companies and establishments operating in the KSA.

The following table sets out the shareholding structure of the Company immediately prior to the Capital Reduction and immediately following the Capital Reduction (but immediately prior to the Offering):

Table 20: Shareholding Structure of the Company prior to the Capital Reduction and following the Capital Reduction (but prior to the Offering)

Shareholder	No. of Shares held prior to the Capital Reduction	No. of Shares held following the Capital Reduction	Percentage Shareholding
Founding Shareholders			
Mobile Telecommunications Company K.S.C.	350,000,000	120,025,000	25.000%
Saudi Plastic Factory	96,250,000	33,006,875	6.875%
Faden Trading Contracting Establishment	96,250,000	33,006,875	6.875%
Ashbal Al-Arab Contracting Establishment	35,000,000	12,002,500	2.500%
Almarai Company	35,000,000	12,002,500	2.500%
Al Jeraisy Development Company Limited	17,500,000	6,001,250	1.250%
Architectural Elite Establishment for General Contracting	17,500,000	6,001,250	1.250%
Rakisa Holding Company	13,750,000	4,715,268	0.982%
Al Sale Al Sharkiya Company Limited	8,750,000	3,000,625	0.625%
Other Shareholders			
ADIH[74]	30,000,000	10,287,857	2.143%
Public shareholders	700,000,000	240,050,000	50.000%
Total	1,400,000,000	480,100,000	100.000%

Source: The Company

5.2 MTC Group

History

MTC was established in 1983 in Kuwait as the Middle East's first mobile operator. MTC is one of the largest companies listed on the Kuwait Stock Exchange with a market capitalisation of KWD 4,092,150,000 (approximately SAR 55,440,000,000) as at 31 October 2011G[74], at which date the largest shareholder in MTC was the Kuwait Investment Authority (holding approximately 24.6 per cent. of MTC's shares). MTC's shares are freely tradable.

Between 2002 and 2009, MTC pursued a strategy of expansion which saw it grow from a national mobile operator to a diversified multinational mobile operator with an active customer base of 72.5 million at 31 December 2009. In 2010, it sold its wholly-owned subsidiary Zain Africa B.V. to Bharti Airtel International Netherlands B.V. in order to focus on its core markets in the Middle East.

73 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa on 15 May 2012G.
74 Converted using a SAR/KWD exchange rate of 13.548:1 as of 30 September 2011G.

Experience

For over 28 years, the MTC Group has been building, operating and managing technologically advanced mobile telecommunications networks. The MTC Group is a leading mobile and data services operator with licences in six countries (KSA, Bahrain, Kuwait, Iraq, Sudan and Jordan) and has a commercial interest in two further countries, Morocco (where it holds 50 per cent. of a joint venture which holds 31 per cent. of Wana) and Lebanon (where it manages one of the mobile telecommunications networks on behalf of the national government). The MTC Group has over 6,000 employees, and provided a comprehensive range of mobile voice and data services to over 40.2 million active individual and business customers (as at 31 December 2011G).

MTC Group Strategy

The MTC Group focuses on the GCC in order to capitalise on the significant opportunities that it believes remain untapped within the region. The MTC Group delivers the latest mobile technologies and services in these markets to capture opportunities for growth and meet financial targets for its shareholders.

The KSA is an important market within the GCC region and MTC Group remains committed to increasing its exposure to the market through its participation in the Company.

MTC Group Key Strengths

The MTC Group provides the Company with the operational and technical expertise it acquired in building its businesses in Middle Eastern and African countries, thereby enabling the Company to attract and retain a loyal customer base and generate substantial revenues in the KSA market.

Financial Strength

MTC Group's market capitalisation was US$14,603,000,000 (approximately SAR54,761,000,000) as at 31 October 2011G.

The following table sets out the revenue, gross profit and net profit of the MTC Group since 2004:

Table 21: MTC Group Revenue and Profitability

(SAR Mln)[75]	2004	2005	2006	2007	2008	2009	2010	2011
Revenues	4,076	7,397	15,613	22,867	26,987	30,162	17,696	17,790
Operating profit	1,557	2,606	5,303	6,163	5,133	6,571	8,066	5,720
Net profit	1,519	2,440	4,194	4,677	4,540	2,746[76]	13,781[77]	3,840

Source: MTC Group

5.3 Saudi Plastic Factory

The Saudi Plastic Factory, a leader in the plastics industry in the KSA, was established by HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz in 1962. HRH Prince Dr. Hussam Bin Saud Abdul Aziz is the sole proprietor of Saudi Plastic Factory. It is one of the leading producers of plastic products and goods in the Middle East region. The Saudi Plastic Factory produces plastic packaging and containers for all industries and consumer markets. It produces plastic packaging for foods, electronic goods and clothing. Containers are manufactured for hygiene products, oil lubricants and chemicals. Its factory is located in Riyadh and employs 540 staff.

5.4 Faden Trading Contracting Establishment

Faden was established in 1976 and is headquartered in Riyadh. HRH Prince Mashhor Bin Mosaad Bin Abdulaziz Al Saud is the sole proprietor of Faden. The establishment consists of four main divisions, namely contracting, electrical, commercial and woodwork. Faden "Commercial" imports, distributes and markets floor and wall finishes. The establishment's products include ceramic tiles, porcelain tiles,

75 Units converted from KWD to SAR at exchange rate as at 31 December at the end of each year.
76 Net profit figure for 2009 was negatively impacted by the increased losses of its affiliates, increased financing costs, impairment losses, foreign currency variances and a reduction in income from interest and investments.
77 Net profit figure for 2010 includes a one-off capital gain of SAR 9,948,000,000 from the disposal of the African operations to Bharti Airtel.

mosaics, terra cotta, reconstituted marble, reconstituted granite, glass tiles and decorative paintings. Faden "Commercial" operates from showrooms in Riyadh and Jeddah. Faden "Electrical" is a specialist provider of turnkey electrical solutions in the KSA. Faden "Factory for Woodworks" manufactures domestic furniture and accessories. The factory employs 220 people and manufactures in excess of 50,000 units per annum. Faden's products are sold to the public through five showrooms in Riyadh.

5.5 Rakisa Holding Company

Rakisa was established in 2006 and is chaired by Abdullah Ibrahim Mohammed Al-Rakhis. Abdullah Ibrahim Mohammed Al-Rakhis owns 90 per cent. of the share capital of Rakisa and the remaining 10 per cent. is held by Mousab Abdullah Ibrahim Al-Rakhis. The principal business of Rakisa is the acquisition of real estate for commercial development and leasing. It generates revenues in excess of SAR22,000,000,000 (US$5,800,000,000) and has assets worth over SAR5,000,000,000 (US$1,300,000,000) under management.

Rakisa and ADIH entered into a settlement agreement dated 14/7/1429H (corresponding to 18 July 2008G) and a supplement to this agreement dated 27/10/1429H (corresponding to 28 October 2008G) (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 of its assets to ADIH, including 30,000,000 of its Shares and its proportionate amount of the Shareholder Financing, being SAR136,983,975 (US$36,529,060) (the "**ADIH Transfer**"). In order to enforce Rakisa's compliance with the Settlement Agreements, ADIH filed a claim dated 19/9/1430H (corresponding to 9 September 2009G) against Rakisa at the Second Commercial Circuit at the Grievances Board in Riyadh. On 12/11/1431H (corresponding to 20 October 2010G), 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.

The Shares owned by Rakisa were pledged to the Murabaha Banks and its portion of the Shareholder Financing was subordinated to the Senior Secured Creditors (see Section 8.3 (*The Financing Agreements – Legal Structure of the Financings*)). Following the ADIH Transfer, ADIH entered into pledge and subordination agreements so that the Transferred Shares and the relevant portion of Shareholder Financing are, respectively, pledged and subordinated on the same terms as they were prior to the ADIH Transfer.

5.6 Ashbal Al-Arab Contracting Establishment

Ashbal Al-Arab Contracting Establishment, formed in 1979, is a civil engineering contracting establishment wholly-owned by HH Prince Sultan Bin Mohammed Bin Saud Al Kabeer. It undertakes major civil engineering projects on behalf of municipal governments throughout the KSA and the Ministry of Transport. Amongst the many projects that it has completed, Ashbal Al-Arab has built a 100 km public road from Torbet El Hiyanah to Hail region, constructed a residential compound in Riyadh, built mosques throughout the KSA and provided water mains in Porssa. The company manages 50 permanent staff and up to 200 contract staff from its head office in Riyadh.

5.7 Almarai Company

Almarai Company is the largest vertically-integrated dairy company in the world, and the largest food and beverage company in the GCC. It was established in 1977 and, in 2005, it converted to a joint stock company to list on the Exchange with 30 per cent. of its shares being offered to the public. As at 31 October 2011G, it had a paid-up capital of SAR2,300,000,000 and a market capitalization of just under SAR23,000,000,000. In recent years, it has diversified into bakery, poultry and infant nutrition as well as entering into a joint venture to expand its geographical coverage. Almarai was ranked as the number one brand in the KSA by Gulf Marketing Review 2010 and was awarded the Transparency Award by BMG 2010 and Best Managed Company by Euromoney in 2011.

TABLE 22: OWNERS OF ALMARAI COMPANY

Savola Group	29.9%
HH Prince Sultan Bin Mohammed Bin Saud Alkabeer	28.6%
Omran Mohammed Alomran Company and Partners, Ltd.	5.7%
Shareholders with less than 5% ownership	35.8%

5.8 Al Jeraisy Development Company Limited

Al Jeraisy Development Company Limited was established in 1993 and is a member of the Al Jeraisy Group. Abdulrahman Ali Abdulrahman Aljeraisy owns 95 per cent. of the company's share capital and the remaining five per cent. is owned by Ali Abdulrahman Ali Aljeraisy. Al Jeraisy Group is a leading Saudi industrial, trading and investment group operating principally in the KSA. Its business includes, through different trading companies, the manufacture and supply of office systems, the manufacture of plastic cards (including credit cards), computer and communications services, Internet service provider services, home furnishings, computer paper products and investments in local, regional and international enterprises.

The constituent companies of the Al Jeraisy Group include Riyadh House, Jeraisy Computer & Communications Services, Atheer Internet Services, Tawaf, Al-Areeba, Steelcase Jeraisy Company, Jeraisy Furniture Factory, Jeraisy Group CardTech Factory and Jeraisy Computer Paper Products Company.

5.9 Architectural Elite Establishment for General Contracting

Founded in 2003, Architectural Elite is among the leading establishments specialising in design and build, and construction turnkey solutions in the KSA. It also invests in architectural and engineering and development projects in a range of public and private sectors. Faisal Faleh Hussain Al Damer is the sole proprietor of the establishment and the members of the management have backgrounds in engineering, architectural development, business development and financial management

5.10 Al Sale Al Sharkiya Company Limited

Founded in 1976, Al Sale Al Sharkiya Company Limited is a leading supplier of ferrous steel scrap to, amongst others, the Saudi Iron and Steel Company, Saudi Basic Industries Corporation and Ittifaq Steel Company. Yousef Ahmed Hamad Al Dossari owns 80 per cent. of the company's share capital and the remaining 20 per cent. is owned by Nadia Khalid Hamad Al Dossari. It has six metal processing yards across the KSA, manufactures giant shredder plants and weighing systems that it supplies throughout the GCC. It also has a supporting transportation division.

5.11 Directors of the Company

Table 23: Board of Directors[78]

Name	Nationality	Position	Executive/ non-Executive	Independent/ Non-independent	Number of Shares held directly following the Capital Reduction[79]	Percentage of Shares held indirectly
HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz	Saudi Arabian	Chairman	Non-Executive	Non-independent (representing all Founding Shareholders (except MTC))	1,000	6.875% indirect interest in the Company[80]
Hisham Abdulrahman Akbar	Kuwaiti	Director	Non-Executive	Non-independent (representing MTC)	1,000[81]	Nil
Nabeel Khalaf Said Bin Salamah	Kuwaiti	Director	Executive, Managing Director	Non-independent (representing MTC)	1,000[82]	0.004137% indirect interest in the Company[83]
Bader Nasser Al-Kharafi	Kuwaiti	Director	Non-Executive	Non-independent (representing MTC)	1,000[84]	0.0006% indirect interest in the Company[85]
Ossama Matta	Lebanese	Director	Non-Executive	Non-independent (representing MTC)	1,000[86]	Nil
Abdullah Ibrahim Al-Rakhis	Saudi Arabian	Director	Non-Executive	Non-independent (representing all Founding Shareholders (except MTC))	1,000	0.982% indirect interest in the Company[87]
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Saudi Arabian	Director	Non-Executive	Independent	1,000	0.021739% indirect interest in the Company[88]
Fahad Ibrahim Al Deghaither	Saudi Arabian	Director	Non-Executive	Independent	1,000	Nil
Ammar Abdulwahid Al Khudairy	Saudi Arabian	Director	Non-Executive	Independent	1,714	Nil

78 The independence of a Director has been determined in accordance with the Corporate Governance Regulations.
79 Each of the Directors is obliged to maintain a shareholding in the Company with a value of not less than SAR10,000, in accordance with Article 68 of the Companies Law.
80 HRH Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
81 Legally held by MTC.
82 Legally held by MTC.
83 Nabeel Khalaf Said Bin Salamah owns 712,800 shares in (i.e. 0.01655% of) MTC.
84 Legally held by MTC.
85 Bader Nasser Al-Kharafi owns 100,000 shares in (i.e. 0.0023% of) MTC.
86 Legally held by MTC.
87 Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakisa Holding Company.
88 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 3,478,261 shares in (i.e. 0.87% of) Almarai Company.

Board of Directors

The Company is managed, and its operations are overseen, by the Board of Directors which currently consists of nine members. Four members are nominated for appointment by MTC. Each Board is appointed for a term of three years, with the exception of the first Board, which has been appointed for a five year term.

As at the date of this Prospectus, the Board of Directors comprises of the following members:

5.11.1 HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz, Chairman, Non-Executive Director (51 years)

HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz, the son of the late King Saud Bin Abdul Aziz, is the founder and General Manager of Saudi Plastic Factory, a sole proprietorship with an international reputation in the plastics industry. HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz attained a BSc in Economics from the King Saud University in 1980, an MSc in Economics from the University of London in 1986 and a Ph.D. in Economics from Birkbeck College, University of London in 1989.

5.11.2 Hisham Abdulrahman Akbar (48 years)

Akbar is a Kuwaiti national and is currently a Non-Executive Director of the Company. Akbar obtained a bachelor's degree in industrial engineering from the University of Miami, USA (1988). He started his professional career in the USA as a strategic planning engineer for American Express. Upon leaving American Express, Akbar returned to Kuwait and undertook various positions in the Ministry of Communications, including being appointed as the Director of the International Telecommunications Department. Akbar was also involved in the setting up of the executive branch of the National Telecommunications Company ("Wataniya") in Kuwait. He also headed the executive bodies of several telecommunications companies (Mada, Gulf Sat and Global Direct) in Kuwait and was involved, with a group of investors, in bidding for the second mobile license in Sudan and the third licence in Kuwait. Akbar also participated in the founding of Al Tawasul Holding Company where he served as its Chairman and Managing Director. As at the date of this Prospectus, Akbar is the chief commercial officer of the MTC Group. He is also Vice Chairman of the Board of Mada Communications in Kuwait and a Board Member of Wana (INWI), a Moroccan telecommunications company, as well as being a Board member of the Arab Regional Cable Company (RCN).

5.11.3 Nabeel Khalaf Said Bin Salamah, Managing Director (52 years)

Salamah is a Kuwaiti national and is currently Managing Director of the Company. Salamah holds an MSc in Electronic Engineering from the University of Dayton, Ohio, United States. Salamah is also the Group Chief Executive officer of MTC. Salamah was the Minister of Communication, Electricity and Water in Kuwait between January 2009 and 2010. Salamah served as the Chief Executive Officer of Posta Plus between 2007 and 2009. Between August and November 1998, he was the general manager of National Mobile Telecommunications Company (Wataniya Telecom). Salamah currently sits on the boards of various companies, including: Zain Group Holding (Bahrain); Atheer National Company (Bahrain); Proctel (Bahrain); MENA Levant (Bahrain); West Lake Investment (Bahrain); Kuwaiti Sudanese Holding Company (Sudan); and Atheer Telecommunications Iraq Limited (Iraq).

5.11.4 Bader Nasser Al-Kharafi (34 years)

Al-Kharafi is a Kuwaiti national and currently a Non-Executive Director of the Company. He has been the Chairman and Managing Director of Gulf Cables & Electrical Industries in Kuwait since 2006, having joined as Managing Director in 2003. He holds positions on the boards of several other companies both inside and outside the Kharafi group of companies, in a range of sectors including financial services, manufacturing and media. He holds a BSc in Mechanical Engineering from Kuwait University, and has also completed various courses in management and business studies.

5.11.5 Ossama Matta (41 years)

Matta is a Lebanese national and currently a Non-Executive Director of the Company. Matta serves as the Chief Financial Officer of the MTC Group, having joined the MTC Group in 2004 as the Chief Financial Officer of the 'MTC touch' operation in Lebanon. Prior to joining the MTC Group, Matta served as an audit manager between 1999 and 2004 for PricewaterhouseCoopers in the Lebanon and Saudi Arabia practices. Matta holds a Bachelor of Business Administration and an Executive Masters of Business Administration from American University of Beirut (Lebanon).

5.11.6 Abdullah Ibrahim Al-Rakhis, Non-Executive Director (48 years)

Al-Rakhis, a Saudi national, is the founder and Chairman of Rakisa. Al-Rakhis has extensive experience in founding and establishing telecommunications companies in the KSA. Al-Rakhis is the founder and former Chairman of Qanawat Mobily, the co-founder and former Chairman of SAMAWAT/TIM, the co-founder and former Managing Director of Saudi Mobile Telecom, and the former chairman and CEO of Zajoul Telecom. Al-Rakhis attained a BSc. in Civil Engineering from King Saud University in 1989, an MBA from King Saud University in 1994 and a certificate in advanced management from Oxford Said Business School in 2002.

5.11.7 HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer, Independent/Non-Executive Director (36 years)

HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer is an experienced Saudi businessman and holds a seat on the boards of Almarai Company, Savola Group, Farabi Gulf Petrochemicals Company, Projects and Technical Contracting Establishment and Ashbal Al Arab Contracting Establishment. HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer attained a BSc in Business Administration (Marketing) from King Saud University in 1997.

5.11.8 Fahad Ibrahim Al Deghaither, Independent/Non-Executive Director (57 years)

Al-Deghaither, a Saudi national, is currently the General Manager of the United Company for Trade. Al-Deghaither was previously the Chairman of SHAMMS between 2000 and 2009 and was Vice President of the Savola Group between 2000 and 2006. Al-Deghaither read English studies at Linn Benton Community College (Oregon, USA) from 1974-75 and Mathematics at Lane Community College (Oregon, USA) from 1975-77.

5.11.9 Ammar Abdulwahid Al Khudairy, Independent/Non-Executive Director (48 years)

Al Khudairy, a Saudi national, is the founder of Amwal AlKhaleej (a private equity firm) and has extensive experience in a number of financial disciplines. Al Khudairy previously held a number of senior management positions with Saudi banking institutions, including Head of Strategic Business Development and Regional Head at Banque Saudi Fransi and Regional Head of Gulf International Bank. Al Khudairy is currently the Chairman of Herfy Company for Food Services (listed on Tadawul) and of the Sports Clubs Company, as well as being on the board of Savola Group (listed on Tadawul), El Tayar Group for Travel and Tourism, El Rewad School Company, Arabian Shield Company for Insurance (listed on Tadawul), Arabian Company for Cotton Ginning (listed on the Egyptian Stock Exchange) and Morgan Stanley Saudi Arabia. Al Khudairy attained a BSc in Civil Engineering in 1983 and a MSc in Engineering Administration from George Washington University in Washington D.C. in 1984.

5.12 Secretary to the Board of Directors

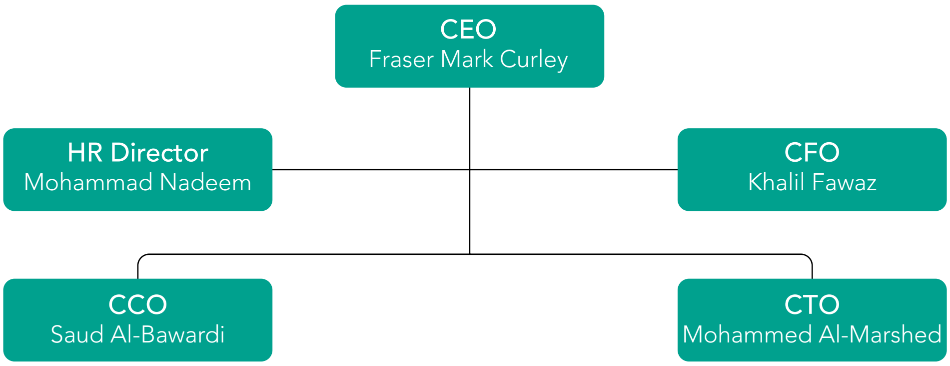
5.12.1 Waleed Khalid Alhakeem (39 years)

Alhakeem, a Saudi national, is currently the Secretary to the Board and Investor Relations Manager at the Company. Prior to joining the Company in 2007, Alhakeem worked for Obeikan Investment Group where he was the Internal Audit Manager for the group from 2004 to 2007. Prior to that, Alhakeem held a managerial position in Samba Financial Group in the investment operation field. Alhakeem attained a BSc in Industrial Engineering from Milwaukee School of Engineering (Wisconsin, USA) in 1998.

5.13 Executive Management

The following chart provides an overview of the Company's internal management and organisational structure:

Table 24: Executive Management



Source: The Company

5.13.1 Executive Management

The Company is managed and run by a team of experienced professionals. A brief profile of the executive team is provided below.

Chief Executive Officer ("CEO") - Fraser Mark Curley (51 years) is a British national and was appointed CEO of the Company in March 2012, having joined MTC in January 2012. Prior to joining MTC, Curley was Managing Director at Bridge Connect Ltd, a provider of international management and business advisory services for the telecommunications and information, communication and technology industries, which he joined in 2003. Before that he was a partner in the German TIME practice and Head of Mobile Communications at Arthur D. Little for two years, where he supported leading operators in market development strategies. Previously he worked for five years at Deutsche Telekom's international subsidiary, DETECON GmbH, where he was responsible for mobile communications and successfully launched the German operator's US consulting subsidiary. In total, he has 29 years' experience in the telecommunications industry.

Curley attained a Bachelor of Science in Physics from the University of Manchester Institute of Science and Technology in the United Kingdom in 1982, and a Master of Science in Electrical Engineering from the University of London in 1986.

Chief Financial Officer ("CFO") – Khalil Ibrahim Fawaz (32 years) is a Lebanese national, primarily responsible for managing the financial risks of the Company. He is also responsible for financial planning, in addition to financial reporting to senior management. He has over 10 years experience in the financial sector and was formerly Head of Corporate Finance at Middle East Capital Group, a subsidiary of First National Bank Group (Lebanon). Prior to joining the Company on 22 January 2012G, he worked at Al-Khabeer Merchant Finance Corporation in Saudi Arabia and spent five years in PricewaterhouseCoopers in Lebanon as an Audit Manager. He also worked for Deloitte and Touche for two years. He attained a Bachelor of Business Administration in 2001 and an MBA in 2011, both from the Lebanese American University, Beirut. He qualified as a Certified Public Accountant in 2004.

Chief Commercial Officer ("CCO") – Saud Abdullah Al-Bawardi (35 years) is a Saudi national with more than 13 years of experience in the telecommunications and banking industries. He joined the Company on 26 July 20011G as Corporate Communications Director and was later appointed as Sales Director. Prior to joining the Company, Al-Bawardi worked at Mobily as Retail Regional Manager-Central & Northern Region and was part of the formation and launching team of Mobily in the KSA. Al-Bawardi attained a BA in Media and Public Relations from King Saud University in 1999. He has completed numerous courses, including a Strategic Management course from the London Academy, certification in Investment Principles from SAMA and other leadership and effective management training courses.

Chief Technology Officer ("CTO") – Mohammed Abdulwahab Al-Marshed (33 years) is a Kuwaiti national and was appointed CTO of the Company in March 2012. Prior to his appointment as CTO, Al-Marshed held a number of positions within the MTC Group, most recently holding the position of Regional Technical Manager. Prior to this role, he was Head of Managed Service in East Africa for one year, Operations Manager for Middle East and Nigeria for two years and a Project Manager within the technical and networks group of the MTC Group for two years. As Regional Technical Manager, he was responsible for reviewing technological proposals and negotiating solutions with vendors, as well as evaluating annual operational cost budgets and business plans. During his ten years in the telecommunications industry, he has gained extensive international management experience and has developed expertise in telecommunications technology. In particular, he assisted in the establishment of the MTC Group's technology division in 2005. Al-Marshed holds a BSc in Electrical Engineering from California State University, Long Beach (California, USA) and a Master Certificate in project management from George Washington University (USA).

HR Director – Mohammad Abed Nadeem (36 years) is a Saudi national and serves as the Human Resources Director where he is responsible for developing human resource policy and documentation. Between 2007-2011, Nadeem was the Total Reward Manager at the Company where he was responsible for the implementation of specialised human resource software. Prior to joining the Company in July 2007, Nadeem held a number of positions at the King Faisal Specialist Hospital in Jeddah, including head of the employment department between 2006-2007. Nadeem holds a BA in Management Information Systems from King Fahd University of Petroleum and Minerals, Dharan (KSA).

5.14 Nationalisation

According to Article 26(2) of the Labour Regulation promulgated by Royal Decree No. M/51 dated 23/08/ 1426H (corresponding to 27/09/2005G), the percentage of Saudi workers to be employed by an employer shall not be less than 75 per cent. of such employer's total workforce. The Minister of Labour may decrease the requisite percentage temporarily in the following circumstances:

- the unavailability of Saudi workers with the necessary technical expertise;
- the unavailability of Saudi workers with the necessary academic qualifications; or
- if it is otherwise difficult to fill a position with a Saudi national.

In practice, the Ministry of Labour can impose the following sanctions for non-compliance:

- the suspension of the employer's applications:
  - for work visas; and/or
  - to transfer the sponsorship of an employee or potential employee;
- the exclusion of the company from applications for Government tenders; and/or
- the denial of Government:
  - loans; and/or
  - subsidies from the private sector.

The "Nitaqat" program came into effect on 11 June 2011G, and classifies companies in 4 categories (Excellent, Green, Yellow and Red) according to their levels of nationalization, size and line of business.

Companies listed as Excellent or Green will be in the most favourable position in relation to visa requests and administration in relation to non-Saudis.

The Company, where practicable, pursues a policy of nationalisation and recruits with the aim of ensuring that Saudi nationals constitute a sizeable part of the Company's workforce in accordance with the circular issued by the Minister of Labour on 1/06/1423H (corresponding to 10/08/2002G).

A certificate from the Ministry of Labour dated 20/3/1432H (corresponding to 29/10/2011G), states that the Company complies with its nationalisation target and places it in the Green category. The Company has established the "Fresh Graduate Program" in order to source Saudi graduates for the Company and to fulfil part of its corporate social responsibility objectives.

5.15 Recruitment

The Company's recruitment policy focuses on attracting and retaining high calibre personnel to ensure that it has the relevant expertise in the business, strong local knowledge and the ability to bring successful "best practices" into the Company. The Company is currently developing a structure and practices for employees to plan, develop and build their careers at the Company.

5.16 Employees

As at 31 December 2011G, the Company employed 845 full-time permanent employees, compared to 628 employees as at 31 December 2010G and 457 employees as at 31 December 2009G. The Company's workforce represents 26 nationalities and is comprised of individuals from a wide variety of backgrounds. As at 31 December 2011G, 70 per cent. of the Company's employees were Saudi nationals, as compared to 61 per cent. as at 31 December 2010G and 56 per cent. as at 31 December 2009G.

Table 25: Total Number of Registered employees by function

	As at 31 December 2009G			As at 31 December 2010G			As at 31 December 2011G		
	Saudis	Non-Saudis	Total	Saudis	Non-Saudis	Total	Saudis	Non-Saudis	Total
Commercial	125	109	234	226	126	352	424	139	563
Support	62	42	104	83	61	144	86	64	150
Technical	68	51	119	73	59	132	78	54	132
Total	255	202	457	382	246	628	588	257	845

When applying the nationalisation method of calculation, approximately 70 per cent. of the Company's workforce presently comprises Saudi nationals. The remainder of the Company's workforce is drawn from 21 different nationalities, principally in the following proportions: approximately 10.8 per cent. are Jordanian, approximately 7.0 per cent. are Egyptian, approximately 2.2 per cent. are Palestinian, approximately 2.1 per cent. are Pakistani, approximately 1.4 per cent. are Lebanese, and approximately 1.2 per cent. are Yemeni.

5.17 Authorities of the Chairman, the Managing Director, the Chief Executive Officer and the Directors

The authorities of the Chairman, the Managing Director, the Chief Executive Officer and Directors of the Company are as follows:

5.17.1 The Directors

Subject to the powers reserved for the Ordinary General Assembly, the Board of Directors has the widest powers in managing the affairs and business of the Company, including but not limited to the disposal of its assets, moveable and real property. For this purpose, the Board of Directors has the right to purchase, accept, pay for, pledge, redeem, sell, assign, receive the price for, and deliver the item disposed of. As to the sale of the Company's assets, movables and real properties, the minutes of the meeting of the Board of Directors shall comprise the reasons for such disposition subject to the following conditions:

- the Board of Directors shall determine in the sale resolution the reasons and justifications for the sale;
- the sale price shall be comparable to the price of similar property;
- payment for the sale shall be immediate save for cases determined by the Board of Directors and with sufficient guarantees; and
- such action shall not result in the suspension of any of the Company's business activities or burdening it with other obligations.

The Board of Directors may enter into loan agreements with Government funds and financial institutions regardless of the term thereof. The Board of Directors may enter into commercial loan agreements for terms not exceeding the term of the Company, subject to the following conditions regarding loans with terms exceeding three years:

- the Board must define in its decision the purpose of the loan and the method of repayment; and
- the conditions of the loan and the related security (if any) should not prejudice the Company, its shareholders and the general guarantees of its creditors.

The Board of Directors has the right to sell or mortgage the real estate of the Company and enter into, amend and renew the Management Agreement.

The Board of Directors has the right to create all types of committees and determine their functions, authorities and duties and also the procedures for the conduct of their duties and issuance of resolutions.

The Board of Directors shall be entitled in the cases determined by them to discharge the Company's debtors from their liabilities in the manner that serves the best interests of the Company, provided that the minutes of the meeting of the Board of Directors shall contain the justifications for its decisions subject to the following conditions:

- a debtor cannot be discharged from its liability until the lapse of at least one year from the creation of the debt;
- the discharge shall be for a fixed amount as a maximum for each year per debtor; and
- the Board has the authority to give such discharge and shall not delegate this authority.

The Board has the right to enter into settlements, assignments, contracts, obligations, and commitments in the name of the Company and on its behalf. The Board of Directors is also entitled to do all acts and actions that are conducive to realising the Company's objects and interests. The Board of Directors is able to delegate within the extent of its powers to one or more of its members or to a third party the authority to take certain actions or to undertake certain acts or activities. The Board is entitled to delegate any of its power and authority to any person it deems fit, subject to the Articles of Association and the By-Laws.

5.17.2 The Chairman

The Chairman has the following powers and authorities:

- representing the Company in its relations towards all Government authorities and departments and all judicial authorities of all kinds and degrees;
- convening and presiding over meetings of the Board and the General Assembly; and
- carrying out all other duties entrusted to him by the Board.

The Chairman shall be entitled to delegate any of his powers and authorities to any person he deems fit, subject to the Articles of Association and the By-Laws.

5.17.3 The Managing Director

The Managing Director is responsible for managing the strategic direction, organisation planning and operational objectives of the Company. The Managing Director reports to the Chairman and the Board when it meets from time to time.

5.17.4 The Chief Executive Officer

The Chief Executive Officer is responsible for managing the day-to-day operations of the Company and aligning the Company, internally and externally, with its strategic vision. The principal duty of the Chief Executive Officer is to facilitate business outside the Company while managing employees and other executive officers according to the Company's objectives. The Chief Executive Officer reports to the Managing Director on day-to-day matters.

5.17.5 The Secretary

Waleed Alhakeem is the Secretary of each of the Board of Directors, the Audit Committee and the Nomination and Compensation Committee.

5.18 Conflicts of Interest

According to Article 69 of the Companies Regulations (and the Corporate Governance Regulations of the CMA), a Board member may not have any interest, whether directly or indirectly, in the transactions and contracts made for the account of the Company, except with authorisation from the Ordinary General Assembly, which shall be renewed annually. Transactions made by way of public bidding are, however, excluded from this prohibition, if the Board member, or an entity in which he is interested, has submitted the best offer.

The Board member must declare to the Board any personal interest he may have in the transactions or contracts made for the account of the Company. Such declarations must be recorded in the minutes of the Board meeting and the relevant Board member shall not vote on the relevant resolution.

The Chairman must communicate to the Ordinary General Assembly the transactions and contracts in which any Board member has a personal interest. Such communication shall be accompanied by a special report from the independent auditor.

Article 70 of the Companies Regulations (and the Corporate Governance Regulations of the CMA) provides that a Board member may not, without authorisation from the Ordinary General Assembly, which shall be renewed annually, participate in any business which is competitive with that of the Company, or engage in any of the commercial activities carried on by the Company. If a Board member does so, the Company has the right either to claim damages from him or to consider the operations he has conducted for his own account as having been conducted for the account of the Company.

The Chairman and the Board members may not vote for any decisions relating to their own remuneration and benefits.

5.18.1 Declaration of the Directors, Company Secretary and the Senior Executives

As at the date of this Prospectus, each of the Directors (including the CEO), the Secretary to the Board of Directors and the senior executives (including the CFO) declare that:

- the financial information presented in this document was extracted without material change from the Financial Statements and that the Financial Statements have been prepared in compliance with the standards and regulations promulgated by SOCPA;
- they have neither been declared bankrupt nor have they been subject to bankruptcy proceedings;
- neither they, nor any of their relatives nor any other affiliate, have or has a direct or indirect interest in any contract or arrangement or proposed arrangement that may have a significant effect on the Company's business at the date of this Prospectus;
- neither they nor any other person has received any commission, discount, brokerage fee or non-cash consideration in relation to the share capital of the Company during the two years preceding the date of submission of the application for Admission;
- they do not have any powers or rights to borrow from the Company;
- there has been no material adverse change in the financial or trading position of the Company in the two financial years preceding the date of this Prospectus or during the period from 31 December 2011G up to and including the date of approval of this Prospectus;
- they have no intention to materially change the business of the Company; and
- during the last 12 months, there has been no significant interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company.

The Directors (including the CEO) also acknowledge that:

- they do not have any authority that allows them to vote in relation to any decision or contract in which they have any personal interest;
- they do not have the authority to vote in relation to any payments to be made to them by the Company;
- they do not have the power to borrow from the Company; and
- they comply with Articles 68, 69, 70 and 71 of the Companies Regulations and the relevant provisions of the Corporate Governance Regulations.

5.18.2 Directors', Company Secretary's and Senior Executives' interests in Shares

As a the date of this Prospectus, the declared direct or indirect interests of the Directors, Company Secretary and senior executives of the Company (and any of their relatives or affiliates) in the Shares or debt instruments of the Company are as follows:

Table 26: Directors' , Secretary's and Senior Executives' Interests In The Company

Individual	Position	Number of Shares held directly following the Capital Reduction	Percentage of Shares held indirectly
HRH Prince Hussam Bin Saud Bin Abdul Aziz	Chairman	1,000	6.875% indirect interest in the Company[89]
Hisham Abdulrahman Akbar	Non-Executive Director	1,000[90]	Nil
Nabeel Khalaf Said Bin Salamah	Managing Director	1,000[91]	0.004137% indirect interest in the Company[92]
Bader Nasser Al-Kharafi	Non-Executive Director	1,000[93]	0.0006% indirect interest in the Company[94]
Ossama Matta	Non-Executive Director	1,000[95]	Nil
Abdullah Ibrahim Al-Rakhis	Non-Executive Director	1,000	0.982% indirect interest in the Company[96]
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Non-Executive Director	1,000	0.021739% indirect interest in the Company[97]
Fahad Ibrahim Al Deghaither	Non-Executive Director	1,000	Nil
Ammar Abdulwahid Al Khudairy	Non-Executive Director	1,714	Nil
Fraser Mark Curley	Chief Executive Officer	Nil	Nil
Khalil Ibrahim Fawaz	Chief Financial Officer	Nil	Nil
Saud Abdullah Al Bawardi	Chief Commercial Officer	Nil	Nil
Mohammed Abdulwahab Al-Marshed	Chief Technology Officer	Nil	Nil
Mohammad Abed Nadeem	HR Director	28	Nil
Waleed Khalid Alhakeem	Company Secretary	Nil	Nil

89 Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
90 Legally held by MTC.
91 Legally held by MTC.
92 Nabeel Khalaf Said Bin Salamah owns 712,800 shares in (i.e. 0.01655% of) MTC.
93 Legally held by MTC.
94 Bader Nasser Al-Kharafi owns 100,000 shares in (i.e. 0.0023% of) MTC.
95 Legally held by MTC.
96 Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakisa Holding Company.
97 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 3,478,261 shares in (i.e. 0.87% of) Almarai Company.

5.19 Corporate Governance

The Directors are committed to high standards of corporate governance and follow the Corporate Governance Regulations issued by the CMA. Furthermore, they adopt sound practices to maximise long-term shareholder value. The Company complies with Articles 69 and 70 of the Companies Regulations, in addition to the Corporate Governance Regulations.

5.19.1 Audit Committee

The Board of Directors has established an audit committee in accordance with Ministry of Commerce and Industry Resolution Number 903 dated 12/08/1414H (corresponding to 2/06/1993G) and the Corporate Governance Regulations issued by the CMA to ensure high standards of audit review (the "**Audit Committee**"). The Audit Committee acts on behalf of the Board of Directors and reports directly to the Board. The Audit Committee comprises at least three members, one of whom must have an accounting and finance background.

The current members of the Audit Committee are HRH Prince Dr. Hussam Bin Saud Bin Abdul Aziz (Chairman), Ossama Matta and Fahad Ibrahim Al Deghaither (who is one of the independent directors).

The Audit Committee's responsibilities and duties include:

(a) supervising the Company's internal audit division in order to verify its efficiency in performing the functions assigned to it by the Board of Directors;

(b) reviewing the internal audit reports and establishing any corrective actions required;

(c) submitting recommendations to the Board of Directors in respect of the appointment or renewal of the independent auditor and determining their fees;

(d) following up on the performance of accountants and approving their fees;

(e) reviewing and commenting on the audit plan with the independent auditor;

(f) reviewing the remarks of the independent auditor on the financial statements and following up on the actions taken in respect of such remarks;

(g) reviewing the interim and annual financial statements before submission to the Board of Directors and giving their opinion and recommendations on the statements; and

(h) reviewing the accounting policies used by the Company and giving opinions and recommendations on the policies.

5.19.2 Nomination and Compensation Committee

The Board of Directors has established the Nomination and Compensation Committee. Based on recommendations proposed by the Board of Directors, the General Assembly has issued the rules for selecting the members of the Nomination and Compensation Committee, the term of their membership and their terms of reference. The members of the Nomination and the Compensation Committee are Abdullah Ibrahim Al-Rakhis, HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer (who is an independent director) and Fahad Ibrahim Al Deghaither (who is an independent director).

The Nomination and Compensation Committee's responsibilities and duties include:

(a) ensuring compliance with Corporate Governance Regulations;

(b) recommending individuals for appointment to the Board of Directors;

(c) conducting an annual review of the skills required for membership of the Board of Directors;

(d) identifying the strengths and weaknesses of the Board of Directors; and

(e) establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company.

The Chairman of the Board of Directors and the members of the Board of Directors receive remuneration for their services based on the annual net profits of the Company. No payment has been made to the members of the Board of Directors to date. An aggregate amount of approximately SAR28,300,000 has been paid to Executive Management by way of remuneration and benefits during the three financial years prior to the date of this Prospectus, as set out in the table below.

Table 27: Annual Remuneration of the Board and Executive Management

	2008	2009	2010	2011
Board members				
Total annual remuneration paid	Nil	Nil	Nil	Nil
Other benefits paid on an annual basis	Nil	Nil	Nil	Nil
Executive Management (including CEO and CFO)				
Total annual remuneration paid	SAR6,849,617	SAR3,961,847	SAR7,337,700	SAR11,814,727.90
Other benefits paid on an annual basis	SAR2,272,174	SAR3,814,420	SAR4,083,378	SAR537,842.70
Total payments	SAR9,121,791	SAR7,776,267	SAR11,421,078	SAR12,352,570.60

6 Regulatory Environment

6.1 Legislation

The Company is subject to the laws and regulations of the KSA and, in particular, the regulations governing the telecommunications sector in the KSA. The key legal and regulatory framework in the KSA for this sector consists of:

(i) the Telecommunications Act approved by Royal Decree No. M/12 dated 12/03/1422H (corresponding to 04/06/2001G) (the "**Telecommunications Act**") and its by-laws, which were issued by Resolution No.11 dated 17/05/1423H (corresponding to 27/07/2002G)) (the "**Telecommunications By-Laws**");

(ii) the ordinance of the CITC issued by Resolution of the Council of Ministers No. 74 dated 05/03/1422H (corresponding to 27/05/2001G), as amended (the "**CITC Ordinance**");

(iii) the Interconnection Guidelines issued by the CITC Decision No. 25/1424 dated 23/09/1424H (corresponding to 18/11/2003G) (the "**Interconnection Guidelines**");

(iv) the Rules of Procedure dated 17/04/1424H (corresponding to 17/06/2003G) (the "**Rules of Procedure**") (collectively referred to as "**Telecommunications Regulations**");

(v) the Regulations for Financial Compensation for the use of frequencies, issued by the Council of Ministers Decision No. 200 of 07/07/1425H (corresponding to 23/08/2004G);

(vi) the National Spectrum Plan issued by the Council of Ministers Decision No. 61 of 02/03/1429H (corresponding to 10/03/2004G); and

(vii) other regulatory instruments issued by the CITC (the "**CITC Regulations**").

Pursuant to the Telecommunications Act, the telecommunications sector is to be regulated pursuant to the following objectives:

- providing advanced and adequate telecommunications services at affordable prices;
- ensuring the provision of access to the public telecommunications networks, equipment and services at affordable prices;
- ensuring creation of a favourable atmosphere to promote and encourage fair competition in all fields of telecommunications;
- ensuring the effective and interference-free usage of frequencies;
- ensuring effective use of the National Numbering Plan;
- ensuring clarity and transparency of procedures;
- ensuring principles of equality and non-discrimination;
- safeguarding the public interest and the user interests as well as maintaining the confidentiality and security of telecommunications information; and
- ensuring transfer and migration of telecommunications technology to keep pace with its development.

The Telecommunications By-Laws set out many of the key rights and obligations of the telecommunications service providers in the KSA. The Telecommunications By-Laws deal with various regulatory issues including competition between service providers, interconnection, disputes between service providers, tariffs, relations between service providers and users, universal access and universal service policies, frequency, access to property by telecommunications service providers, numbering and telecommunications equipment regulation network intrusions and violations of the Telecommunications Act and the Telecommunications By-Laws.

6.2 Regulatory Authorities

Regulation of the telecommunications sector has undergone substantial reform in recent years, due to the efforts of the Ministry of Communications and Information Technology ("**MCIT**") and the Communications and Information Technology Commission (the "**CITC**") to open the market. According to the Telecommunications Act, the MCIT is responsible for preparing general strategic policies, plans and development programs for the telecommunications sector in the KSA, submitting applications for granting licences to the Council of Ministers in accordance with the Telecommunications Act, and coordinating with concerned parties in respect of services provided to Government agencies. The MCIT also represents the KSA in domestic, regional and international bodies in the telecommunications sector. Finally, it may also approve the basis, principles and conditions relating to universal services and universal access.

The CITC was established to regulate the KSA telecommunications sector. In fulfilling the objectives of the Telecommunications Act, the CITC assumes the regulation of the telecommunications sector in the KSA. The CITC has the responsibility and power (amongst other things) in the KSA for implementing the approved policies, plans and programs for developing the telecommunications and information technology sector and establishing necessary procedures, providing protection to users and operators, regulating and managing the use of the frequency spectrum, determining the licensing procedures and issuing licences, determining the fees related to number assignment, setting the criteria for determining service fees, and establishing a regulatory framework for interconnection and resolving interconnection and access disputes.

6.3 Frequencies

The use of frequency spectrum is regulated by the Telecommunications Act, which states that the frequency spectrum is a state-owned natural resource. The CITC is responsible for regulating and managing frequencies in the KSA, and must set the National Frequency Plan. The CITC also ensures that frequencies are used in conformity with that plan. The CITC will also consider any band plans and channel plans, ITU Radio Regulations and Recommendations, general and specific licence conditions and existing usages when processing frequency assignments.

6.4 Numbering

In accordance with the Telecommunications Act and the Telecommunications By-Laws, the CITC must prepare, publish and manage a National Numbering Plan and assign numbers and number ranges to service providers in accordance with the National Numbering Plan. The CITC must also determine the number assignment conditions, the usage licensing procedures and related fees. The numbering scheme in the National Numbering Plan may be modified by the CITC, provided that operators and users are given adequate notice of any modification. Service providers have no property rights to numbers.

6.5 Number Portability

Number portability is a facility whereby telecommunications customers can keep their telephone numbers when changing from one network service provider to another. Number portability is being demanded by customers and is generally mandated by regulators worldwide.

Under the Telecommunications Act, operators must ensure the transfer of numbers according to user requirements. Pursuant to the Telecommunications By-Laws, the CITC is authorised to issue a decision directing one or more service providers to develop a number portability implementation plan. The Mobile Number Portability Policy and Guidelines (CITC Decision No. 56/1425 dated 17/09/1425H) state that service providers are required to develop an implementation plan, to deploy number portability and to have the capability to deliver calls from its network to ported numbers in other networks anywhere in the KSA.

6.6 Licensing

No person is permitted "to provide a telecommunications service to the public" or "to operate a telecommunications network used to provide a telecommunications service to the public" except after obtaining a telecommunications licence issued by the CITC. Operators are required to adhere to the conditions stated in the relevant licence issued to them.

According to the Telecommunications By-Laws, there are four types of licences: (1) telecommunications licences; (2) frequency use licences; (3) numbering licences; and (4) devices and equipment licences.

There are two types of telecommunications licences as defined by the Telecommunications By-Laws: individual licences and class licences. The following services and networks require an individual licence: fixed-line telephone services, mobile telephone services, operation of public telecommunications network, national and international fixed-line and mobile data communications services and such other types of service as the CITC determines as requiring an individual licence. Class licences are issued to authorise more than one service provider of the same class to provide telecommunications services or to operate telecommunications networks. Class licences are issued for specific services, such as voice telephone resale, public payphone, internet service provider (ISP) services or value-added network services. The Licence awarded to the Company consists of an individual telecommunications licence.

Pursuant to the CITC Decision No. 136/1427 dated 17/09/1427H (corresponding to 10/10/2006G) (the Regulatory Framework on Fixed and Mobile Services Licensing), a technology-neutral, service-specific regime for the issuance of new fixed-line and mobile licences was adopted. Under this regime, mobile service licences allow the relevant service provider to use any standardised technology to provide mobile services. Licences will be awarded with national coverage, allowing services to be offered across the KSA. The Licence is a technology-neutral, service-specific licence. This decision also provided that the current regime may move towards a service-neutral as well as a technology-neutral regime.

Pursuant to the CITC Decision No.135/1427H dated 17/09/1427H (corresponding to 10/10/2006G) (the Regulatory Framework on Licence Classification and Scope of Fixed and Mobile Services), further clarification was provided on the licensing regime, including that service based providers who do not build or own a network but utilise other parties' networks will require class licences. This decision also clarified that individual mobile licences include the following services at local, national and international level: mobile voice communications services, mobile data services, SMS, MMS and other related services including ancillary digital services and features such as call waiting, call forwarding and calling line identification.

The CITC must obtain the approval of the Council of Ministers before issuing licences for the provision of fixed-line and mobile telephone services. The term of the individual licences cannot exceed 25 years, although they may be renewed as set out below.

The Telecommunications By-Laws provide the CITC the authority to impose terms and conditions on individual licences to implement the objectives of the Telecommunications Act, including, without limitation, the scope of the services to be offered, quality of service parameters, network or service roll-out requirements, additional service obligations and specific tariff conditions. However, the Telecommunications By-Laws require that individual licences for the same type of service shall have the same conditions unless differences are objectively justified by different circumstances. The CITC may also issue decisions requiring service providers to file a plan for approval regarding the provision of disaster and emergency telecommunications services.

The CITC Board may renew a licence in accordance with the Telecommunications Regulations. Licensed service providers must apply to the CITC for the renewal of licences prior to licence expiry and in accordance with the terms and conditions of their licence. However, the CITC Board has the right not to renew, or to amend, suspend, or revoke licences (subject to Ministerial approval in the case of an individual licence for fixed-line or mobile telephone services). The reasons for such non-renewal, amendment, suspension or revocation include (but are not limited to): (a) repeated violation of basic licensing conditions; (b) failure to pay licensing or other fees required by the CITC; (c) repeated failure to comply with the CITC decisions; (d) failure to operate under the licence within one year from its issue; (e) carrying out activities prejudicial to the public interest; (f) bankruptcy, dissolution or liquidation of the licensee; or (g) re-assignment of the licence without the consent of the CITC.

Prior to amendment, non-renewal, suspension, or revocation of a licence, the CITC is required to notify the service provider that it is considering the relevant action. The notice is required to give the service provider sufficient time to prepare comments, set out any procedures that the CITC will use in considering the relevant action, and may invite comments from other concerned parties. In the event the CITC Board amends, suspends or revokes, or does not renew, a licence, the service provider must be given sufficient time to comply with the decision and the CITC shall make arrangements to ensure continuity of service to users.

In addition, the CITC Board may also amend a licence upon application of the licensee, if there have been changes or amendments to international or regional treaties, recognised recommendations and standards or if the regulations of the KSA require an amendment or the amendment is necessary to carry out the objectives as set out in the Telecommunications Act (see Section 6.1 (*Regulatory Environment - Legislation*)).

6.7 Interconnection

According to the Telecommunications Act, each operator has the right to negotiate interconnection agreements with other operators for their network and services. Upon receipt of a written request by another service provider, a service provider must enter into good faith negotiations to conclude an interconnection agreement to connect and keep connected the parties' telecommunications networks and provide access to such telecommunications facilities as reasonably requested in order for the service provider to provide telecommunications services to its users. In the event that the parties fail to reach an interconnection agreement, they have the right to submit a request for the CITC to settle the dispute, with the CITC's decision being binding. Interconnection disputes should be resolved in a timely and impartial manner.

The Interconnection Guidelines apply to all service providers who provide interconnection to other service providers, are intended to supplement the regulatory framework in the Telecommunications Act and the Telecommunications By-laws, and are meant, *inter alia*, to assist in ensuring that all service providers are treated fairly and in a non-discriminatory manner with respect to the provision of interconnection services. A number of principles are set out therein for all service providers to follow. For example, interconnection arrangements should encourage efficient and sustainable competition, and should be transparent, non-discriminatory and fair and interconnection should be permitted at any technically and economically feasible point. All service providers must enter into good faith negotiations with other licensed service providers, upon written request, to conclude an interconnection agreement.

However, certain specific requirements under the Telecommunications By-Laws and the Interconnection Guidelines apply only to service providers who have been designated as dominant service providers for interconnection purposes, in particular requirements to meet all reasonable requests for interconnection services by other service providers, to not discriminate between service providers or between the dominant service provider's own operations and those of other service providers, to develop and publish a reference interconnect offer and to ensure that interconnection charges are transparent, reasonable and cost-based.

By CITC Decision No. 23/1423 dated 23/06/1423H (corresponding to 01/09/2002G) ("Resolution No. 1/1423"), the CITC designated STC as a dominant service provider with respect to all telecommunications markets in the KSA.

By CITC Decision No. 271/1431 dated 18/09/1431H (corresponding to 28/08/2010G), the CITC adopted a regulatory framework to be used in categorising the sectors of the telecommunications market and dominance in the telecommunications market. It also issued CITC Decision No. 274/1431 to CITC Decision No. 284/1431 in order to set out the categories of the telecommunications market.

By CITC Decision No. 283/1431 dated 12/10/1431H (corresponding to 21/09/2010G) ("Resolution No. 283/1431"), the CITC categorised STC, Mobily and the Company as dominant service providers in the market of wholesale mobile call termination.

As a result of Resolution No. 283/1431, STC will be subject to the following regulatory requirements:

- providing interconnection services and the right of access to any licensed service provider through a communication interconnection agreement;
- abiding by the CITC Interconnection Guidelines, in particular those related to financial consideration or cost;
- preparing a reference interconnection offer and presenting it to the CITC for its approval;
- publishing copies of the interconnection agreements and submitting such executed agreements to the CITC for publication within 10 days after execution;
- presenting tariff requests for interconnection services to the CITC for its approval; and
- presenting a study of the cost for interconnection services and accounting separation between the different communications services to the CITC.

As a result of Resolution No. 283/1431, Mobily and the Company are subject to the following regulatory requirements:

- providing interconnection services and the right of access to any licensed service provider through a communication interconnection agreement;
- abiding by the CITC Interconnection Guidelines, in particular those related to financial consideration or cost;
- preparing a reference interconnection offer and presenting it to the CITC for its approval;
- publishing copies of the interconnection agreements and submitting such executed agreements to the CITC for publication within 10 days after execution;
- presenting tariff requests for interconnection services to the CITC for its approval; and
- presenting a study of the cost for interconnection services to the CITC.

6.8 National Roaming

Pursuant to the Regulatory Framework on National Roaming for Mobile Facility Based Providers (Decision No. 142/1427, dated 17/09/1427H (corresponding to 10/10/2006G)), the CITC stated that national roaming based on fair prices and fair terms and conditions is a prerequisite for effective and fair competition in the KSA. Therefore, any dominant mobile service provider is required to provide national roaming to a newly licensed mobile facilities based provider (subject to technical and commercial agreement based on negotiation, such negotiations to be completed within 60 days of request by the new provider). Such agreement is to be filed with the CITC for review. Other (non dominant) mobile providers may provide national or regional roaming services to any new mobile provider subject to commercial agreement or mutual negotiation. Such agreements may not lead to anti-competitive consequences, and the national roaming services are only to be provided where technically viable.

National roaming shall be provided for no more than five years following the service launch of a new mobile provider, unless the parties agree to an extension and provided that the CITC's written consent is obtained in advance.

Roaming coverage will not count towards any coverage or minimum network deployment obligations which are applicable to a hosted mobile provider. National roaming agreements should include support for the service obligations mentioned in the hosted infrastructure mobile provider's licence such as emergency calling, legal interception, call tracing and quality of service, which will at all times be the obligation of the hosted mobile provider to which the customer has subscribed. The CITC will consider the hosting mobile provider's performance, in case it is not satisfactory before taking appropriate remedial action.

6.9 Fair Competition and Dominant Service Providers

The Telecommunications Act and the Telecommunications Regulations have identified the foundations of fair competition and one of the stated objectives of the CITC, as set out in the Telecommunications Act, is to "ensure creation of a favourable atmosphere to promote and encourage fair competition in all fields of telecommunications". The Telecommunications By-Laws provide that the CITC is required to perform a number of functions, including "monitoring and preventing abuses of a service provider's dominant position". In addition, a dominant service provider is not permitted to abuse its dominant status and must provide interconnection services and access to its network if requested to do so.

6.10 Use of Properties

The Telecommunications Act provides that all telecommunications operators will have an equal right of access to all public and private property for the purpose of providing telecommunications services within the required and necessary limits for the purpose of constructing, operating and maintaining telecommunications networks.

Under the Telecommunications By-Laws and subject to obtaining the consent of the relevant public authority, a service provider shall have the right to enter a highway or other public place for the purpose of constructing, maintaining or operating a telecommunications network and may remain there for as long as is necessary for that purpose, without interfering with the public use of such facility highway or public place. Where the service provider cannot, on commercially reasonable terms, obtain the consent of public authority, the service provider may apply to the CITC for permission to construct its network and the CITC will cooperate with the public authority to find an acceptable solution, having regard to the user and enjoyment of the public place or highway by others. Where the service provider cannot, on commercially reasonable terms, gain access to a pole, duct, tower or other supporting telecommunications or electrical power structure constructed on a highway or other public place, it may apply to the CITC for assistance.

Where a service provider requires land or an interest in land to provide telecommunications services, the service provider must attempt to reach agreement with the property owner. If an operator cannot reach an agreement with the property owner, the operator may submit a request to the CITC for expropriation of the property. If the CITC is unable to mediate between the two parties, it may expropriate such land in accordance with the Expropriation of Real Estate for the Public Interest Act.

Service providers with existing telecommunications facilities are required to allow other service providers to co-locate their telecommunications transmission systems at installation sites, where economically feasible and no major additional construction work is needed, provided, however, that the party requesting co-location must compensate the person required to provide co-location with a fee to be agreed upon by the parties. Where the parties are unable to reach such agreement, the CITC will fix the appropriate fee.

6.11 Universal Access, Universal Services and Universal Service Fund

The Universal Access / Universal Service Policy Document dated 21/05/1427H (corresponding to 17/06/2006G) sets out the basis, principles and conditions relating to the provision of universal service and access in the KSA. One of the objectives set out in the policy is to achieve universal access to voice services and Internet services through affordable public or community facilities within a period of no more than three years (voice) and no more than five years (Internet) from the date that the Universal Service Fund (see below) (the "**USF**") becomes operational. The other objectives are to achieve universal service (on an individual or household basis) for voice service and Internet service within five and seven years, respectively, from the date the USF becomes operational.

In order to promote universal services and access, the policy provided for a USF to be established. The USF was created pursuant to the Universal Service Fund Decision No. 165/1428 dated 18/05/1428H (corresponding to 4/06/2007G), and is a separate administrative unit within the CITC. The USF is to focus exclusively on financing new networks and/or services to provide universal access or universal service to geographic areas that are in commercially unprofitable and underserved zones. Parties will be invited into a competitive selection process for the award of specific universal access or universal service projects, funded by the USF. The USF is part of the CITC and is managed by the CITC Board. The USF is financed through one per cent. of the net revenues of CITC designated service providers. The USF policy is to be reviewed by the CITC at least once every two years.

The CITC issued three further decisions in 2010 in relation to the USF and universal access and services:

- Decision No. 256/1431, dated 6/04/1431H (corresponding to 22/03/2010G), cancelled the designation of STC as a universal service provider.
- Decision No. 257/1431, dated 6/04/1431H (corresponding to 22/03/2010G), states that only universal service projects awarded by way of competitive selection will receive financial support from the USF. The successful bidder for the USF projects will be designated as a universal service provider in the respective areas of these projects.
- Decision No. 258/1431, dated 21/04/1431H (corresponding to 6/04/2010G), sets the tariffs for services provided pursuant to the USF (including tariffs for voice calls within the same province, to different provinces and to mobile networks, and tariffs for international, value-added and Internet services). The universal service provider is required to apply to the CITC for approval of its tariffs.

6.12 Quality of Service

The CITC established a set of "Quality of Service Indicators" by Decision No. 24/1424, dated 13/10/1424H (corresponding to 8/12/2003G) which defined the quality of service targets for end-user services provided by STC. The CITC subsequently issued a "Regulatory Framework on Quality of Service" (Decision No. 141/1427 dated 17/09/1427H (corresponding to 10/10/2006G)). Service providers were required to report measurements to the CITC to indicate compliance with the standards associated with these indicators on a quarterly basis. However, newly licensed service providers were exempted from quality of service regulation for the first 12 months after their commercial launch of service.

The CITC, by Decision No. 229/1430 dated 4/10/1430H (corresponding to 24/09/2009G, issued a further "Quality of Service Scheme", in order to update quality of service regulation in light of market developments. The scheme applies to a range of end-user services (including mobile voice service), wholesale services and interconnect services, and contains quality of service indicators (for example, installation time, fault repair time, dropped call rate, fault rate and voice quality standard) for each type of service. For end-user services, mobile voice service providers are obliged to publish their compliance with target values on a quarterly basis. Individual licence holders are exempt from regulation for all end-user services for the first 12 months after commercial launch, or for any specific end-user service if they have less than 10 per cent. customer market share for that service. For wholesale and interconnect services, reporting and compliance obligations apply to dominant service providers, subject to certain limited exemptions.

Mobile service providers are also required to publish their service coverage maps per major city and per province, including highways, to indicate areas of good indoor and/or outdoor reception. The maps must be updated at least annually. They are intended to enable end-users to compare service offerings when deciding which service provider to subscribe to.

The CITC may specify additional quality of service requirements for individual or class licence holders beyond the scope of the Quality of Service Scheme. The CITC noted that it intends to adopt ex ante quality of service regulation for certain aspects of some services. As the market develops and quality of service is ensured by competitive forces, the Quality of Service Scheme can be relaxed and an ex post approach adopted. However, for services with no or limited competition, a more stringent regulatory approach will be implemented.

6.13 Tariffs

Under the Telecommunications By-Laws, universal service providers and dominant service providers must file with and obtain the approval of the CITC for the tariffs related to their universal services or telecommunications services in the market in which they are dominant respectively, unless otherwise decided by the CITC. In addition, in its Decision No. 274/1431 dated 12/10/1431H (corresponding to 21/09/2010G) decided that submitting tariff requests for approval is a regulatory requirement which will be applied whether there is dominance or not, and whether in competitive markets or dominated markets. Currently, any permanent tariff being offered by a service provider must be approved by the CITC before it can enter into force. Therefore, no mobile telecommunications services providers, including the Company, require CITC approval for the introduction of promotional tariffs for domestic calls.

The CITC may also issue a decision to adopt any approach to tariff regulation of service providers that is consistent with the Telecommunications Regulations, including price cap regulation.

6.14 Terms of Service

All mobile, fixed-line, data and Internet service providers are required to ensure their service contracts are in compliance with terms of service published by the CITC (Decision No. 195/1429, dated 11/3/1429H (corresponding to 19/3/2008G)).

The "Terms of Service for Mobile Telecommunications", published by the CITC, contains applicable terms and conditions in relation to service application procedures, service contracts, customer obligations, service provider obligations, billing, service transfer and number portability, service suspension and termination, limitations of the service provider's liability, customer complaints and disputes and the CITC's role in resolving any such complaints or disputes.

Service providers are required to publish their terms of service on their website, make the terms available at service offices for customer review and otherwise inform customers of their content.

6.15 Disaster Recovery

The CITC has approved a Regulatory Framework for Disaster Recovery Planning for the ICT Industry (Decision No. 249/1431, dated 2/01/1431H (corresponding to 19/12/2009G)). All facilities based providers were required to submit a disaster recovery plan and a test schedule to the CITC within 6 months of the decision. The disaster recovery plans should be tested at least once every two years.

6.16 Penalties

The Telecommunications Act provides that certain actions or violations specified under the Telecommunications Regulations shall be subject to a penalty not exceeding five million Saudi Riyals. Penalties are imposed by the Violation Committee (the members of which are appointed by the Board of the CITC) which is required to make its decisions in accordance with the Telecommunications By-Laws. Any such decision can be appealed before the Grievances Board under the applicable regulations.

7 Licence and Interconnection

7.1 Licence

The following is a summary of the terms and conditions of the Licence.

7.1.1 Licensed Services and Networks

The CITC issued the Licence to the Company to: (a) establish, operate and maintain a facilities based public mobile cellular network in the KSA conforming to international standards approved by a recognised international standards organisation acceptable to the CITC to provide public mobile cellular services, and (b) provide the following services on a local, national and international levels, including but not limited to: (i) mobile voice communications services; (ii) mobile data communications services; (iii) other related services including SMS, multimedia services, voice mail, push to talk over cellular, location based services and such other VAS as may be desired by the end users and offered by the Company. Pursuant to Decision No. 135/1427 dated 17/9/1427H (corresponding to 10/10/2006G), other related services would include but not be limited to ancillary digital services and features, such as call waiting, call forwarding and calling line identifications.

The Company is also authorised to provide ISP services from 23/01/1429H (corresponding to 01/02/2008G), which authorisation has been renewed until 21/03/1434H (corresponding to 2/02/2013G) (see Section 7.2 (*Licence and Interconnection – ISP Licence*)), and is expected to be renewed on the same or similar terms upon expiry.

In addition, broadcasting services, which involve the production of audio or audio-visual materials, are subject to a separate licensing regime administered by the Ministry of Information, which provides ad hoc permits.

7.1.2 Licence Territory

The Company is permitted to offer the licensed services (a) in all districts of the KSA; and (b) between the KSA and other networks outside the KSA in accordance with applicable laws and agreements.

7.1.3 Licence Term and Renewal

The Licence term is 25 years from 21/03/1429H (corresponding to 29/03/2008G), and may be renewed for a similar term with the approval of the CITC and payment of the corresponding fee.

7.1.4 Sub-contracting

CITC approval is required for the Company to sub-contract a third party to provide the telecommunications services it is licensed to provide by virtue of the Licence. In the event of such a sub-contracting, all obligations resulting from the Licence shall remain the Company's responsibility.

7.1.5 Licence Fees

The following annual mobile provisioning fees are payable by the Company to the CITC in consideration of the provision of commercial mobile telecommunications services under the terms of the Licence:

- 5 per cent. of net revenues in the first year from the issuance of the Licence;
- 10 per cent. of net revenues in the second year; and
- 15 per cent. of net revenues in the third year and each year thereafter.

In addition, the following fees are payable by the Company to the CITC:

- an annual payment of 1 per cent. of the net revenues of the Company as an annual licensing fee;
- an annual fee for spectrum usage assigned to the Licensee as per the approved spectrum fee schedule;
- an annual fee for the usage, reservation and assignment of numbers to the Licensee as per the CITC Decision No. 34/1425 dated 4/01/1425H (corresponding to 25/02/2004G);
- a fee in accordance with the Universal Service and Universal Access policy; and
- a fee in respect of any work and services provided by the CITC in accordance with the CITC Ordinance.

7.1.6 Frequencies

Frequencies allocated to the Company under the Licence are as follows:

- 2x10 MHz of 900 MHz spectrum;
- 2x10 MHz of 1800 MHz spectrum; and
- 2x10 MHz in both spectrums (1920-1980 MHz and 2110-2170 MHz) for the provision of mobile telecommunications services (3G).

Such frequencies may only be used to provide the services under the Licence.

Additional frequency bands may, where possible and if available, be assigned by the CITC to meet the Company's needs and to enable it to carry out its services and meet its obligations under the Licence, in compliance with regulatory procedures and against payment of fees. Additional frequency assignments will only be made where the Company can demonstrate sufficient demand and that frequencies already assigned are being utilised effectively.

Use of the frequencies is subject to the Telecommunications Regulations and must be consistent with the National Frequency Plan and the frequency spectrum management procedures issued/administered by the CITC (see Section 6.3 (*Regulatory Environment – Frequencies*)).

Frequency used by the Company may be subject to reassignment where the CITC believes such action will improve spectrum efficiency in the KSA, or for other reasons including international spectrum coordination, provided such actions will not unduly impact the operation of the services under the Licence. Reassignment will only occur after consultation and where the CITC has provided the Company with reasonable notice and, where applicable, alternative frequency assignments for continuity of the services under the Licence with minimum disruption. However, compensation will only be considered by the CITC where reassignment involves a reduction of frequency assignments.

7.1.7 Technology Alteration

The Company must advise the CITC of any intention to materially change the technology that it deploys. The CITC may require the Company to undertake actions to mitigate any adverse effects arising from such changes.

7.1.8 Security Monitoring

The Company is required to comply with the regulatory requirements in its equipment required to monitor the network.

7.1.9 Network Roll-out and Coverage

The Licence requires the Company to comply with the following obligations in respect of roll-out and coverage of the population, cities and highways of the KSA, which have been, and continue to be, achieved through a combination of the Company's own network together with third party facilities:

- *Service Launch Date*: Service Launch no later than six months following the issue of the Licence with coverage of at least 34 cities and 14 highways, approximately 53 per cent. population coverage for 2G and approximately 43 per cent. population coverage for 3G (including coverage within the boundaries of Riyadh, Makkah, Madinah, Jeddah, Dammam, Khobar, Dhahran);
- *Coverage within one year of Service Launch*: coverage of at least 91 cities and 33 highways, approximately 64 per cent. population coverage for 2G and approximately 51 per cent. population coverage for 3G;
- *Coverage within two years of Service Launch*: coverage of at least 156 cities (including at least one major city in each of the KSA's administrative districts) and 43 highways, approximately 71 per cent. population coverage for 2G and approximately 61 per cent. population coverage for 3G;
- *Coverage within three years of Service Launch*: coverage of at least 359 cities and 54 highways (including Riyadh-Taif-Makkah, Riyadh-Dammam, Madinah-Makkah, Jeddah-Makkah), approximately 80 per cent. population coverage for 2G and approximately 66 per cent. population coverage for 3G;

- *Coverage within four years of Service Launch*: coverage of at least 466 cities and 59 highways, approximately 88 per cent. population coverage for 2G and approximately 70 per cent. population coverage for 3G;
- *Coverage within five years of Service Launch*: coverage of at least 540 cities and 67 highways and approximately 93 per cent. population coverage for 2G and approximately 74 per cent. population coverage for 3G;
- *Indoor coverage*: have the ability to initiate and receive calls successfully with acceptable quality in no less than 95 per cent. of all buildings within the coverage area;
- *Dropped Call Rate*: the drop call rate should not exceed 2 per cent. of all call attempts; and
- *Blocking Factor*: a blocking factor of no more (at capacity measure) than 5 per cent. in the "busy hour" (being the one hour for which the average traffic on the licensee's mobile network is the highest).

7.2 ISP Licence

The Company has been licensed to provide ISP services from 23/01/1429H (corresponding to 01/02/2008G), which has been renewed until 21/3/1434H (corresponding to 02/02/2013G). The Company must comply with the general terms and conditions of a Type Class B licence, as well as the terms and conditions applying to ISP services, as described below.

7.2.1 General Terms and Conditions of Type B Licences

The following is a summary of the general terms and conditions of Type B Class Licences.

The Company must comply with the condition of the Licence, the Telecommunications Act, the Telecommunications By-Laws, the CITC Ordinance and decisions and guidelines issued by the CITC from time to time. The Company must submit periodical reports to the CITC and provide any other information requested by the CITC.

Under the Telecommunications Regulations, the board of the CITC has the ability (other than in the case of an unauthorised re-assignment of the Licence, where the approval of the Minister of Communication and Information Technology is required) to suspend, revoke or not renew the Licence, or impose penalties against all licensed telecommunications providers (including the Company). The Licence may also be amended in accordance with public interest requirements (see Section 6.6 (*Regulatory Environment - Licensing*)). If the Company wishes to cease providing services under the Licence, it must follow the procedures set out in the CITC Regulations.

The Company is permitted to provide services in a specific area or in several locations within the KSA, in accordance with the Licence (see Section 7.2.2 (*Licence and Interconnection – ISP Licence – Special Terms and Conditions for ISP Services*).

The Company must meet all obligations stipulated in the Telecommunications Act and in the Licence, including continuity of service and developing and improving the services. In particular, the Company is required to comply with the following requirements:

- implement and adhere to all policies, rules and instructions issued by the CITC and other official bodies, and observe integrity and good conduct;
- not discriminate amongst users and ensure their privacy;
- explain fees and features of services in advance to those interested in subscribing for them;
- comply with copyrights and other rights in accordance with relevant regulations when providing programs to users. The Company must obtain approval from the Ministry of Culture and Information: (i) before transmitting content in any way through any information media; or (ii) if the service includes the transmission or reception of audio or video information, material or written text or drawings in addition to any new future services associated with intellectual property rights or publishing and printing information;
- obtain the approval of the Chamber of Commerce if the service is connected directly or indirectly with providing a reward or commercial promotion, and in any event obtain the approval of other relevant authorities before commencing service provision;

- comply with Islamic Shariah rules, ethics, general rules or conventions and the public taste, and not violate any Acts or Bylaws applicable in the KSA;
- not take advantage of user telephone numbers or numbers obtained through users' incoming calls, or exploit them by any means such as using them in advertisement campaigns or selling databases including those numbers to other bodies without the prior permission from the owners of the numbers;
- provide technical capability in network equipment and devices to (i) link with other equipment and devices (a special requirement form to operate and use the network must be completed and signed); and (ii) retain and identify users' data when necessary for a minimum period of six months or in accordance with the CITC's decision; and
- the equipment necessary to provide the service must comply with technical standards approved by the CITC and it must be used only for provision of the licensed services.

7.2.2 Special Terms and Conditions for ISP services

The following is a summary of the special terms and conditions for ISP services (some of which are similar in scope to the general terms and conditions described above).

ISP services are limited to dial-up Internet access, broadband Internet access, email, IP allocation and assignment, web design and hosting, network monitoring, DNS registration (subject to applicable regulations), Internet content publishing, Internet advertising and application service providers such as data centres and equipment hosting.

The Company is required to provide its services or connect to the Internet only using the methods determined by the CITC. It is required to provide its services to a high-quality level and to observe integrity, honesty and good conduct with its Customers, and to not discriminate between them. It must implement and observe all rules and instructions issued by the CITC and other competent Government bodies and comply with applicable laws and regulations in relation to intellectual property when providing any programs to Customers.

The Company must clarify fees and service features to prospective Customers and make available copies of usage rules to the Customers, and CITC terms of service documents. The Company must maintain Customers privacy and the confidentiality of their account information. The Company should also abstain from involving third parties in Customers' accounts or giving them access to Customers' passwords or IDs. Technical round-the-clock support must also be provided to customers. The Company is obliged to ensure Customers' accounts are accurate and maintain accounting data for one year.

8 The Financing Agreements

8.1 Summary of the Financing Structure

The Company has existing financings in place from the following sources:

- a facility of approximately SAR9,750,000,000 (US$2,600,000,000), consisting of a tranche of approximately SAR2,662,500,000 (US$710,000,000), and a tranche of SAR7,087,500,000 under a Murabaha financing agreement (the "**Murabaha Facility**");
- an aggregate of approximately SAR3,559,677,296, consisting of a tranche of approximately SAR899,183,520,521 (US$239,782,272), a tranche of approximately SAR496,493,775 (KWD36,839,838)[98] and a tranche of SAR2,164,000,000[99], being loans advanced by the Founding Shareholders (the "**Shareholder Financing**");
- a subordinated facility of approximately SAR2,218,565,496, consisting of a tranche of US$100,000,000 (approximately SAR375,000,000) and a tranche of SAR1,875,000,000 (the "**Subordinated Facility**"); and
- a deferred payment agreement with Motorola Inc. (and its affiliates) for the supply of goods and services of approximately SAR745,414,489 (US$198,777,197) (the "**Motorola Vendor Financing**"),

(each an "**Existing Financing**").

The terms of the Murabaha Facility permit the Company to incur certain other financings (or refinancings of existing facilities) on subordinated terms which are satisfactory to the Senior Secured Creditors (as defined in Section 1 (*Definitions, Abbreviations and Technical Glossary*) of this Prospectus).

The following table sets out the Company's current financings:

Table 28: Current Financings

Loan Type	Date signed	Repayment of the original loan amount	Loan Tenor (years)	Purpose	Amount in SAR (and equivalent in loan currency)	Loan currency	Security	Interest payment/ profit
Murabaha Facility	10/08/ 2009G	Bullet repayment on 27/07/2012G (initial repayment due on 27/07/2011G but extended by two periods of six months each)	Two to three	Refinancing of the original Murabaha facility	SAR3,281.25 Mln (equivalent to US$875 Mln) and SAR6,468.75 Mln	US$ and SAR	Pledge of assets [100], pledge of shares, pledge of contracts, pledge of bank accounts	Paid semi-annually
Shareholder Financing	24/07/ 2007G and 14/07/ 2009G	Open (subordinated to the Murabaha Facility)	Open	Payment of Licence fees	SAR863.8 Mln (equivalent to US$230 Mln) plus SAR2,164 Mln plus SAR499.1 Mln (equivalent to KWD36.8 Mln)	US$, SAR and KWD	No guarantee	Paid at maturity

98 As at 30 December 2011, KWD amount converted using a SAR/KWD exchange rate of 13.548:1.
99 The total of the Shareholder Financing is not the sum in SARs of the three tranches due to fluctuations in the relevant exchange rates.
100 See Section 8.3.1 below.

Loan Type	Date signed	Repayment of the original loan amount	Loan Tenor (years)	Purpose	Amount in SAR (and equivalent in loan currency)	Loan currency	Security	Interest payment/ profit
Subordinated Facility	05/04/ 2011G	Bullet repayment on 09/04/2013G	Two	Refinancing short term loan of US$468 Mln and SAR438.75 Mln and financing of projects	SAR375 Mln (equivalent to US$100 Mln) plus SAR1,875 Mln	US$ and SAR	No security	Paid semi-annually (by MTC)
Motorola Vendor Financing	14/01/ 2010G	Bullet payment on 12/12/2012G	Two	Finance network capital expenditures	SAR745.41 Mln (equivalent to US$199 Mln)	US$	No guarantee	Paid at maturity

Source: the Company

8.2 The Existing Financings

8.2.1 Murabaha Facility

The Company entered into the Murabaha Facility on 10 August 2009G with Banque Saudi Fransi (as investment agent for and on behalf of the Murabaha Banks) in order to refinance a previous SAR9,375,000,000 (approximately US$2,500,000,000) Murabaha facility which the Company had entered into in respect of the Licence Fee. The Murabaha Facility is to be repaid in a bullet repayment of the principal amount at maturity and the Company makes periodical payments of Murabaha profit during the term of the facility.

The Murabaha Facility had an initial maturity date of 27 July 2011G[101], with subsequent extension options of two consecutive six-monthly periods, both of which have been exercised, thereby extending the final maturity date to 27 July 2012G. The Company is also currently in discussions with certain banks in respect of refinancing the Murabaha Facility for a term of up to five years starting from no later than 27 July 2012G.

There were also Islamic profit rate swaps in place with respect to profit rate fluctuations covering 85 per cent. of the principal amount of the Murabaha Facility, although these profit rate swaps have since been terminated and no new arrangements have been entered into.

8.2.2 Shareholder Financing

The Shareholder Financing is documented in bilateral shareholder loan agreements between the Company and each relevant Founding Shareholder and ADIH which, in turn, are subordinated to the Murabaha Facility. Therefore, the Company's repayment obligations under the Shareholder Financing rank after the Company's repayment obligations to the Senior Secured Creditors under the Murabaha Facility. Please refer to Section 8.2.3 (*The Financing Agreements – The Existing Financings – Subordinated Facility*). The amounts of the Shareholder Financing are as follows:

101 The initial maturity date was 27 July 2011G instead of 12 August 2011G (which is mentioned in the Financial Statements), based on subsequent clarification received from the Murabaha Banks.

Table 29: Shareholder Financing[102]

Shareholder	Pre-Offering Shareholder Financing (SAR)	Percentage Shareholder Financing
Mobile Telecommunications Company K.S.C.	2,505,074,088[103]	70.37
Saudi Plastic Factory	301,364,744	8.47
Faden Trading Contracting Establishment	314,889,744	8.85
ADIH[104]	136,983,975	3.85
Ashbal Al-Arab Contracting Establishment	109,587,180	3.08
Almarai Company	109,587,180	3.08
Al Jeraisy Development Company Limited	54,793,590	1.54
Architectural Elite Establishment for General Contracting	-	-
Al Sale Al Sharkiya Company Limited	27,396,795	0.77
Total	3,559,677,296	100.00

Source: the Company

The majority of the Shareholder Financing was advanced on 28 July 2007G, prior to the required date for the Company to provide a payment guarantee of an amount equivalent to 80 per cent. of the initial fee of SAR22,910,002,026 (approximately US$6,110,000,000) payable for the Licence. Subsequently, only MTC has provided further Shareholder Financing.

Due to the subordinated position of the Shareholder Financing, there are no specific maturity dates in the relevant agreements between the Founding Shareholders, ADIH and the Company. As part of the Rights Issue, the Company will be settling some of its debt under the Shareholder Financing by capitalising such debt and issuing Rights Issue Shares to the relevant Founding Shareholders and ADIH proportionate to their existing shareholdings in the Company, as described in Section 10.3 (*Use of Proceeds – Capitalisation of Shareholder Financing*).

Since the incorporation of the Company, MTC has also been acting as sponsor to the Company's financing arrangements in providing advances towards the costs of the Company's financings (for example, upfront fees to a number of the Existing Financings, commission, profit and/or interest repayments, advisors' fees thereto) as well as general capital expenditure. Pursuant to the sponsor undertaking agreement under the Murabaha Facility, MTC has ongoing obligations to ensure that the Company meets its net peak funding requirements in the event that there are shortfalls to the Company's financing arrangements and business expenditures. Any advances made by MTC will be treated as subordinated shareholder loans and will not become repayable until the Senior Secured Creditors have been repaid.

The Founding Shareholders (save for Architectural Elite) and ADIH will subscribe for their proportionate entitlement of Right Issue Shares pursuant to the Offering through capitalising all or part (as applicable) of their respective proportionate amount of the Shareholder Financing, as described in Section 10.2 (*Use of Proceeds – Capitalisation of Shareholder Financing*). The finance charges which the Company has incurred in relation to the Shareholder Financing and which have accrued to date will remain on the balance sheet of the Company after capitalisation of the relevant amount of Shareholder Financing. These are not payable to the Founding Shareholders or ADIH until either the Murabaha Facility has been repaid to the Murabaha Banks or with the consent of the Senior Secured Creditors, if they are satisfied that the Company's future excess cash position is sufficient to make such payments.

8.2.3 Subordinated Facility

The Company entered into a SAR1,875,000,000 and US$100,000,000 facilities agreement on 5 April 2011G with Arab National Bank as facility agent and each of Arab National Bank, Al Khaliji Commercial Bank (al khaliji) Q.S.C., Banque Saudi Fransi and Gulf International Bank B.S.C. as lenders. The purpose of the Subordinated Facility is to refinance the Short Term Vendor Refinancing and to finance a number

102 Shareholder Financing as at 31 December 2011.
103 This includes KWD 36,839,838 converted using a SAR/KWD exchange rate of 13.548:1 as at 31 December 2011.
104 As at 31 December 2011G, this amount of Shareholder Financing was advanced by Rakisa. Rakisa transferred the benefit of this amount of Shareholder Financing to ADIH on 15 May 2012G.

of the Company's capital projects. The Subordinated Facility benefits from a guarantee provided by MTC covering all of the Company's obligations under the facility.

The Subordinated Facility is repayable on 5 April 2013G and interest on the Subordinated Facility is payable semi-annually. In accordance with the restrictions on the Company's overall debt structure set out in the Murabaha Facility, the terms of the Subordinated Facility have been approved by the Murabaha Banks provided that the Subordinated Facility remains subordinated to the Murabaha Facility and that the financiers to the Subordinated Facility may not claim against the Company (whether for unpaid amounts or acceleration due to a continuing event of default) during the term of the Murabaha Facility.

8.2.4 Motorola Vendor Financing

The Company entered into further vendor financing with Motorola Inc. (and certain of its affiliates) to allow deferred payment of certain invoices with respect to goods and services supplied by Motorola in 2009. The final invoiced amount as at 22 January 2011G (the last date on which the Company utilised this facility) was approximately SAR745,414,489 (US$198,777,197). The interest on the invoiced amount has been charged at between 5.25 per cent. per annum and 5.36 per cent. per annum.

The Motorola Vendor Financing is documented through an option in the payments clause of the relevant Motorola supply contracts under which the Company may issue promissory notes in favour of Motorola covering: (i) up to 85 per cent. of the invoiced amount; and (ii) a premium representing interest accruing from the date the relevant promissory notes were issued until the maturity date of 12 December 2012G (the "**Maturity Date**"). The promissory notes, in turn, will not be presentable for payment until after the Maturity Date. As at 22 January 2011G, the Company had issued promissory notes in favour of Motorola with an aggregate face value of approximately SAR869,000,000 (US$231,779,865), which is the aggregate of the invoiced amount and the accrued interest at the rates referred to above.

The Motorola Vendor Financing benefits from credit support provided by MTC in favour of Motorola. As part of the promissory notes structure, the financiers of the Motorola Vendor Financing do not have recourse to the Company until the Maturity Date (which cannot be accelerated).

8.3 Legal Structure of the Financings

The proceeds of the Murabaha Facility and the Shareholder Financing have been applied towards:

- re-financing the previous SAR9,375,000,000 Murabaha facility; and
- financing the Company's operations (specifically its capital expenditure, working capital and finance charges).

The remainder of the Existing Financings (which totals approximately SAR2,963,979,585) has been, or will be, used by the Company towards further development and construction of its network and for general corporate purposes. The Existing Financings are subject to the subordination structure set out in this section.

8.3.1 Senior Secured Creditors

As the Murabaha Facility is the senior ranking facility amongst the Company's financings, the Murabaha Banks (as Senior Secured Creditors) benefit from a security package securing the Company's payment obligations under the Murabaha Facility comprising the following:

(a) *Share security*: a pledge of Shares in the Company held by each of the Founding Shareholders and ADIH;

(b) *Assets and receivables security*: a pledge and assignment of assets, contracts and insurance policy receivables of the Company; and

(c) *Account security*: a pledge and assignment of all bank accounts held by the Company in respect of the day-to-day running of its business, covering seven current accounts in SAR and one in US dollars held with Banque Saudi Fransi and three current accounts held in SAR with Arab National Bank, Al Rajhi Capital and the Saudi British Bank respectively.

The assets that have been pledged to the Murabaha Banks as part of the security package consist of the Company's network infrastructure equipment. In addition to the network infrastructure equipment, the security package also obliges the Company to pledge all equipment with a value of greater than SAR50,000 to the Murabaha Banks.

8.3.2 Subordinated Creditors

(a) *Shareholder Financing*: the Founding Shareholders and ADIH have agreed to subordinate any claims (for repayment or otherwise) to the Senior Secured Creditors for the duration of the Murabaha Facility.

(b) *Subordinated Facility*: the creditors to the Subordinated Facility have agreed to subordinate any claims (for repayment or otherwise) to the Senior Secured Creditors for the duration of the Murabaha Facility.

(c) *Motorola Vendor Financing*: the Motorola Vendor Financing will not be due for repayment until 12 December 2012. In the meantime, the creditors to the Motorola Vendor Financing will have no other recourse to the Company in respect of repayment claims.

9 Management's Discussion and Analysis of Financial Condition and Results of Operation

The following section is based upon, and should be read in conjunction with, the Company's audited financial statements for the three financial years ended 31 December 2009G and 31 December 2010G and the notes thereto, which have been audited by PricewaterhouseCoopers and 31 December 2011G and the notes thereto, which have been audited by Deloitte, and included in this Prospectus (the "**Audited Financial Statements**").

The Audited Financial Statements have been prepared in compliance with the accounting standards promulgated by SOCPA. The Company issues its financial statements in Saudi Arabian Riyals. The Audited Financial Statements for the years ended 31 December 2009G and 2010G were prepared by PricewaterhouseCoopers the Audited Financial Statements for the year ended 31 December 2011G were prepared by Deloitte. The PricewaterhouseCoopers and Deloitte reports included in this Prospectus relate to the Company's historical financial information only.

References in this section to "first quarter" refer to the three-month period ended 31 March, "second quarter" refer to the three-month period ended 30 June, "third quarter" refer to the three-month period ended 30 September and "fourth quarter" or "last quarter" refer to the three-month period ended 31 December, in any given year.

This section contains forecasts and forward-looking statements that involve risks and uncertainties. Actual results of the Company could differ materially from those contemplated by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in the Prospectus, particularly in Section 2 (*Risk Factors*).

9.1 Directors' Declaration for Financial Information

The Directors declare that the financial information presented in this prospectus is extracted without material adjustment from the Audited Financial Statements and that the Audited Financial Statements have been prepared and audited in accordance with the SOCPA Standards, except as expressly provided below.

However, certain performance metrics such as ARPU, EBITDA and EBITDA margins described and presented in Section 9.5 (*Management's Discussion and Analysis of Financial Condition and Results of Operation - Key Performance Metrics*) may not comply with the SOCPA Standards, as more fully discussed below.

The Directors declare that there has been no material adverse change in the financial or trading position of the Company during the financial year ended 31 December 2009G, the financial year ended 31 December 2010G or the financial year ended 31 December 2011G or to the date of this prospectus.

The Directors further declare that the Company will have, following the Rights Issue, sufficient funds to meet its working capital requirements for the 12 month period following the date of this prospectus.

9.2 Significant Accounting Policies

The Company's Financial Statements are prepared in compliance with the SOCPA Standards, except as described in Section 9.1 (*Management's Discussion and Analysis of Financial Condition and Results of Operation – Directors' Declaration for Financial Information*).

The Company's significant accounting policies are set out in note 2 to the Company's Financial Statements included in this section.

9.3 Business Overview

The Company was established as a Saudi joint stock company pursuant to: (i) Royal Decree No. M/48 dated 26/05/1428H (corresponding to 12/06/2007G) and (ii) Resolution of the Minister of Commerce and Industry No. 81/Q dated 04/03/1429H (corresponding to 12/03/2008G). The Company was issued with Commercial Registration No. 1010246192 on 4/03/1429H (corresponding to 12/03/2008G).

Prior to this Offering, the Company carried out a reduction of its share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) by the cancellation of 919,900,000 Shares *pro rata* to each Shareholder's shareholding in the Company. Following the full subscription of this Offering, the authorised, issued and paid-up share capital will increase to SAR10,801,000,000 consisting of 1,080,100,000 shares of nominal value of SAR10 each.

The Company officially received the third mobile telecom operator license in the KSA on 12 March 2008G from the CITC having completed all required procedures as set out in the CITC's request for application dated 14 October 2006G including the full payment of the license fees of SAR22.91 billion. The License is for a duration of 25 Hijrah years and permits the Company to install, own and operate mobile cellular networks for the provision of public mobile cellular services using 2G and 3G mobile cellular technology standards. The scope of the services includes voice, data, VAS and other supplementary services and features.

In 2008, the Company and MTC entered into the Management Agreement for the provision of mobile network management and operational services by MTC to the Company. The Management Agreement includes provisions for the use by the Company of the Zain and MTC brands. Under the terms of the Management Agreement, MTC is responsible for the operation of the Company's business and for procuring that the Company develops and operates a mobile telecommunications network within the scope of the License.

The Company's aim is to secure the best possible returns for Shareholders while maintaining high standards of internal organisation and corporate governance. The Company has pursued this aim through the implementation of 5 key strategic initiatives:

- become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation;
- focus on customer retention and enhancing the Zain customer experience;
- enhance the strength of the Company's "Zain" brand;
- accelerate the rollout of MBB; and
- develop the most effective sales and distribution channels in the KSA market.

The Company believes that it is achieving its targets through its continued product and service development, on-going marketing innovation and market segmentation strategies. The Company focuses on key market segments where it can benefit from a sustainable competitive edge. The Company's priority segments are young executives, students, expatriates, higher value customers and business customers. The Company believes it is on the right track to market itself as a credible alternative to its competitors in relation to such customers that is has attracted by improving its network capabilities, expanding and enhancing its range of mobile product and service offerings and maintaining new technology offerings.

The Company launched commercial services on 26 August 2008G and has been operational for more than three and a half years. As at 31 March 2012, the Company offered services to 6.5 million customers, including 5.2 million prepaid, 0.4 million post-paid and 0.9 million MBB customers. The Company has around 200 branded stores in the KSA and a network of more than 3,000 authorized points of sale, that facilitate a reach of its distribution channels that spans the country, helping to support the acquisition of new customers. In addition, the Company has strong relationships with distribution partners that have telecommunication expertise and a high level of retail knowledge. To enhance its brand presence and coverage, to date, the company has launched six flagship shops in Riyadh, Jeddah, Dammam and Khobar.

The Company's primary technology platform is based on the latest 2G, 3G, HSPA and LTE global standards. Since 2007G, the Company has deployed state-of-the-art technology infrastructure comprised of 2G (GSM) base stations in the 900 and 1800 MHZ, 3G (UMTS) Node Bs in the 2100 MHZ, and LTE infrastructure in 1800 MHZ spectrum. Since the Service Launch, the Company has provided mobile cellular coverage of the main cities, villages and highways required by the Licence. The Company plans to expand the allocated 2100MHz spectrum to enhance the offered MBB services to higher speeds in line with market needs.

In 2011, the Company successfully undertook the following projects:

- Ramadan expansion project, which maintained services in Makkah and Madina during Ramadan peak traffic;
- the expansion of the Hajj network, enabling the Company to capture a higher market share than during the previous Hajj seasons;
- the deployment of LTE core network infrastructure in three main cities: Riyadh, Jeddah and Dammam; and
- extension of voice and data network coverage to 550 remote localities previously uncovered, as part of CITC's USF2 project.

In line with the Company's strategy to continue improving network quality and to enhance its MBB offering to its customers, the Company plans to expand its current network coverage and capacity. To accomplish this strategy, key projects have been identified and are expected to be implemented in 2012:

- implementation of CITC's USF4 project which will extend coverage to more remote parts of the KSA and reduce the Company's dependence on national roaming;
- expansion of the 2G/3G network for coverage and capacity;
- expansion of the LTE network in all major cities in the KSA including three LTE core locations with VoLTE capability;
- enhancement of indoor coverage to provide improved levels of 2G/3G/HSPA services; and
- outsourcing a large portion of the Company's network/IT services to one vendor in order to reduce operational expenditure and improve the quality of the Company's services; and
- launching an additional five flagship stores to enhance retail sales capacity.

9.4 Results of Operations

The Company's results of operations for the financial years ending 31 December 2009G, 2010G and 2011G are discussed below.

The Company's income statement, together with profitability ratios for the years ended 31 December 2009G, 2010G and 2011G are set out below.

Table 30: Income Statement

	Audited, in SAR '000			Audited, as a % of revenues		
	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Revenue	3,004,052	5,934,370	6,699,060	100.00%	100.00%	100.00%
Cost of revenue	(2,127,026)	(3,403,922)	(3,498,893)	(70.81%)	(57.36%)	(52.23%)
Gross profit	877,026	2,530,448	3,200,167	29.19%	42.64%	47.77%
Distribution and marketing exp.	(1,573,741)	(1,848,666)	(1,972,132)	(52.39%)	(31.15%)	(29.44%)
General and administrative expenses	(375,898)	(351,143)	(329,185)	(12.51%)	(5.92%)	(4.91%)
Depreciation and amortisation	(1,394,310)	(1,494,220)	(1,710,328)	(46.41%)	(25.18%)	(25.53%)
Operational expenses-net	(3,343,949)	(3,694,029)	(4,011,645)	(111.31%)	(62.25%)	(59.88%)
Loss from operations	(2,466,923)	(1,163,581)	(811,478)	(82.12%)	(19.61%)	(12.11%)
Financial charges	(633,742)	(1,195,511)	(1,113,856)	(21.10%)	(20.15%)	(16.63%)
Commission income	1,316	655	138	0.04%	0.01%	0.00%
Net loss for period	(3,099,349)	(2,358,437)	(1,925,196)	(103.17%)	(39.74%)	(28.74%)

Source: Financial Statements

The following table sets out the Company's balance sheet as at 31 December 2009G, 2010G and 2011G.

Table 31: Balance sheet

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Assets			
Cash and cash equivalents	505,792	702,117	780,273
Net accounts receivable	1,007,247	1,463,166	1,006,574
Inventories	39,422	28,799	43,617
Net prepayments and other receivables	297,475	408,527	601,706
Current assets	1,849,936	2,602,609	2,432,170
Net properties and equipment	3,846,700	4,298,200	4,058,813
Net intangible assets	22,133,477	21,154,628	20,252,778
Non-current assets	25,980,177	25,452,828	24,311,591
Total assets	27,830,113	28,055,437	26,743,761
Liabilities			
Notes payable	2,152,219	-	915,876
Short term borrowing facility	-	2,193,750	-
Syndicated Murabaha financing from banks	-	-	9,747,638
Accounts payable	1,814,792	2,104,503	1,609,284
Due to related parties	51,365	117,294	26,673
Deferred revenue	251,259	451,342	434,392
Derivative financial instruments	-	-	45,781
Accrued expenses and other liabilities	1,964,749	2,587,223	2,731,184
Current liabilities	6,234,384	7,454,112	15,510,828
Notes payable	-	659,221	153,937
Long-term borrowing facility	-	-	2,223,529
Syndicated Murabaha financing from banks	9,494,023	9,655,693	-
Advances from shareholders – non-current portion	3,468,827	3,665,497	4,018,550
Due to related parties	-	339,776	520,651
Derivative financial instruments	-	134,630	-
Employee termination benefits	10,400	17,096	23,201
Non-current liabilities	12,973,250	14,471,913	6,939,868
Total liabilities	19,207,634	21,926,025	22,450,696
Share capital	14,000,000	14,000,000	14,000,000
Accumulated losses	(5,377,521)	(7,735,958)	(9,661,154)
Hedging reserve	-	(134,630)	(45,781)
Shareholders' equity	8,622,479	6,129,412	4,293,065
Total liabilities and shareholders' equity	27,830,113	28,055,437	26,743,761

Source: Financial Statements. Units: SAR thousand

The following table sets out the changes in cash and cash equivalents during the relevant periods by category of activity.

Table 32: Changes in Cash and Cash Equivalents

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash provided by / (used in)			
Operating activities[1]	(62,913)	462,444	(87,525)
Investing activities[2]	(1,890,640)	(307,650)	(309,096)
Financing activities[3]	1,875,895	41,531	474,777
Net increase / (decrease) in cash and cash equivalents	(77,658)	196,325	78,156

Source: Financial Statements. Units: SAR thousand

Table 33: Cash and Cash Equivalents

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash and cash equivalents	505,793	702,117	780,273

1 *The net cash (used in)/generated from operations in 2009 has been restated herein, by deducting the financial charges paid, amounting to SAR575.2 million, and adding back the commission income amounting to SAR1.3 million. In the audited financial statements of 2009, the net cashflow from operations is reported as SAR511 million. The financial charges paid line item was classified as a line item in the cashflow from financing activities section of the cashflow statement whilst the commission income was classified as a line item in the cashflow from investing activities. The restatement in this Prospectus facilitates like-for-like comparison with the reported net cash (used in)/generated from operating activities for 2010 and 2011 in which both line items have now been reclassified as cashflow from operating activities line items.*

2 *The net cash from investing activities has also been adjusted from the reported (SAR1,889.3 million) to (SAR1,890.6 million) due to the reclassification of the commission income line item amounting to SAR1.3 million.*

3 *The net cash from financing activities has also been adjusted from the reported SAR1,300.7 million to SAR1,875.9 million, again due to the reclassification of the financial charges paid line item amounting to SAR575.2 million.*

Source: Financial Statements. Units: SAR thousand

9.5 Key Performance Metrics

Management of the Company uses several performance metrics that are widely applied in the mobile communications industry to manage and assess financial performance. These metrics include net customer additions, end-of-period Customers, EBITDA, EBITDA margin and Average Revenue Per User, or ARPU. These metrics are not calculated in accordance with SOCPA Standards, either because they (i) represent operational data that falls outside the scope of SOCPA Standards, (ii) are a mix of operational and financial data that does not fall clearly within SOCPA Standards, or (iii) exclude or include, or make adjustments that have the effect of excluding or including, amounts that are included or excluded, respectively, from the comparable measure calculated in accordance with SOCPA Standards. Management believes that these metrics are helpful in understanding the Company's operating performance from period to period and that, although not every company in the mobile communications industry defines these metrics in precisely the same way as the Company, these metrics, as used, facilitate comparisons with other mobile communications companies in the KSA and abroad. These metrics should not be considered as substitutes for any performance metric determined in accordance with SOCPA Standards.

Trends in key performance metrics such as ARPU will depend upon the scale of the Company's business as well as the dynamics in the marketplace and the Company's success in implementing its strategies.

- **Net customer additions** and **end-of-period customers** are used to measure the growth of the Company's business, to forecast its future financial performance and to gauge the marketplace acceptance of its offerings. Net customer additions represents the number of new Customers who activated an account during a period or, in the case of Post-paid, the number of new or existing customers who entered into a new long-term contract (rather than an extension of an existing contract), adjusted for churn during the same period.
- **EBITDA** consist of gross revenue less cost of sales, distribution and marketing expenses, general and administrative expenses and provisions.

- **EBITDA margin** consists of EBITDA divided by revenues for the relevant periods. Management uses EBITDA margin as a proxy measure, amongst other items, of the extent to which cash operating expenses use up revenues.
- **ARPU** consists of airtime revenues, subscriptions, outbound roaming revenue, data revenue and interconnection revenue for the relevant period divided by the average number of Customers of such period.
- The trends for each of these metrics are discussed below.
- **Net customer additions** have grown consistently each financial quarter since the commencement of commercial operations. In 2008, the Company attracted 2 million customers in approximately one financial quarter of operations. 3.2 million additional customers were attracted by the Company in 2009, although the pace of growth declined slightly (as Management expected) due to a saturated market as well as competitors' reactions to the Company's entry into the market. The growth in the customer base continued over 2010 and 2011. However, during the fourth quarter of 2011, the Company carried out a thorough review of its database, to improve the accuracy of its customer statistics. This resulted in the number of customers falling from 9.9 million as at 30 September 2011 to approximately 7.6 million as at 31 December 2011G.
- **EBITDA** has been consistently improving since the third quarter of 2009, having been negative for the first six quarters after the Company received its Licence (March 2008). During year 2010 the Company saw EBITDA break even, ending the year with positive SAR330.7 million EBITDA. In year 2011 the Company had positive EBITDA of SAR899 million. Management expects that EBITDA will continue to increase at a healthy pace in the coming months, in accordance with the Company's business plan.
- **EBITDA margin** increased in all of the financial years discussed in this section in comparison to the previous year, resulting in a significant increase in the Company's EBITDA. The EBITDA margin was positive 6 per cent. in 2010 and increased to 13 per cent. in 2011. The improvement in EBITDA margin has been achieved through revenue growth sustained by continuous net customer additions.
- **ARPU** increased from SAR48 as at 31 December 2009G to SAR59 as at 31 December 2010G due to the continuity of value development efforts with targeted pre-paid campaigns, as well as a strong push on the business segment and mobile broadband. As at 31 December 2011G, ARPU had increased to SAR74, as a result of the change to the method of customer reporting adopted by the Company. In the Company's financial statements for the year ended 31 December 2011G, the Company elected to report only its active subscribers and exclude the transitory base of SIM cards. The Company's management made this decision in order to fully comply with the industry standard rule applicable to the definition of active subscribers (a subscriber who gives rise to a revenue generating event within a 90-day period).

9.5.1 Revenue

The following table summarises the revenue for the year ended 31 December 2009G, the year ended 31 December 2010G and the year ended 31 December 2011G.

Table 34: Revenue

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Usage charges[105]	2,879,162	5,814,827	6,524,467
Subscription	122,429	114,860	142,941
Other	2,461	4,683	31,652
Total	3,004,052	5,934,370	6,699,060

Source: Financial Statements. Units: SAR thousand

The Company's revenue stood at SAR6,699 million as at 31 December 2011G as compared to SAR5,934 million as at 31 December 2010G and SAR3,004 million as at 31 December 2009G. The year-on-year revenue increases are broadly reflective of the Company's operational growth and the success of its innovative products and services and, in particular, MBB solutions. The growth in the Company's

105 'Usage Charges' means revenues generated from local and international calls, roaming, messaging, use of mobile broadband and interconnection fees for incoming traffic.

customer base during and in particular, at the end of 2009 and first half of 2010 has translated into an active customer base that has given rise to high revenue growth. This increase in customer base has been supported by the launch of carefully designed promotions, tariff structures and below-the-line campaigns to support revenue growth and enhance ARPU, as well as influence customer behaviour. Between 31 December 2009G and 31 December 2010G, the Company's revenues increased by 98 per cent., which can be attributed to an increase in the number of prepaid subscribers and a higher number minutes used. Between 31 December 2010G and 31 December 2011G, the Company's annual revenue growth slowed to 13 per cent. as a result of a declining average revenue per minute for the prepaid segment due to increasingly competitive pricing in the market.

9.5.2 Cost of Sales

The following table summarises the cost of sales for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 35: Cost of Sales

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Access charges	1,491,086	2,199,778	2,145,240
Government charges	204,351	588,807	644,175
Leased lines	192,350	205,377	247,480
Discount on pre-paid recharge cards	105,682	262,020	274,634
Other	133,557	147,940	187,364
Total	2,127,026	3,403,922	3,498,893

Source: Financial Statements. Units: SAR thousand

The pattern in the cost of sales remained generally consistent during the financial years being considered, reflecting an increase of 60 per cent. between 31 December 2009G and 31 December 2010G. Between 31 December 2010G and 31 December 2011G, the increase in cost of sales slowed to 3 per cent. The ratio of cost of sales to revenue decreased from 70.81 per cent. for the year ended 31 December 2009G to 57.36 per cent. for the year ended 31 December 2010G and decreased to 52.23 per cent. for the year ended 31 December 2009G. These decreases correspond to higher on-net traffic growth versus off-net traffic as the Company's customer base grew, with more calls being placed on the Company's network rather than to competitors' networks. Access charges (which include the costs of interconnection and costs of national and international roaming) decreased (as a percentage of revenues) from 49.6 per cent. for the year ended 31 December 2009G to 37 per cent. for the year ended 31 December 2010G and 32 per cent. for the year ended 31 December 2011G. These decreases were attributable to the increase in on-net traffic and the reduced dependence on national roaming as the Company deployed more network infrastructure and enhanced its coverage across these periods.

9.5.3 Gross Profit and Gross Profit Margin

The following table summarises the gross profit and gross profit margin for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 36: Gross Profit and Gross Profit Margin

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Revenue	3,004,052	5,934,370	6,699,060
Cost of revenue	(2,127,026)	(3,403,922)	(3,498,893)
Gross profit	877,026	2,530,448	3,200,167
Gross profit margin (gross profit / revenue)	29.19%	42.64%	47.77%

Source: Financial Statements. Units: SAR thousand

The Company's gross profit stood at SAR3,200 million for the year ended 31 December 2011G as compared to SAR2,530 million for the year ended 31 December 2010G and SAR877 million for the year ended 31 December 2010G. Across this period, the Company's gross profit margin increased from 29.2 per cent. to 47.8 per cent. as a direct result of the Company's growing customer base, reduced dependence on national roaming and increased on-net traffic. The Company experienced an increase in its on-net traffic over these periods due to growth in its market share, the effect of tariff incentives, as well as higher international traffic margins. The gross profit for the year ended 31 December 2010G was SAR2,530 million, which in particular resulted from the positive impact of the CITC altering the basis for the calculation of the commercial provisioning fee for mobile services with retroactive effect, leading to a reversal of charges previously imposed by the CITC and reduced mobile termination rates (declining from SAR0.32 per minute in 2009 to SAR0.25).

9.5.4 Distribution and Marketing Expenses

The following table summarises the distribution and marketing expenses for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 37: Distribution and Marketing Expenses

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Dealer's commission	299,618	305,975	293,087
Advertising	296,921	252,053	407,853
Repairs and maintenance	236,015	417,318	343,665
Employees' salaries and related costs	217,658	231,019	309,578
Rentals	155,897	189,586	189,843
Management fees	126,132	189,900	180,875
Bad debts expense	82,461	159,889	76,461
Systems support and licenses	67,468	31,040	31,637
Utilities	26,506	4,586	23,322
Customer promotions	8,090	11,302	40,079
Other	56,948	55,998	75,732
Total	1,573,741	1,848,666	1,972,132

Source: Financial Statements. Units: SAR thousand

Distribution and marketing expenses stood at SAR1,972 million for the year ended 31 December 2011G as compared to SAR1,849 million for the year ended 31 December 2010G and SAR1,574 million for the year ended 31 December 2009G. The increase in distribution and marketing expenses over the period was due to increased advertising and communication activities from several product launches and to a higher write-off of bad debts and higher costs of repair and maintenance. The increase in management fees is linked to the enhanced traffic and revenues driven by the Company's customer base expansion. Target commissions paid to the partners also rose, as net customer additions demonstrated a significant increase, driven by the performance maximization initiatives implemented on partner and point-of-sale levels.

9.5.5 General and Administrative Expenses

The following table summarises the general and administrative expenses for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 38: General and Administrative Expenses

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Employees' salaries and related costs	96,870	100,699	101,883
Consulting	114,722	74,694	69,327
System support and maintenance	59,893	52,514	42,135
Repairs and maintenance	19,103	31,991	37,933
Withholding tax expense	46,628	61,683	33,830
Legal and professional	15,649	8,279	3,873
Other	23,033	21,283	40,204
Total	375,898	351,143	329,185

Source: Financial Statements. Units: SAR thousand

General and administrative expenses stood at SAR329 million for the year ended 31 December 2011G as compared to SAR351 million for the year ended 31 December 2010G and SAR375.9 million for the year ended 31 December 2009G. The decline in general and administrative expenses over the period is mostly attributable to the cost reduction initiatives undertaken to control the operating expenses levels. The general and administrative expenses represented 8.2 per cent. of the total operating expenses for 2011, as compared to 9.5 per cent. for 2010 and 11.2 per cent. for 2009.

9.5.6 Depreciation and Amortisation Expenses

The following table summarises the depreciation and amortisation expenses for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 39: Depreciation and Amortisation Expenses

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Total depreciation and amortisation	(1,394,310)	(1,494,220)	(1,710,328)

Source: Financial Statements. Units: SAR thousand

For the year ended 31 December 2011G, depreciation and amortisation expenses totalled SAR1,710 million. In 2010G, depreciation and amortisation expenses were SAR1,494 million while in year 2009G they totalled SAR1,394 million. These expenses mainly consist of the amortisation of the Licence Fee over the 25 year term of the Licence and the depreciation of plant, property and equipment (as described in paragraph 9.7.6). The Licence Fee consists of an up-front payment of SAR22.910 billion which was made in March 2007G and the associated financing costs incurred of SAR449.18 million, which were capitalised as part of the Licence cost in accordance with the accounting standards applicable in KSA. In the year ended 31 December 2011G, the Licence Fee was amortised by SAR882.1 million. The Licence Fee will be amortised by the same amount each year on a linear basis going forward. During the year ended 31 December 2011G, the Company retroactively adjusted the accumulated amortisation of the License Fee which resulted from changing its useful life from 25 Hijri years to 25 Gregorian years. The depreciation expense has was SAR400.7 million for the year ended 31 December 2009G, as compared to SAR481.7 million for the year ended 31 December 2010G and SAR797.6 million for the year ended 31 December 2011G. This represents a 20 per cent. increase between 2009G and 2010G and a 66 per cent. increase between 2010G and 2011G. This increase was attributable to the acquisition by the Company of additional fixed assets in the form of network infrastructure. The infrastructure has been deployed for coverage and capacity purposes in fulfilment of the Company's Licence obligations.

9.5.7 Operating Loss

The following table summarises the loss from operations for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 40: Loss from Operations

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Gross profit	877,026	2,530,448	3,200,167
Distribution and marketing	(1,573,741)	(1,848,666)	(1,972,132)
General and administrative	(375,898)	(351,143)	(329,185)
Depreciation and amortisation	(1,394,310)	(1,494,220)	(1,710,328)
Loss from operations	(2,466,923)	(1,163,581)	(811,478)

Source: Financial Statements. Units: SAR thousand

The Company's Operating Loss (gross profit minus operating expenses minus depreciation and amortisation) decreased in the year ended 31 December 2011G to SAR811 million from SAR1,164 million in the year ended 31 December 2010G and SAR2,467 million in the year ended 31 December 2009G. Over the same period, the Company's operating margin improved from -82.1 per cent. for the year ended 31 December 2009G to -19.6 per cent in the year ending in 31 December 2010 to -12.1 per cent for the year ended in 31 December 2011G. Loss from operations decreased substantially due to an increase in revenue and an increase in the Company's customer base driven by significant growth in the prepaid segment.

9.5.8 Finance Income

Table 41: Finance Income

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Finance Income	1,316	655	138

Source: Financial Statements. Units: SAR thousand

Finance income, which is largely derived from the Company's bank deposits, has generally decreased during the periods discussed in this section, but the amount has remained relatively immaterial in respect of the Company's overall results.

9.5.9 Finance Charges

The finance charges relate to borrowings of the Company, as more particularly set out in Section 9.8 (*Management's Discussion and Analysis of Financial Condition and Results of Operation - Indebtedness Balance*). The following table summarises the financial charges for the years ended 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 42: Finance Charges

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Finance charges	(633,742)	(1,195,511)	(1,113,856)
Percentage of finance charges to revenue	21.10%	20.15%	16.63%

Source: Financial Statements. Units: SAR thousand

During the year ended 31 December 2011G, finance charges decreased to SAR1,114 million, as compared to finance charges of SAR1,196 million for the year ended 31 December 2010G and SAR634 million for the year ended 31 December 2009G. Because of growth in revenue, the proportion of these charges against revenue reduced from 21 per cent in 2009 to 20 per cent. In 2010 and to 17 per cent. over 2011. The Company's financing charges grew since 2009G due to the rising indebtedness required to finance operational expansion and other capital commitments, such as the Company's licence. The decrease in finance charges between 2010G and 2011G is mainly due to exceptional arrangement fees accounted for in 2010G, and the decrease of SIBOR which serves as a basis for several of the Company's financing agreements.

9.5.10 Zakat

In accordance with the Zakat regulations, no provision was made for the period ended 31 December 2008G, as the Company did not complete one Hijri year from the date of its commercial registration. The Company completed one Hijri year during the first quarter of year ended 31 December 2009G. As at 31 December 2009G, the Company's Zakat base was negative and the Company had incurred losses. Accordingly, the Company did not incur any Zakat, nor did it record any Zakat provision, for the year ended 31 December 2009G. As at 31 December 2010G and as at 31 December 2011G, the Company's Zakat base was still negative and the Company had incurred losses. Accordingly, the Company did not incur any Zakat, nor did it record any Zakat provision, for the year ended 31 December 2010G or for the year ended 31 December 2011G.

Table 43: Net loss for period

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Net profit/ (loss)	(3,099,349)	(2,358,437)	(1,925,196)

Source: Financial Statements. Units: SAR thousand

Net losses have decreased throughout the periods under review. Net losses have decreased from SAR3,099 million for the year ended 31 December 2009G to SAR1,925 million for the year ended 31 December 2011G.

9.6 Financial Condition, Liquidity and Other Items

The following table summarises the balance sheet of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 44: Balance sheet

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Assets			
Cash and cash equivalents	505,792	702,117	780,273
Net accounts receivable	1,007,247	1,463,166	1,006,574
Inventories	39,422	28,799	43,617
Net prepayments and other receivables	297,475	408,527	601,706
Current assets	1,849,936	2,602,609	2,432,170
Net properties and equipment	3,846,700	4,298,200	4,058,813
Net intangible assets	22,133,477	21,154,628	20,252,778
Non-current assets	25,980,177	25,452,828	24,311,591
Total assets	27,830,113	28,055,437	26,743,761
Liabilities			
Notes payable	2,152,219	-	915,876
Short term borrowing facility	-	2,193,750	-
Syndicated Murabaha financing from banks	-	-	9,747,638
Accounts payable	1,814,792	2,104,503	1,609,284
Due to related parties	51,365	117,294	26,673
Deferred revenue	251,259	451,342	434,392

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Derivative financial instruments	-	-	45,781
Accrued expenses and other liabilities	1,964,749	2,587,223	2,731,184
Current liabilities	6,234,384	7,454,112	15,510,828
Non-current liabilities	12,973,250	14,471,913	6,939,868
Notes payable	-	659,221	153,937
Long-term borrowing facility	-	-	2,223,529
Syndicated Murabaha financing from banks	9,494,023	9,655,693	-
Advances from shareholders – non-current portion	3,468,827	3,665,497	4,018,550
Due to related parties	-	339,776	520,651
Derivative financial instruments	-	134,630	-
Employee termination benefits	10,400	17,096	23,201
Total liabilities	19,207,634	21,926,025	22,450,696
Shareholders' equity	8,622,479	6,129,412	4,293,065
Share capital	14,000,000	14,000,000	14,000,000
Hedging reserve	-	(134,630)	(45,781)
Accumulated losses	(5,377,521)	(7,735,958)	(9,661,154)
Total liabilities and shareholders' equity	27,830,113	28,055,437	26,743,761

Source: Financial Statements. Units: SAR thousand

9.7 Current Assets

The following table summarises the current assets of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 45: Current Assets

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Assets			
Current assets			
Cash and cash equivalents	505,792	702,117	780,273
Net accounts receivable	1,007,247	1,463,166	1,006,574
Inventories	39,422	28,799	43,617
Net prepayments and other receivables	297,475	408,527	601,706
Total current assets	1,849,936	2,602,609	2,432,170

Source: Financial Statements. Units: SAR thousand

Current assets are comprised of: (i) cash and cash equivalents; (ii) net accounts receivable; (iii) inventories; (iv) due from related parties; and (v) net prepayments and other receivables. As at 31 December 2011G, total current assets were SAR2,432.2 million, as compared to SAR2,602.6 million as at 31 December 2010G, representing a decrease of SAR170.4 million.

9.7.1 Cash and Cash Equivalents

Cash and cash equivalents are comprised of: (i) cash on hand; (ii) cash at banks; and (iii) time deposits.

As at 31 December 2011G, cash on hand represented SAR0.2 million, cash at banks represented SAR228.8 million and time deposits represented SAR551.3 million as compared to SAR0.2 million, SAR201.9 million and SAR500.0 million as at 31 December 2010G respectively. This increase was due to normal business growth. Between 31 December 2009G and 31 December 2010G, the cash in banks decreased from SAR355.6 million to SAR201.9 million due to the Company's decision to have more time deposits. Time deposits increased from SAR150.0 million as at 31 December 2009G to SAR500.0 million as at 31 December 2010G and SAR551.3 million as at 31 December 2011G.

9.7.2 Net Accounts Receivable

The following table sets out the Company's net accounts receivable as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 46: Net Accounts Receivable

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Billed receivables	992,802	1,609,535	1,231,298
Unbilled receivables	111,319	118,239	116,158
Other[1]	144	299	486
Gross	1,104,265	1,728,073	1,347,942
Less: provision for doubtful receivables	(97,018)	(264,907)	(341,368)
Total net accounts receivable	1,007,247	1,463,166	1,006,574

[1]Mainly Mobile Deduction, Personal loan, advances to employees

Source: Financial Statements.

Net accounts receivables are comprised of: (i) billed receivables; (ii) unbilled receivables; and (iii) other, less provision for doubtful receivables.

Net account receivables as at 31 December 2009G were SAR1,007.2 million, increasing to SAR1,463.2 million as at 31 December 2011G. This increase is accountable to the increase in revenues that doubled over the same period. This increase can be seen as a normal development in a mobile telecommunication business which is a newly established operation, which is growing at a fast pace. As at 31 December 2011G net accounts receivables were SAR1,006.6 million, as compared to SAR1,463.2 million as at 31 December 2010G, representing a decrease of SAR456.6 million. This decrease was due to the implementation of better collections policies and procedures. Interconnection receivables represented the largest proportion of the net account receivables throughout the periods under review (with interconnection receivables with STC representing over 80 per cent. as at 31 December 2011G).

9.7.3 Inventories

Inventories consist of: (i) SIM cards; (ii) pre-paid charge cards; (iii) handsets and accessories; and (iv) other, less a provision for slow moving items. As at 31 December 2011G, inventories stood at SAR43.6 million as compared to SAR28.8 million as at 31 December 2010G, representing an increase of SAR14.8 million over the period. Pre-paid charge cards increased from SAR1.5 million as at 31 December 2010G to SAR11.1 million as at 31 December 2011G.

As at 31 December 2009G, the SIM cards inventory was SAR18.0 million, increasing to SAR21.2 million as at 31 December 2010G. This increase was because of the high subscriber growth experienced in the Company's launch period. This growth stabilised during 2011 and as at 31 December 2011G, the Company's SIM cards inventory was SAR21.8 million.

Scratch card inventory decreased from SAR3.4 million as at 31 December 2009G to SAR1.5 million as at 31 December 2010G. During 2010, the stock of scratch cards was used but not replenished. In 2011, new scratch cards were ordered which were delivered to the Company close to year end, thereby increasing the stock value of scratch cards to SAR11.1 million as at 31 December 2011G.

Handsets and accessories inventory was SAR18.0 million as at 31 December 2009G and decreased to SAR7.1 million as at 31 December 2010G and to SAR0.5 million as at 31 December 2011G. During the Company's launch phase, handsets were offered in order to attract new customers, but this activity was reduced during 2010 in order to avoid the risk of impairment losses. The activity was used only rarely in 2011.

Other inventory mainly represents dongles and mobile broadband modems that were not available in 2009. Other inventory increased from SAR1.2 million as at 31 December 2010G to SAR13.2 million as at 31 December 2011G. This increase was due to the increase in demand for mobile broadband.

Provision for slow moving items was created to cover the risk of any impairment related to handsets and dongles on the inventory.

9.7.4 Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of: (i) advances for transmission lines and fibre links; (ii) advances to suppliers and refundable deposits; (iii) prepaid rent; (iv) prepaid advertisement; (v) prepaid software license fee; (vi) prepaid insurance; and (vii) other items. Prepaid expenses and other assets stood at SAR601.7 million as at 31 December 2011G as compared to SAR408.5 million as at 31 December 2010G and SAR297.5 million as at 31 December 2009G, representing an increase of SAR111.0 million from 31 December 2009G to 31 December 2010G and an increase of SAR193.2 million from 31 December 2010G to 31 December 2011G. This increase was mainly due to the increase in the balance of advances to suppliers. Advances for transmission lines and fibre links accounted for 39.7 per cent., 43.4 per cent. and 57.7 per cent. of prepaid expenses and other assets for the years ended 31 December 2011G, 31 December 2010G and 31 December 2009G, respectively. Advances to suppliers and refundable deposits accounted for 37.4 per cent., 25.1 per cent. and 9.3 per cent. of prepaid expenses and other assets for the years ended 31 December 2011G, 31 December 2010G and 31 December 2009G, respectively.

Advances for transmission lines and fibre links increased from SAR171.7 million as at 31 December 2009G to SAR177.1 million as at 31 December 2010G due to normal business growth. The increase to SAR239.2 million as at 31 December 2011G was related to the Company's decision to invest in its own network in order to reduce the leased lines cost and to improve network quality.

Advances to suppliers and refundable deposits increased from SAR27.6 million as at 31 December 2009G to SAR102.5 million as at 31 December 2010G and to SAR224.9 million as at 31 December 2011G. These increases were due to the expansion and investment in the network to improve quality.

The increase in prepaid rent, from SAR64.4 million as at 31 December 2009G to SAR71.6 million as at 31 December 2010G and to SAR86.9 million as at 31 December 2011G was due to normal business growth and the opening of new offices, flagship stores and the relocation of the Company's headquarters.

Prepaid advertisement expenses decreased from SAR29.6 million as at 31 December 2009G to SAR13.6 million as at 31 December 2010G. As at 31 December 2011G, prepaid advertisement expenses stood at SAR13.7 million. High advertisement expenses as a percentage of revenue are typical in the launch phase of a mobile telecommunications operator, with these expenses as a percentage of revenue reducing as the Company established its customer base.

Two-year software licenses were acquired in 2009. These licenses required the payment of prepaid fees totalling SAR8.1 million for the year ended 31 December 2009G and SAR2.4 million for the year ended 31 December 2010G. During 2011, the licenses were renewed with prepaid fees standing at SAR8.3 million as at 31 December 2011G.

The increase in prepaid insurance from SAR0.4 million for the year ended 31 December 2009G to SAR3.1 million for the year ended 31 December 2010G and to SAR3.7 million for the year ended 31 December 2011G was due to normal business operations. Employee and fixed asset insurance increased as a result of the growth in the number of employees and the acquisition of plant and equipment.

Other prepaid expenses largely represent the unamortised balance of the financial cost relating to extension fees and other expenses. Other prepaid expenses increased from SAR3.8 million during the year ended 31 December 2009G to SAR38.3 million during the year ended 31 December 2010G due to the extension fees in respect of the Murabaha facility.

9.7.5 Non-Current Assets

The following table summarises the non-current assets of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 47: Non-Current Assets

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Non-current assets			
Net properties and equipment	3,846,700	4,298,200	4,058,813
Net intangible assets	22,133,477	21,154,628	20,252,778
Total non-current assets	25,980,177	25,452,828	24,311,591

Source: Financial Statements. Units: SAR thousand

Non-current assets are comprised of: (i) property and equipment; and (ii) intangible assets. Non-current assets stood at SAR24,311.6 million as at 31 December 2011G as compared to SAR25,452.8 million as at 31 December 2010G, representing a decrease of SAR1,141.2 million over the period.

9.7.6 Property and Equipment

Property and equipment increased from SAR3,846.7 million as at 31 December 2009G to SAR4,298.2 million as at 31 December 2010G. As at 31 December 2011G, property and equipment stood at SAR4,058.8 million, representing a decrease of SAR239.4 million from 31 December 2010G. This decrease was mainly due to corrective adjustments made to reconcile the general ledger to the fixed asset register as at 31 December 2011G. Telecommunications equipment accounted for 83 per cent. and 77 per cent. of property and equipment as at 31 December 2011G and 31 December 2010G, respectively. The high proportion of telecommunications equipment was due to the rollout of the Company's network to include increased population coverage with 2G and 3G, as well as the introduction of LTE. Other items include leasehold improvements, IT systems and servers, furniture, fixtures and office equipment, vehicles and other transportation equipment, and capital work in progress.

9.7.7 Intangible Assets

Intangible assets consist of: (i) the License Fee; and (ii) computer software licenses. Intangible assets decreased from SAR22,133.5 million as at 31 December 2009G to SAR21,154.6 million as at 31 December 2010G. As at 31 December 2011G, gross intangible assets less amortisation stood at SAR20,252.8 million, the ratio of net book value of the License Fee to total net book value of intangible assets was 99.6 per cent. for the years ended 31 December 2009G, 2010G and 2011G.

9.7.8 Current Liabilities

The following table summarises the current liabilities of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 48: Current Liabilities

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Current			
Current liabilities			
Accounts payable	1,814,792	2,104,503	1,609,284
Accrued expenses and other liabilities	1,964,749	2,587,223	2,731,184
Deferred revenue	251,259	451,342	434,392
Due to related parties	51,365	117,294	26,673
Notes payable	2,152,219	-	915,876
Short term borrowing facility	-	2,193,750	-
Syndicated Murabaha financing from banks	-	-	9,747,638
Derivative financial instruments	-	-	45,781
Total current liabilities	6,234,384	7,454,112	15,510,828

Source: Financial Statements. Units: SAR thousand

Current liabilities stood at SAR15,510.8 million as at 31 December 2011G as compared to SAR7,454.1 million as at 31 December 2010G, representing an increase of SAR8,056.7 million over the period. This increase was due to the reclassification of SAR9,747 million of the Murabaha Facility as a current liability.

9.7.9 Notes Payable

The following table sets out the Company's notes payable as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 49: Notes Payable

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Nokia Siemens Tietoliikenne Oy	577,758	-	-
Huawei Tech. Investment Saudi Arabia Co. Limited	-	-	73,125
Motorola Inc.	1,574,461	-	842,751
	2,152,219	-	915,876

Source: Financial Statements.

As at 31 December 2009G the notes payable to Nokia Siemens were SAR577.8 million and the notes payable to Motorola were SAR1,574.5 million. These notes were paid during 2010 and as at 31 December 2011G, notes payable stood at SAR915.9 million. The increase in notes payable between 31 December 2010G and 31 December 2011G was due to the reclassification of Motorola notes from a non-current liability to a current liability.

9.7.10 Short-Term Borrowing Facility

Between 31 December 2009G and 31 December 2010G, a short term facility was granted by BNP Paribas S.A. to refinance the Company's obligations under the existing vendor financing agreement. On 5 April 2011G, a long-term borrowing facility was arranged from a syndicate of banks to refinance the Company's obligations under an existing short-term borrowing facility.

9.7.11 Syndicated Murabaha Financing

During the year ended 31 December 2011G, an amount of the Murabaha Facility equal to SAR9,747.6 million became a current liability of the Company.

9.7.12 Accounts Payable

Accounts payable consist of: (i) trade payables; (ii) withholding tax provision; (iii) staff; and (iv) other payables. As at 31 December 2011G, accounts payable stood at SAR1,609.3 million, as compared to SAR2,104.5 million as at 31 December 2010G, representing a decrease of SAR495.2 million. The decrease over the period was due to the transfer of accounts payable to promissory notes. Trade payables represented 94.9 per cent., 99.0 per cent. and 99.1 per cent. of accounts payable as at 31 December 2011G, 31 December 2010G and 31 December 2009G, respectively. The decrease in trade payables over the period was due to a transfer of trade payables to promissory notes.

Trade payables increased from SAR1,799.3 million as at 31 December 2009G to SAR2,083.3 million as at 31 December 2010G. This increase was mainly due to an increase in the Company's fixed assets and the network. Trade payables decreased to SAR1,528.0 million as at 31 December 2011 as a result of a transfer of trade payables.

Increase in withholding tax provision and staff accounts payable was due to the Company's normal business growth.

Other accounts payable refer mainly to advances and deposits from dealers and partners. Between 31 December 2009G and 31 December 2010G the growth from SAR9.8 million to SAR14.8 million reflects normal operation growth. The growth in other accounts payable to SAR64.6 million as at 31 December 2011G is due to many dealers and partner advances that were cleared in that period.

9.7.13 Due to Related Parties

As at 31 December 2011G, the balance due to related parties stood at SAR26.6 million, as compared to SAR117.3 million as at 31 December 2010G, representing a decrease of SAR90.6 million over the period. This decrease was due to the transfer of a facility balance due from MTC to a related party shareholder loan account. The increase in the balance due to related parties from SAR51.4 million as at 31 December 2009G to SAR117.3 million as at 31 December 2010G was mainly because of the amounts paid by MTC on behalf of the Company.

9.7.14 Deferred Revenue

Deferred revenue was SAR434.4 million as at 31 December 2011G, as compared to SAR451.3 million as at 31 December 2010G. The increase in deferred revenue between 31 December 2010G and 31 December 2009G (SAR251.3 million) was due to the strong increase in total revenues experienced in that period.

9.7.15 Derivative Financial Instruments

Derivative financial instruments stood at SAR45,781 as at 31 December 2011G. This amount represents the fair market value of the hedging which has been evaluated using a mark-to-market approach.

9.7.16 Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities are made up of: (i) trade; (ii) government fee; (iii) employees; (iv) financial charges; and (v) others. Accrued expenses and other liabilities stood at SAR2,731.2 million as at 31 December 2011G, as compared to SAR2,587.2 million as at 31 December 2010G, representing an increase of SAR144.0 million over the period.

Trade accrued expenses increased from SAR1,696.4 million as at 31 December 2009G to SAR2,148.1 million as at 31 December 2010G due to increased investment in the Company's network. Trade accrued expenses decreased to SAR1,760.0 million as at 31 December 2011G due to a transfer to notes payable. Trade expenses accounted for 64.4 per cent., 83.0 per cent. and 86.3 per cent. of accrued expenses and other liabilities as at 31 December 2011G, 31 December 2010G and 31 December 2009G, respectively.

The government accounted for 27.2 per cent., 6.8 per cent. and 5.3 per cent. of accrued expenses and other liabilities as at 31 December 2011G, 31 December 2010G and 31 December 2009G, respectively. The Government fee stood at SAR103.5 million and SAR176.1 million for the years ended 31 December 2009G and 31 December 2010G, respectively, as compared to SAR741.6 million for the year ended 31 December 2011G. The increase in the level of government fees across the period was due to the increased level of CITC fees paid in the year ended 31 December 2011G.

Financial charges increased from SAR87.9 million for the year ended 31 December 2009G to SAR140.8 million for the year ended 31 December 2010G and then decreased again to SAR61.9 million in the year ended 31 December 2011G. Typically, financial charges are paid by the end of the year, but during 2010, financial charges were paid at the beginning 2011.

Other accrued expenses include the taxes related to management fees. These expenses increased from SAR35.1 million in the year ended 31 December 2009G to SAR67.6 million in the year ended 31 December 2010G and to SAR105.3 million in the year ended 31 December 2011G. The increases are due to the fact that management fees are not being paid.

9.7.17 Non-Current Liabilities

The following table summarises the non-current liabilities of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 50: Non-Current Liabilities

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Notes payable	-	659,221	153,937
Advances from shareholders – non-current portion	3,468,827	3,665,497	4,018,550
Long-term borrowing facility	-	-	2,223,529
Syndicated Murabaha financing from banks	9,494,023	9,655,693	-
Employee termination benefits	10,400	17,096	23,201
Due to related parties	-	339,776	520,651
Derivative financial instruments	-	134,630	-
Total non-current liabilities	12,973,250	14,471,913	6,939,868

Source: Financial Statements. Units: SAR thousand

Non-current liabilities consist of: (i) notes payable; (ii) long-term borrowing facility; (iii) syndicated Murabaha financing; (iv) advances from shareholders; (v) due to related parties; (vi) derivative financial instruments; and (vii) provision for employees' end-of-service benefits. Non-current liabilities stood at SAR6,939.9 million as at 31 December 2011G as compared to SAR14,471.9 million as at 31 December 2010G, representing a decrease of SAR7,532.0 million over the period. This decrease was mainly due to the reclassification of SAR9,747.6 million of the Murabaha facility to a current liability.

9.7.18 Notes Payable

Notes payable consist of: (i) notes payable to Nokia Siemens;(ii) notes payable to Huawei and (iii) notes payable to Motorola. As at 31 December 2011G, notes payable stood at SAR153.9 million, as compared to SAR659.2 million as at 31 December 2010G. The decrease in notes payable over the period was due to the reclassification of Motorola notes from a non-current to a current liability.

9.7.19 Long-Term Borrowing Facility

On 5 April 2011G, a long-term borrowing facility was arranged from a syndicate of banks to refinance the Company's obligations under an existing short-term borrowing facility.

9.7.20 Syndicated Murabaha Financing

During the year ended 31 December 2011G, an amount of the Murabaha Facility equal to SAR9,747.6 million moved from a non-current liability to a current liability of the Company.

9.7.21 Advances from Shareholders

As at 31 December 2011G, advances from shareholders stood at SAR4,018.6 million, as compared to SAR3,665.5 million as at 31 December 2010G, representing an increase of SAR353.1 million over the period. Advances from shareholders were SAR3,468.8 million as at 31 December 2009G. This increase in advances from shareholders was mainly due to the transfer of a facility balance from MTC to a shareholder loan account.

9.7.22 Due to Related Parties

As at 31 December 2011G, the balance due to related parties stood at SAR520.7 million, as compared to SAR339.8 million as at 31 December 2010G, representing an increase of SAR180.9 million over the period. This balance wholly consisted of management fees due to MTC. This increase in due to related parties was mainly due to extra accruals related to the year 2011 where no payments were made.

9.7.23 Derivative Financial Instruments

Derivative financial instruments stood at nil as at 31 December 2011G, as compared to SAR134.6 million as at 31 December 2010G. This decrease was due to the reclassification of the derivatives as current liabilities.

9.7.24 Provision for Employees' End-of-Service Benefits

Provision for employees' end-of-service benefits stood at SAR23.2 million as at 31 December 2011G, as compared to SAR17.1 million as at 31 December 2010G, representing an increase of SAR6.1 million. Provision for employees' end-of-service benefits was SAR10.4 million. This increase was due to an increase in the number of employees and an increase in salaries.

9.7.25 Shareholders' Equity

The following table summarises the shareholders' equity of the Company as at 31 December 2009G, 31 December 2010G and 31 December 2011G.

Table 51: Shareholders' Equity

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Share capital	14,000,000	14,000,000	14,000,000
Accumulated losses	(5,377,521)	(7,735,958)	(9,661,154)
Hedging reserve	-	(134,630)	(45,781)
Total shareholders' equity	8,622,479	6,129,412	4,293,065

Source: Financial Statements. Units: SAR million

Shareholders' equity is comprised of: (i) share capital; (ii) accumulated deficit; and (iii) hedging reserve. Shareholders' equity stood at SAR4,293.1 million as at 31 December 2011G, as compared to SAR6,129.4 million as at 31 December 2010G, representing a decrease of SAR1,836.3 million. This decrease was due an increase in accumulated losses.

9.7.26 Share Capital

Share capital stood at SAR14,000.0 million in each of the years ending 31 December 2009G, 2010G and 2011G.

9.7.27 Accumulated Deficit

Accumulated deficit stood at SAR9,661.2 million as at 31 December 2011G, as compared to a deficit of SAR7,735.9 million as at 31 December 2010G, representing an increase in deficit of SAR1,925.3 million over the period. The increase in accumulated deficit was due to the losses sustained during the year ended 31 December 2011G.

Accumulated deficit stood at SAR5,377.5 million as at 31 December 2009G due to the pre-operating expenses and the losses sustained during the years ended 31 December 2009G and 31 December 2008G (the first year of operations).

9.7.28 Hedging Reserve

The Company's hedging reserve stood at SAR45.8 million as at 31 December 2011, as compared to SAR134.6 million as at 31 December 2010G, representing a decrease of SAR88.8 million. This decrease in the size of the hedging reserve was due to the fair market evaluation of the hedging which has been evaluated using a mark-to-market approach.

9.7.29 Working Capital and Liquidity

The following table summarises the working capital and liquidity for the year ended 31 December 2009G, the year ended 31 December 2010G and the year ended 31 December 2011G.

Table 52: Working Capital and Liquidity

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Total current assets	1,849,936	2,602,609	2,432,170
Total current liabilities	6,234,384	7,454,112	15,510,828
Working capital[1]	(4,384,448)	(4,851,503)	(13,078,658)

[1]The working capital figures are negative for all periods measured as a result of the total current liabilities exceeding the total current assets in each case.

Source: Financial Statements. Units: SAR thousand.

The major source of the Company's liquidity is its cash from operations and cash from financing activities, principally advances from certain of the Founding Shareholders (including the Shareholder Financing) and proceeds from its commercial financing arrangements (including the Murabaha Facility).

9.8 Capital Expenditures

The Company's capital expenditures consist mainly of the purchase of telecommunications equipment. The following table summarises the capital expenditures for the year ended 31 December 2009G, the year ended 31 December 2010G and the year ended 31 December 2011G.

Table 53: Net Additions to Property, Plant and Equipment

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Net Additions	1,838,454	933,241	558,163

Source: Financial Statements and Company internal reports. Units: SAR thousand.

The Company invested heavily in property, plant and equipment during 2008, principally in order to establish its network. During 2009, net additions remained high as the Company continued the rollout of its network infrastructure, adding another SAR1,839 million of property, plant and equipment. In the following two years, the rate of investment was slower, and the net additions totalled SAR933 million in 2010 and were further reduced to SAR558 million in 2011.

Table 54: Net Additions to Intangible Assets

	For the period from 12 Mar 2008G to 31 Dec 2008G	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Licence fee	23,359,180	-	-	-
Computer software licences	62,190	51,932	24,234	8,815
Total	23,421,370	51,932	24,234	8,815

Source: Financial Statements and Company internal reports. Units: SAR thousand.

The Company's main intangible asset is the Licence which was granted in 2008 for 25 years for an initial fee of approximately SAR22,910 million. The Licence Fee also comprised an amount equal to SAR449.18 million related to financing costs which was capitalized as part of license costs in accordance with the accounting standards applicable in the KSA. From time to time, the Company also acquires the computer software licences necessary for its operations.

9.9 Indebtedness Balance

The Company has existing financings in place from the following sources (each more fully described at Section 8.1 (*The Financing Agreements – Summary of the Financing Structure*)):

- the Murabaha Facility of US$2,600,000,000 (approximately SAR9,750,000,000), consisting of a tranche of US$710,000,000 (approximately SAR 2.66 billion) and a tranche of SAR7.09 billion;
- the Shareholder Financing of approximately SAR3,527,018,710, consisting of a tranche of US$230,355,654 (approximately SAR863,833,703), a tranche of KWD36,839,838 (approximately SAR499,106,125) and a tranche of SAR2,164,000,000;
- the Subordinated Facility of approximately SAR2,218,565,496, consisting of a tranche of US$100,000,000 (approximately SAR375,000,000) and a tranche of SAR1,843,565,496; and
- the Motorola Vendor Financing of US$198,777,197 (approximately SAR745,414,489).

Table 55: Short-term loans as at 31 December 2011G

Loan Type	Date signed	Repayment of the original loan amount	Loan Tenor (years)	Purpose	Amount in loan currency	Loan currency	Security	Interest payment/ profit
Murabaha Facility	10/08/2009G	Bullet repayment on 27/07/2012G (initial repayment due on 27/07/2011G but extended by two periods of six months each)	Three	Refinancing of the original Murabaha facility	US$710 Mln (equivalent to SAR2,662.5 Mln) and SAR7,087.5 Mln	US$ and SAR	Pledge of assets, pledge of shares, pledge of contracts, shareholder loan (for details on the pledges listed see Section 8.3.1)	Paid semi-annually
Sub-ordinated Facility	05/04/2011G	Bullet repayment on 09/04/2013G	Two	Refinancing short term loan of US$468 Mln and SAR438.75 Mln and financing of projects	US$100 Mln (equivalent to SAR375 Mln) plus SAR1,875 Mln	US$ and SAR	No security	Paid semi-annually (by MTC)
Motorola Vendor Financing	14/01/2010G	Bullet payment on 12/12/2012G	Two	Finance network capital expenditures	US$199 Mln (equivalent to SAR745.41 Mln)	US$	No guarantee	Paid at maturity

Source: Company.

Table 56: Long-term loans as at 31 December 2011G

Loan Type	Date obtained	Repayment of the original loan amount	Loan Tenor (years)	Purpose	Amount in loan currency	Loan currency	Security	Interest payment/ profit
Shareholder Financing	24/07/2007G and 14/07/2009G	Open	Open	Payment of Licence fees and security for Murabaha Facility prior to signature	US$230 Mln (equivalent to SAR863.8 Mln) plus SAR2,164 Mln plus KWD36.8 Mln (equivalent to SAR499.1 Mln)	US$, SAR and KWD	No guarantee	Paid at maturity

Source: Company.

9.10 Commitments and Contingencies

As at 31 December 2011G, the Company's contractual commitments (other than capital expenditures) consisted of bank debt repayments, licence and other regulatory fees, notes payable, finance charges, repayments on shareholders' advances (including the Shareholder Financing), obligations under operating leases, trade payables and employee salaries. These contractual commitments are summarised for the periods indicated in the following table.

Table 57: Contractual Commitments

	Payments due annually:[1]		
	1 to 2 years (2012 and 2013)	3 to 4 years (2014 and 2015)	4+ years (>2015)
Murabaha Facility[2]	9,741	-	-
Licence fees	1% of net revenues	1% of net revenues	1% of net revenues
Regulatory fees	15% of net revenues	15% of net revenues	15% of net revenues
Motorola Vendor Financing	818	-	-
Short Term Vendor Financing[3]	2,219.00	-	-
Finance charges[4]	1,677.0 (being 879.0 in 2012 and 798.0 in 2013)	1,219.0 (being 691.0 in 2014 and 528.0 in 2015)	528
Shareholder Financing[5]	-	-	2,914.00
Operating leases[6]	158	158	158
Trade payables[7]	5,111.00	5,130.00	4,331.00

[1] Amounts take into account SAR750,000,000 repayment of the Murabaha Facility in 2011 and roll-over at maturity of all the existing Company's debt facilities (values dependent on LIBOR and SIBOR fluctuation and estimated roll-over fees).

[2] Initial Maturity Date is 27 July 2011G (instead of 12 August 2011G, which is mentioned in the Financial Statements, based on subsequent clarification received from the Murabaha Banks) with option of extending for 6 and 12 months until 27 July 2012G. The Company intends to roll-over this facility after 2012.

[3] The Short Term Vendor Financing was refinanced in April 2011 with the Short Term Loan of SAR2,250 million, which matures in April 2013.

[4] Company's Financial Department estimates considering SAR750 million repayment of the Murabaha Facility in 2011 and roll-over at maturity of all the existing Company's debt facilities (values dependent on LIBOR and SIBOR fluctuation and estimated roll-over fees).

[5] This does not consider the approximately SAR2,137 million conversion into equity as per the Offering Use of Proceeds.

[6] Company's Financial Department estimates.

[7] 'Trade payables' refers to the estimated balance sheet value for this item.

Source: Company's Financial Department estimates. Units: SAR thousand.

Company's debt facilities (values dependent on LIBOR and SIBOR fluctuation and estimated roll-over fees).

Furthermore, in the normal course of business, the Company is both a claimant and a respondent in certain litigation matters. The Company's 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 and, therefore, no provision has been made in the Company's balance sheet for these contingencies.

9.11 Cash Flow

The following table sets out cash and cash equivalents as at the dates indicated therein.

Table 58: Changes in Cash and Cash Equivalents

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash provided by / (used in)			
[1]Operating activities	(62,913)	462,444	(87,525)
[2]Investing activities	(1,890,640)	(307,650)	(309,096)
[3]Financing activities	1,875,895	41,531	474,777
Net increase / (decrease) in cash and cash equivalents	(77,658)	196,325	78,156

[1] *The net cash (used in)/generated from operations in 2009 has been restated herein, by deducting the financial charges paid, amounting to SAR575.2 million and adding back the commission income amounting to SAR1.3 million. In the audited financial statements of 2009, the net cashflow from operations is reported as SAR511 million. The financial charges paid was classified as a line item in the cashflow from financing activities section of the cashflow statement whilst the commission income was classified as a line item in the cashflow from investing activities. The restatement in the prospectus facilitates like-for-like comparison with the reported net cash (used in)/generated from operating activities for 2010 and 2011 in which both line items have now been reclassified as cashflow from operating activities line items.*

[2] *The net cash from investing activities has also been adjusted from the reported (SAR1,889.3 million) to (SAR1,890.6 million) due to the reclassification of the commission income line item amounting to SAR1.3 million as explained in note 1 above.*

[3] *The net cash from financing activities for the year 2009 has also been adjusted from the reported SAR1,300.7 million to SAR1,875.9 million, again due to the reclassification of the financial charges paid line item amounting to SAR575.2 million as explained in note 1 above.*

Source: Financial Statements. Units: SAR thousand.

The financial year ended 31 December 2009G, witnessed considerable capital expenditure by the Company of approximately SAR1.89 billion in the acquisition of fixed and intangible assets. Since this was the Company's second year of operation, the Company's operating cashflows were also negative. Therefore, to finance the combined deficit from the operating cashflows and the cashflows from investing activities, the Company had to borrow from its Shareholders approximately SAR1.24 billion and another SAR635 million from other sources.

In the year ended 31 December 2010G, the Company witnessed an overall cash increase of SAR196.3 million, mainly due to cash generated from operating activities of SAR462.4 million. A portion of this cash was reinvested in the Company to finance capital expenditure on network infrastructure.

The Company's cash flow from operating activities had a deficit of SAR87.5 million for the year ended 31 December 2011G with large outflows paid to reduce the Company's trade payables and accrued expenses of SAR1.1 billion. The Company also had net cash out flow from investing activities of SAR309.1 million, primarily due to its investments in its network infrastructure. The deficit in the cash flows from operating activities and investing activities was financed through additional short term borrowing and advances from Shareholders.

Table 59: Operating Activities

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Net loss for the year/period	(3,099,349)	(2,358,437)	(1,925,196)
Cash provided by / (used in)			
Adjustments for non-cash items			
Provision for doubtful receivables and advances	82,461	159,889	76,461
Depreciation and amortization expenses	1,394,310	1,494,220	1,710,328
Provision for slow moving inventory items	-	2,250	750
Finance charges	633,742	1,195,511	1,113,856
Provision for employee's end of services benefits	-	6,981	7,415
Operating Income before changes in working capital	(988,836)	500,414	983,614
Changes in working capital			
Accounts receivables	(772,039)	(623,808)	380,131
Inventories	20,410	8,373	(15,568)
Prepaid expenses and other assets	(76,843)	(103,052)	(193,179)
Accounts payable	1,400,993	289,711	(344,622)
Due to related parties	(482,824)	139,720	90,254
Deferred revenue	(364)	200,083	(16,950)
Accrued expenses and other liabilities	1,405,820	622,474	(786,365)
Employee termination benefit	6,004	-	-
Cash generated from operation	512,321	1,033,915	97,315
Financial Charges Paid	(575,234)	(571,186)	(183,530)
Employee end of service benefits paid	-	(285)	(1,310)
Net cash (used in)/generated from operating activities	(62,913)	462,444	(87,525)

Source: Financial Statements. Units: SAR thousand.

The Company had reported a cash outflow from operating activities during the years ended 31 December 2009G and 31 December 2011G, and cash inflows in the year ended 31 December 2010G.

With the Company still in start-up mode and in the face of intense competition from the two incumbent telecommunications operators, in the financial year ending 31 December 2009G, the Company had a net loss of approximately SAR3.1 billion, which resulted in a cash deficit of SAR988.8 million, after taking out non-cash items such depreciation and amortization. This cashflow impact of this loss was mitigated due to the increase in accounts payables and accrued expenses and other liabilities, but also further reduced by financial charges paid on the various short-term and long-term borrowings as well as Shareholder cash advances, with a consequential overall cash outflow from operating activities of SAR62.9 million.

This situation reversed in the year ending 31 December 2010G, when the Company's total loss for the year dropped to approximately SAR2.3 billion, which after taking out non-cash items resulted in a cash inflow of approximately SAR500.4 million. Therefore from an operating outflow of SAR62.9 million in 2009, the Company experienced cash inflows of approximately SAR462.4 million from operating activities in 2010.

Continuing the trend, the Company's net loss further reduced to approximately SAR1.9 billion in the financial year ending 31 December 2011G, with a cash inflow of SAR983.6 million after reversing the non-cash items. However the Company decided to reduce balance sheet stress by paying down accounts payable and accrued expenses and other liabilities by approximately SAR1.1 billion. In addition, the Company spent a total of approximately SAR208.8 million on inventory, other prepaid expenses and other current assets (mainly transmission and fibre links and other suppliers) whilst improving its accounts receivable position by approximately SAR380 million due to reduced interconnect settlements with other operators. The Company experiencing a net cash outflow of SAR87.5 million from operating activities for the year 2011.

Table 60: Investing Activities

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash provided by / (used in)			
Purchase of property and equipment	(1,840,393)	(284,633)	(302,009)
Additions to intangible assets	(51,932)	(24,234)	(8,815)
Proceeds from sale of property and equipment	1,685	1,217	1,728
Net cash utilized in investing activities	(1,890,640)[1]	(307,650)	(309,096)

[1] See footnote 2 to Table 58.

Source: Financial Statements. Units: SAR thousand.

The Company recorded net cash outflow from investing activities during the financial years ended 31 December 2009G, 2010G and 2011G mainly on account of the launching of the Company and investment in the network to improve quality and be able to handle the increasing number of customers. In 2009, large-scale capital expenditure investments of SAR1840.4 million were made in the acquisition of property and equipment including network infrastructure, information technology systems and servers, leasehold improvements and capitalized work in progress (radio and network sites under construction). The large-scale investment was necessary as part of the accelerated build out of the Company's radio access coverage and network capacity. During the years 2010 and 2011 capital expenditure, principally on telecommunications equipment, was lower at SAR284.6 million and SAR302.0 million respectively.

The investments attributable to additions to intangible assets are as a result of the acquisition of computer software licences utilized in the operations of the business. For 2009, additions to intangible assets amounted to SAR51.9 million, in 2010, this amounted to SAR24.2 million and in 2011, this amounted to SAR8.8 million.

Table 61: Financing Activities

	For the year ended 31 Dec 2009G	For the year ended 31 Dec 2010G	For the year ended 31 Dec 2011G
Cash provided by / (used in)			
Notes Payables	304,675	(2,152,219)	-
Short Term Borrowing Facility	-	2,193,750	(2,193,750)
Proceeds from long term borrowing facility	-	-	2,223,529
Syndicated Murabaha Facility	330,022	-	91,945
Advances from shareholders	1,241,198	-	353,053
Net cash generated from financing activities	1,875,895 [1]	41,531	474,777

[1] See footnote 3 to Table 58.

Source: Financial Statements. Units: SAR thousand.

The Company's cash flow from financing activities refers to cash payments for debt servicing.

Cash inflows from financing activities of SAR1,875.9 million, SAR41.5 million and SAR474.8 million were reported during the financial years ended 31 December 2009G, 2010G and 2011G, respectively. During the year ended 31 December 2009G, a total of SAR1,875.9 million was received, consisting mainly of inflows of SAR1,241.2 million representing loans from Shareholders and SAR330 million as proceeds from the syndicated Murabaha financing and SAR304.7 million as notes payable arising from a refinancing of existing vendor financing arrangements. During year ended 31 December 2010G, a short-term facility of SAR2,193.7 million was arranged by BNP Paribas S.A. to refinance the Company's obligations under the existing vendor financing arrangements. During year ended 31 December 2011G, the short-term facility was paid back and the Company entered into a SAR2,223.5 million long-term facility agreement with Arab National Bank. More cash was raised in the form of Shareholder loans amounting to SAR353 million in 2011. An adjustment of SAR91.9 million, attributable to the syndicated Murabaha Facility, has arisen as a result of the reclassification of the facility from a non-current liability in 2010 to a current liability in 2011.

For a more detailed description of the sources and uses of cash within each category of investment, see the relevant statement of cash flows in the extracts from the Financial Statements included in this section.

9.12 Current Trading and Prospects

In the period from 31 December 2011G to the date of this Prospectus, the Company continued to implement its strategy, including the launch of new products and services to target key segments. This has resulted in sustained positive trends in Customer acquisition and revenue growth while strengthening margins.

9.13 Statement of Management's Responsibility for Financial Information

This Section 9 (*Management's Discussion and Analysis of Financial Condition and Results of Operation*) has been prepared by the Management of the Company and approved by the Board of Directors. Management declares that there has been no material adverse change in the financial statements or prospects from 31 December 2011G up to the date of this Prospectus. The Management accepts full responsibility for the accuracy and correctness of the financial information and analysis and confirms that it has taken all necessary procedures and made full and fair disclosure of such information and that there is no additional information or documents, the omission of which may render the financial information and data contained in this Prospectus, misleading in any way whatsoever.

Save as disclosed in Section 9.10 (*Management's Discussion and Analysis of Financial Conditions and Operations – Commitments and Contingencies*), the Management declares that the Company has no contingent liabilities as of the date of this Prospectus.

The Company has given no material guarantees. However, it has given security over certain of its contracts and assets, pursuant to the terms of the Murabaha Agreement. In addition, the Founding Shareholders have pledged all of their Shares to the Murabaha Banks and MTC has given a guarantee to the Murabaha Banks, pursuant to the terms of the Murabaha Agreement. There are no mortgages, rights, or charges over the Company's interests in real estate assets as of the date of this Prospectus. The Company has pledged certain of its network infrastructure assets to the Murabaha Banks (see Section 8.3.1 – *The Financing Agreements – Legal Structure of the Financings – Senior Secured Creditors*).

10 Use of Proceeds

10.1 Use of Offering proceeds

The total value of the Offering is expected to be SAR6,000,000,000 (US$1,600,000,000) comprising:

(i) a cash amount of SAR3,453,809,360 (approximately US$921,015,829), which will be used for a number of different purposes, including:

- approximately SAR750,000,000 (approximately US$200,000,000) to repay a certain amount of the Murabaha Facility;
- approximately SAR1,150,000,000 (approximately US$307,000,000) to finance certain capital expenditure required to increase the coverage and capacity of the Company's network and to enhance its transmission network;
- approximately SAR1,433,809,360 (approximately US$382,349,163) to reduce the amount of current liabilities (any difference in the expected Offering expenses will result in an adjustment of this value);
- approximately SAR120,000,000 (approximately US$32,000,000) to be used for Offering expenses; and

(ii) an amount of SAR2,546,190,640 (approximately US$678,984,171) which will be used to capitalise a certain amount of Shareholder Financing.

The following table shows the expected use of proceeds of the Offering (details of which are set out in the remainder of this Section 10 (*Use of Proceeds*)):

Table 62: Expected Use of Proceeds

Description	Amount (SAR) (approximate)	Percentage of Total	Expected time of expense			
			For the three-month period ending			
			30 Sept 2012G	31 Dec 2012G	31 Mar 2013G	30 Jun 2013G
Capitalisation of Shareholder Financing	2,546,190,640	42.4	2,546,190,640			
Repayment of certain amounts of the Murabaha Facility	750,000,000	12.5	750,000,000			
Financing of network capital expenditures (mainly site rollout and upgrades, investment in the backhaul network)	1,150,000,000	19.2	450,000,000	360,000,000	240,000,000	100,000,000
Reduction of current liabilities	1,433,809,360	23.9	875,000,000	435,000,000	123,809,360	
Offering expenses	120,000,000	2.0	120,000,000			
Total proceeds	6,000,000,000	100.0	4,741,190,640	795,000,000	363,809,360	100,000,000

10.2 Capitalisation of Shareholder Financing

At the time of the Company's incorporation, the Founding Shareholders advanced SAR2,164,000,000 to the Company in the form of shareholder loans which were then applied towards the Licence Fee and the Company's start-up costs (see Section 8.2.2 (*The Financing Agreements – The Existing Financings – Shareholder Financing*)). Since then, the aggregate Shareholder Financing has increased to SAR3,559,677,296 as a result of the Company incurring further debt to MTC through accrued fees under the Management Agreement and expenses paid by MTC on behalf of the Company, as well as accrued interest in relation to all of the Shareholder Financing. The Founding Shareholders will subscribe for Rights Issue Shares pursuant to the Offering through capitalising all or part (as applicable) of their respective proportionate amount of the Shareholder Financing, as follows:

Table 63: Shareholder Financing Pre and Post Offering

Shareholder	Amount of Pre-Offering Shareholder Financing (SAR) as at 31 December 2011G	Amount of Shareholder Financing to be capitalised (SAR)
Mobile Telecommunications Company K.S.C.	2,505,074,088	1,500,000,000
Saudi Plastic Factory	301,364,744	301,364,740
Faden Trading Contracting Establishment	314,889,744	314,889,740
ADIH	136,983,975[44]	128,571,420
Ashbal Al-Arab Contracting Establishment	109,587,180	109,587,180
Almarai Company	109,587,180	109,587,180
Al Jeraisy Development Company Limited	54,793,590	54,793,590
Architectural Elite Establishment for General Contracting	-	-
Al Sale Al Sharkiya Company Limited	27,396,795	27,396,790
Total	3,559,677,296	2,546,190,640

The capitalisation of SAR2,546,190,640 (approximately US$678,984,171) of the Shareholder Financing will reduce the amount of interest payable by the Company and hereby help to reduce the cost of the Company's debt by approximately SAR126,000,000 (approximately US$33,600,000) per annum (the exact figure is dependent on variations in SIBOR and LIBOR).

10.3 Repaying a certain amount of the Murabaha Facility

The Company entered into the Murabaha Facility on 10 August 2009G with Banque Saudi Fransi (as investment agent for and on behalf of the Murabaha Banks) in order to refinance the previous SAR9,375,000,000 (approximately US$2,500,000,000) Murabaha facility which the Company had entered into in respect of the Licence Fee (see Section 8.2.1 (*The Financing Agreements – The Existing Financings – Murabaha Facility*)).

The Murabaha Facility is the Company's most senior debt and also its most substantial debt. The repayment of SAR750,000,000 (approximately US$200,000,000) out of the Offering proceeds will help to reduce the cost of debt by approximately SAR50,000,000 (approximately US$13,300,000) per year (the exact figure is dependent on variations in SIBOR).

This repayment is expected to be made at the same time that the expected refinancing of the Murabaha Facility takes place in July 2012G. (see Section 8.2.1 (*The Financing Agreements – The Existing Financings – Murabaha Facility*))

10.4 Financing of Network Capital Expenditures

In order for the Company to achieve its growth aspirations, it will be investing further in its current network, in particular focusing on the following three main areas:

- increase of coverage and capacity to meet Customer demands in voice and data by rolling out new sites and upgrading existing sites;
- development of solutions and investment in capillarity in order to attract high value Customers; and
- investment in backhaul in order to reduce operating expenses.

For these purposes, the Company intends to allocate approximately SAR1,150,000,000 (approximately US$307,000,000) out of the Offering proceeds.

The following table describes each investment that the Company intends to make in its network in the three month periods ending 30 September 2012G, 31 December 2012G, 31 March 2013G and 30 June 2013G.

Table 64: Description of Network Capital Expenditures

Type of Expense	Description of use	Budgeted expenditure (SAR)			
		For the three month period ending			
		30 Sept 2012G	31 Dec 2012G	31 Mar 2013G	30 Jun 2013G
Rolling out new sites (2G, 3G, HSPA and LTE)	To expand the Company's network by rolling out over 1,300 new sites throughout the KSA to satisfy the requirements of different cities, and increase coverage and the capacity of the network. Approximately 35% of the expenditure will be on passive equipment, and 65% on active equipment. The relatively low percentage of capital required for passive equipment is largely due to the expected amount of rooftop construction to be carried out.	200,000,000	160,000,000	120,000,000	40,000,000
Upgrading existing sites to 3G, HSPA and LTE	To deliver new services such as LTE and improve delivery of existing services such as HSPA+ and 3G.	20,000,000	20,000,000	10,000,000	10,000,000
Upgrading the core elements of the Company's network	To improve the speed and continuity of services.	20,000,000	20,000,000	10,000,000	10,000,000
Special projects	To launch special projects, principally, in building solutions, designed to attract high value customers such as corporate clients.	40,000,000	30,000,000	20,000,000	-
The fibre project	To purchase the Company's own dark fibre network, in order to reduce its current operating expenses arising from leasing lines owned by Mobily and STC.	40,000,000	20,000,000	10,000,000	-
Information technology infrastructure (billing convergence, service provisioning, capacity upgrade)	To enhance the customer experience by improving the continuity of VAS and speed of service provisioning, and the Company's efficiency by maintaining a simplified and converged billing system.	50,000,000	50,000,000	30,000,000	20,000,000
Other investments in the Company's network	To include: shop connectivity, developing flagships and fully branded outlets, purchasing generators for new sites, investing in call sites on wheels and palm tree sites for special occasions and VAS systems.	80,000,000	60,000,000	40,000,000	20,000,000
Total		450,000,000	360,000,000	240,000,000	100,000,000

10.4.1 Coverage and capacity

As the Company's network currently covers 90 per cent. of the population of the KSA, the Company will focus on improving its network capacity to sustain the network traffic that is expected to result from an increase in both the number of Customers and the amount of data usage per Customer. Therefore, the Company plans to invest significantly in the rollout of new sites to further increase coverage, and the upgrade of existing sites to increase the capacity of its existing coverage. This will mainly be carried out in 2012 and 2013, but further increases of coverage and capacity will continue after that.

The Company currently expects it will need to cover 60 per cent. to 70 per cent. of the KSA population with HSPA+ to be able to satisfy the expected growing mobile broadband demand, and is planning its network rollout accordingly. The Company contemplates a significant increase in new sites (BTS and Node Bs), of which a high proportion would be LTE. At the same time, several hundred of the current sites are expected to be upgraded to increase capacity.

This growth will also require an increase in switching and transmission investments (MSC, BSC and VLR capability) proportional to the increase in expected Customers and their levels of usage. With this level of investment, the Company expects to be able to improve network performance during peak hours to provide a higher level of customer satisfaction.

In addition, the Company expects to modernise its network by moving to billing convergence and single RAN.

Finally, depending on the availability of frequency spectrum from the CITC, the Company is planning to launch a new technology, LTE Expansion, which will double the number of existing Customers able to use the data network at peak hours, thereby ensuring that the Company has significant levels of capacity above the estimated required capacity.

10.4.2 Investments to attract high value Customers

In order to attract high value Customers, the Company will improve its indoor coverage, range of products and services, and customer experience. The Company is planning to invest in in-building solutions (IBS) in order to improve the value proposition, equipping several hundred buildings per year over the next four years. The Company also plans to build and open a significant number of flagship stores over the next three years.

10.4.3 Investment in backhaul

The backhaul section of the network will be brought in-house with longer term IRU agreements or over-owned infrastructure. It is expected that this will provide savings in the short to medium-term by reducing interconnection costs. In addition, this should improve the data capacity for mobile broadband Customers. The Company will also need to invest in its existing network infrastructure.

10.5 Reduction of current liabilities

As at 31 December 2011G, the Company had total current liabilities of SAR15,510,000,000 (approximately US$4,136,000,000). Of these, approximately SAR4,802,000,000 (approximately US$1,280,000,000) comprised of accounts payable, accrued and other liabilities, deferred revenue and due to related parties, which the Company intends to reduce by allocating approximately SAR1,433,809,360 (approximately US$382,349,163) from the Offering proceeds. Approximately SAR600,000,000 (approximately US$160,000,000) out of the SAR1,433,809,360 (approximately US$382,349,163) allocated to the reduction of current liabilities will be used to repay accumulated telecom regulatory authority charges to the CITC in July 2012G. The remaining SAR833,809,360 (approximately US$222,349,163) will be utilised over the second half of 2012 and first quarter of 2013 to repay trade payables (in particular, network suppliers) and new CITC payables which would have accrued over the period.

10.6 Offering expenses

Approximately SAR120,000,000 (approximately US$32,000,000) of the Offering proceeds will be used to pay for Offering expenses, including the fees of the Financial Advisors, legal advisors (to the Company and the Financial Advisors), independent accountants, media and public relations consultants, in addition to underwriting expenses, Receiving Agents' expenses, marketing expenses, printing and distribution expenses and other expenses related to the Offering. The amount of the Offering expenses is provisional and subject to final confirmation.

10.7 Commissions

No commissions, discounts, brokerages or other non-cash compensation have been granted by the Company at any time during the two years preceding the date of this Prospectus.

11 Dividend Policy

The Company does not expect to pay annual dividends to Shareholders until 2015 at the earliest, at which time it will consider the Company's retained earnings, capital expenditure requirements, financial condition, market condition, the general economic climate and other factors, including investment opportunities and the reinvestment needs of the Company, cash and capital requirements, business prospects, other legal and regulatory considerations and any dividend restrictions under any debt financing arrangements entered into by the Company.

In addition, the payment of dividends, if any, will be subject to certain requirements of the Companies Regulations and the By-Laws (see Section 12 (*Summary of the By–Laws*)).

12 Summary of the By–Laws

This summary of the Company's By-Laws assumes that the Capital Reduction has been approved at the Capital Restructuring EGM and the By-Laws were amended accordingly.

Name of the Company: The name of the Company is "Mobile Telecommunications Company Saudi Arabia".

Objectives of the Company: The objectives of the Company include the provision of all mobile telecommunications services in the KSA, building and operating a mobile telecommunications network in the KSA and importing mobile phone handsets and other equipment.

Head Office of the Company: The Company's head office is in the city of Riyadh.

Duration of the Company: The duration of the Company is 99 years commencing on the date of issuance of the Minister of Commerce and Industry's resolution announcing the incorporation of the Company (26/05/1428H (corresponding to 12/06/2007G)). The Company's duration may be extended by a resolution of the Extraordinary General Assembly passed at least one year prior to the expiration of the term of the Company.

Capital of the Company: The share capital of the Company is four billion, eight hundred and one million Saudi Riyals (SAR4,801,000,000), divided into 480,100,000 Shares of equal value of ten Saudi Riyals (SAR10) each.

Shareholders of the Company: On incorporation of the Company, the Founding Shareholders subscribed for Shares amounting to SAR7,000,000,000 representing 50 per cent. of the Company's capital. Shares amounting to SAR7,000,000,000 and representing 50 per cent. of the Company's capital were offered for public subscription through participating banks in the KSA in accordance with the Companies Regulations and the CML and its Implementing Regulations, out of which 70,000,000 Shares were allocated to the Public Pension Agency pursuant to the Council of Ministers Resolution No. 15 dated 10/01/1428H (corresponding to 29/01/2007G). In March 2012, the Public Pension Agency disposed of its entire shareholding in the Company on the open market. Prior to the Offering, the Company carried out a reduction of its share capital pursuant to which the Company reduced its share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) by the cancellation of 919,900,000 Shares *pro rata* to each Shareholders' shareholding in the Company. The Shareholders approved the Capital Reduction at the Capital Restructuring EGM.

Preferred Shares: Upon approval of, and in accordance with any guidelines set by the Minister of Commerce and Industry, the Company may issue non-voting preferred shares in an amount not to exceed 50 per cent. of the Company's Share capital. The Company may purchase these shares in accordance with a resolution of the General Assembly. These shares do not factor into calculation of the quorum required to hold a General Assembly, pursuant to Articles 34 and 35 of the By-Laws.

In addition to their right to receive dividends, holders of such shares shall be granted the following:

- the right to a specified percentage of net profits, after deducting statutory reserves and before distributing any of the Company's profits, in an amount not less than 5 per cent. of the par value of each share; and
- preference in recovery of the value of their Shares upon liquidation of the Company, and in receiving any specified proceeds from such liquidation.

Bonds: The Company may issue negotiable and indivisible bonds of equal value against the borrowings it contracts in accordance with the Companies Regulations and the CML.

Transfer of Shares: The Shares are transferable in accordance with the rules, regulations and instructions issued by the CMA. The Founding Shareholders' cash Shares may not be transferred prior to the announcement of the financial statements of two full fiscal years (each year shall not be less than twelve months from the establishment of the Company). However, the Founding Shareholders' title to cash Shares may be transferred, from one Founding Shareholder to a member of the Board of Directors as directors' liability shares or to the heirs of a Founding Shareholder in the event of the death of such Founding Shareholder.

Shareholders Register: Nominal Shares shall be transferred by being recorded in the shareholders' register of the Company which shall contain the names of the Shareholders, their nationalities, their occupations, their domicile and address, the serial numbers of the Shares and the value paid-up on such Shares. An annotation of such recording shall be made on the share certificates. The transfer of title to a Share shall not be effective vis-à-vis the Company or any third party until the entry of such transfer in the said register or the completion of the transfer procedures through Tadawul. The subscription or ownership of the Shares by a Shareholder shall mean the acceptance by the Shareholder of the By-Laws and his submission to the resolutions duly passed by the General Assembly of the Shareholders in accordance with the Company's By-Laws, whether the Shareholder was present or absent and whether the Shareholder agreed to such resolutions or objected to them.

Increase of Capital: Once it is ascertained to be economically feasible and after obtaining the approval of the relevant authorities, the Company may adopt a resolution to increase the Company's capital once or several times by issuing new Shares having the same nominal value as the original Shares in an Extraordinary General Assembly, provided that the original capital shall have been paid in full, with due consideration to the requirements of the Companies Regulations. The resolution shall specify the mode of increasing the capital, and the Shareholders shall have pre-emptive rights to subscribe for the new cash Shares. The Shareholders shall be notified of the pre-emptive rights vested in them by notice to be published in a daily newspaper addressing the capital increase resolution and the conditions of subscription, or by written notice to the Shareholder by registered mail enclosing a copy of the capital increase resolution and the conditions of subscription. Each Shareholder shall express the desire to exercise such pre-emptive rights, if they so wish, within 15 days of the publication of such notice or receipt of such notice by registered mail. The issued Shares shall be allotted to the Shareholders who have expressed their desire to subscribe thereto, in proportion to the existing Shares owned by them, provided that the number of Shares allotted to them shall not exceed the number of new Shares they have applied for. The remaining new Shares shall be allotted to the existing Shareholders who have asked for more than their proportionate share, in proportion to the existing Shares they own, provided that that their total allotment does not exceed the number of new Shares they have asked for. Any remaining new Shares shall be acquired by the Underwriters.

Decrease of Capital: The Company may, based on certain justifiable causes and with the approval of the Ministry of Commerce and Industry and the relevant authorities, reduce its capital if it proves to be in excess of the Company's needs or if the Company sustains losses. This decision must be made through a resolution adopted by the Extraordinary General Assembly, and requires approval of the Ministry of Commerce and Industry and the relevant authorities. Such resolution shall be issued only after reading the Independent Auditor's Report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations, with due consideration to the provisions of the Companies Regulation. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within 60 days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located.

Constitution of the Board of Directors: The Company shall be managed by a Board of Directors composed of nine members to be appointed by the Ordinary General Assembly for a term not exceeding three years. The term of the Company's first Board of Directors shall commence as at the date of the Ministerial Resolution declaring the Company's incorporation. As an exception to the foregoing, the Constituent General Assembly appointed the Company's first Board of Directors for a term of five years.

Qualification Shares: Each member of the Board of Directors shall be a holder of a number of Shares having a nominal value of no less than SAR10,000. Such Shares shall be deposited in a bank designated by the Minister of Commerce and Industry within 30 days from the date of the appointment of the Director. Such Shares shall guarantee the liability of the Board members and shall remain non-negotiable until the expiry of the period specified for the hearing of the liability action provided for under Article 76 of the Companies Regulations or until a judgment is passed on the said action.

Vacancies: Membership of the Board of Directors shall be terminated upon the expiry of the appointment period, or resignation of the Director, or death of the Director, or if he is removed from his office by a resolution passed by a majority of 51 per cent. of the Shares represented at an Ordinary General Assembly meeting or if he is convicted of an offence involving dishonesty, fraud or moral turpitude, or if he becomes bankrupt or makes any arrangement or compounds with his creditors. Termination of membership shall also occur under any law or regulations prevailing in the KSA.

Powers of the Board of Directors: Without prejudice to the powers conferred on the General Assembly, the Board of Directors shall be vested with full powers to manage the business of the Company and supervise its affairs within and outside the KSA. For example, the Board of Directors is empowered to sign all kind of contracts, enter into bids, establish companies in which the Company participates, make any necessary amendments, approve the issuance of guarantees for banks, funds, and Governmental loan institutions, and certify all banking transactions. The Board is also empowered to sell, buy and mortgage real estate, movables and the Company's property provided that the Board of Directors have a legitimate reason for the sale. The Board of Directors is specifically empowered to contract loans with Government financial funds and institutions for any term, and commercial loans with commercial banks and financial institutions for any term not exceeding the term of the Company. However, before entering into commercial loans with terms that exceed three years, the Board of Directors shall ensure that the term and conditions of such loans and related guarantees do not adversely impact upon the Company or any general guarantees provided to the Company's lenders. In addition, the Board of Directors shall specify in the resolutions approving such loans how the loans are going to be utilised and repaid. The Board of Directors may, within the limits of its jurisdiction, authorize and delegate one or more of its members or a third party to undertake a specific function or functions, and revoke such delegations in whole or in part.

Remuneration of Board of Directors: Remuneration of the members of the Board of Directors shall be calculated in accordance with the percentage mentioned in paragraph (D) of Article 47 of the By-Laws and shall be in accordance with the provisions of the Companies Regulations and the laws or regulations related thereto. Directors may also be paid an attendance and transportation allowance as determined by the Board of Directors and the regulations and decisions issued in this respect. Board members may not vote in respect of any decisions relating to their own remuneration and benefits.

Chairman, Managing Director and Secretary: The Board of Directors shall appoint a Chairman from among its members. The Board of Directors may also appoint a Managing Director from among its members. The Board may choose the same person to be the Chairman and the Managing Director. The Chairman shall have the powers to convene the Board to meet and preside over its meetings to represent the Company before all Governmental authorities and the judiciary and to carry out all of the other duties entrusted to him by the Board of Directors. The Chairman shall be permitted to delegate his powers to third parties.

The Chairman and Managing Director shall be authorised to individually or jointly represent the Company in its relationship with others and before judicial bodies, Government departments, notaries public, courts of law, commissions for settlements of disputes, boards of arbitration, directorate of civil rights, police departments, chambers of commerce and industry, to sign and execute all agreements, certificates and instruments including articles of association and any amendment thereto, as well as any other contracts, deeds, and declarations, before public notaries or other official bodies, loan agreements, guarantees, leases, and terminating them; to collect entitlements and settle obligations on behalf of the Company; to buy, sell, receive, deliver, rent, lease, collect and make payments, and to participate in tenders; to open bank and credit accounts and to withdraw and deposit from the same; to issue instruments, cheques; to authorize or delegate some or all of these powers to any other person or persons to do any act mentioned hereinabove, and to revoke such authorisation or delegation in whole or in part. The Board of Directors shall appoint a secretary from among its members or others, and shall specify his duties, remuneration and terms of service. The secretary's duties shall include having the proceedings and resolutions of the Board of Directors written in minutes and recorded in a special register, intended for the said purpose, as well as maintaining and keeping such register. The term of the office of the Chairman, the Managing Director and the secretary, if the secretary is a Board member, shall not exceed their respective term of service as Directors. The term of the Chairman, the Managing Director and the secretary of the Board may be renewed.

Board Meetings: The Board of Directors shall be convened at least twice a year upon a call by the Chairman. Such call shall be made in writing and sent by registered mail or fax or by e-mail. The Chairman of the Board shall call for a meeting if so requested by any two Board members.

Quorum and Representation: A Board meeting shall be valid only if attended by at least five members. A Board member may issue a proxy to another member to attend a meeting on his behalf subject to the conditions laid down in Article 23 of the By-Laws.

Minutes of Meetings: The Board deliberations and resolutions shall be drawn in minutes to be signed by the Board Chairman and the Secretary. Such minutes shall be recorded in a special register to be signed by the Board Chairman and the Secretary.

Conflicts of Interest: Members of the Board of Directors must declare to the Board of Directors any personal interest, whether direct or indirect, in any proposal, transaction or contract made for the account of the Company. Such declaration must be recorded in the minutes of the Board meeting, and the interested Board member shall not participate in voting on the resolution to be adopted in this respect.

Executive Committee: The Board of Directors may appoint from among its members an Executive Committee comprised of at least three members provided that the Managing Director and Finance Manager shall be among the members of the Executive Committee. The Managing Director shall be the Chairman of the Executive Committee. The Board of Directors shall specify the directions and guidelines of the Executive Committee and its powers.

Audit Committee: The Board of Directors shall appoint from among its members an Audit Committee to oversee the Company's risk assessment and management practices, internal controls and operations. The Audit Committee shall regularly review the Company's financial systems and regulations, its risk assessment and shall comply with all the legal, regulatory and accounting requirements and standard and the capital markets' regulations. The Audit Committee's responsibilities include planning and reviewing annual and quarterly financial statements for the Company. The Audit Committee shall supervise the independent auditor and review the efficiency of the internal and external review. The Audit Committee shall also have the authority, if it deems necessary to fulfil its undertakings towards the Company, to appoint an outside auditor.

Compensation Committee: The Board of Directors shall form a Nomination and Compensation Committee, which shall in principal be comprised of two independent non-executive Directors. The objective of the Nomination and Compensation Committee shall be to fulfil the Board's undertakings toward compensating the employees and deal with issues related to employee benefits. The Nomination and Compensation Committee shall be responsible for evaluating, acknowledging the Company's compensation plans, policies and programmes.

General Assembly: A General Assembly duly convened shall be deemed representing all the Shareholders, and shall be held in the city where the Company's head office is located. Each Shareholder owning at least 20 Shares shall have the right to attend the General Assemblies, and each Shareholder may authorize another Shareholder, other than the members of the Board of Directors, to attend the General Assembly on his/its behalf.

Ordinary General Assembly: Except for matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

Extraordinary General Assembly: The Extraordinary General Assembly shall have the power to amend the By-Laws, except for such provisions as may be impermissible to be amended under the law. Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the authority of the Ordinary General Assembly under the same conditions applicable to the latter.

Manner of Convening General Assemblies: The General Assembly shall be convened by the Board of Directors. The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the independent auditor or by a number of Shareholders representing at least 5 per cent. of the Company's share capital.

Quorum of Ordinary General Assembly: A meeting of the Ordinary General Assembly shall be valid only if attended by Shareholders representing at least 51 per cent. of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be held within 30 days. Such notice shall be published in the manner prescribed in Article 32 of the Company's By-Laws. The second meeting shall be deemed valid irrespective of the number of Shares represented therein.

Quorum of Extraordinary General Assembly: A meeting of the Extraordinary General Assembly shall be valid only if attended by Shareholders representing at least 51 per cent. of the Company's Share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened in the same manner provided for in the preceding Article. The second meeting shall be valid only if attended by a number of Shareholders representing at least 25 per cent. of the Company's Share capital.

Voting Rights: Each Share entitles the holder to one vote. Votes at the meetings of Ordinary and Extraordinary General Assemblies shall be computed on the basis of one vote for each Share represented at the meeting.

Voting Majorities: Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the Shares represented at the meeting. Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two thirds of the Shares represented at the meeting. Resolutions related to increasing or reducing the Company's capital extending the Company's duration, dissolving the Company prior to the expiry of the period specified therefore under the By-Laws or merging the Company with another company or establishment shall be adopted by a majority vote of 75 per cent. of the Shares represented at the meeting.

Rights of Shareholders at the Meetings of the General Assembly: Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the members of the Board (and to the independent auditor in respect of its audit and review reports). The members of the Board or the independent auditor shall answer the Shareholders' questions to the extent that does not expose the Company's interest to any damage. If the Shareholder deems the answer to the question unsatisfactory, then he/it may refer the issue to the General Assembly and its decision in this regard shall be conclusive and binding.

Proceedings of the General Assembly: The General Assembly shall be presided over by the Chairman of the Board of Directors or, in his absence, the person designated by him. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be written for the meeting showing the names of the Shareholders present in person or represented by proxy, the number of the Shares held, the number of votes attached to such Shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the canvasser.

Appointment of Auditor: The Company shall have at least one independent auditor or more to be selected from among the certified public auditors licensed to work in the KSA. The independent auditor shall be appointed annually and its compensation shall be fixed by the General Assembly. The General Assembly may further reappoint the same independent auditor subject to the instructions and decisions in that respect. The Constituent General Assembly will appoint as the Company's first auditor for the first financial year.

Access to Records: The auditor shall have access at all times to the Company's books, records and any other documents, and may request information and clarification as it deems necessary. The auditor may further check the Company's assets and liabilities.

Auditor's Report: The auditor shall submit to the annual General Assembly a report showing how far the Company has enabled it to obtain the information and clarifications it has requested and whether it has discovered violations of the Companies Regulations and the By-Laws, as well as its opinion as to whether the Company's financial statements conform to the facts.

Financial Year: The Company's fiscal year shall commence as on 1 January and expire on 31 December of each Gregorian year. However, the Company's first fiscal year shall cover the period commencing as at the date of issuance of the Ministerial Resolution announcing the incorporation of the Company and expiring on 31 December of the following year.

Annual Accounts: The Board of Directors shall prepare at the end of each fiscal year an inventory of the Company's assets and liabilities on such date, the Company's balance sheet and profit and loss account, a report on the Company's activities and its financial position for the preceding year and its proposals as to the distribution of the net profits. The Board of Directors shall perform the foregoing within a period of 40 days from the ending date of the preceding financial year including such period. The Board of Directors shall put such documents at the auditor's disposal at least 55 days prior to the time set for convening the General Assembly. The Chairman of the Board of Directors shall cause the Company's balance sheet, profit and loss account, a comprehensive summary of the Board of Directors' report and the full text of the auditor's report to be published in a newspaper circulated in the city where the Company's head office is located, and shall send copies of such documents to the Companies Department at the Ministry of Commerce and Industry at least 25 days prior to the date set for convening the General Assembly.

Distribution of Annual Profits: After deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

- 10 per cent. of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one-half of the Company's capital;
- the Ordinary General Assembly may, upon request of the Board of Directors, set aside a percentage of not more than 20 per cent. of the annual net profits to form an additional reserve to be allocated for specific purpose or purposes;
- out of the balance of the profits, if any, there shall be paid to the Shareholders an initial payment of not less than 5 per cent. of the paid-up capital;
- 5 per cent. of the remaining amount shall be paid as compensation to the members of the Board of Directors; and
- the balance shall be distributed among the Shareholders as an additional share of the profits.

Distribution of Dividends: The profits to be distributed among the Shareholders shall be paid at such place and times as determined by the Board of Directors, in accordance with the instructions issued by the Ministry of Commerce and Industry.

Non-Distribution of Dividends: In the event of non-distribution of profits in any fiscal year, profits of forthcoming years shall not be distributed before the portion specified in the Company's By-Laws is paid to the owners of non-voting shares for that year. If the Company fails to pay this portion of the profits for a period of three consecutive years, the private assembly of these interest holders may, in accordance with Article 86 of the Companies Regulations, resolve to either attend the General Assemblies of the Company and participate in the voting thereof, or to designate representatives on their behalf in the Board of Directors, in accordance with their share of the Company's share capital. This shall remain the case until the Company manages to fully pay the initial profits for past years specified for the holders of such shares.

Company Losses: If the Company's losses total three-quarters of its capital, then the members of the Board of Directors shall call for an Extraordinary General Assembly to consider whether the Company shall continue to exist or be dissolved prior to the expiry of the duration specified therefore under Article 6 of the Company's By-Laws. In all cases the Assembly's resolution shall be published in the Official Gazette of the KSA.

Disputes: Each Shareholder shall have the right to file a liability action, vested in the Company, against the members of the Board of Directors if they have committed a fault which has caused some particular damage to such Shareholder, provided that the Company's right to file such action shall still be valid. The Shareholder shall notify the Company of his/its intention to file such action.

Dissolution and Winding up of the Company: Upon the expiry of the Company's term, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators. In all cases the Extraordinary General Assembly's resolution shall be published in the Official Gazette of the KSA.

13 Legal Information

13.1 Details of Incorporation

The Company is a Saudi joint stock company established in accordance with Royal Decree No. M/48 dated 26/05/1428H (corresponding to 12/06/2007G) with Commercial Registration No. 1010246192.

13.2 Shareholders

The following table sets out the shareholder structure of the Company immediately prior to the Capital Reduction and immediately following the Capital Reduction (but prior to the Offering).

Table 65: Shareholding Structure of the Company prior to the Capital Reduction and following the Capital Reduction (but prior to the Offering)

Shareholder	No. of Shares held prior to the Capital Reduction	No. of Shares held prior to the Offering	Percentage Shareholding
Founding Shareholders			
Mobile Telecommunications Company K.S.C.	350,000,000	120,025,000	25.000%
Saudi Plastic Factory	96,250,000	33,006,875	6.875%
Faden Trading Contracting Establishment	96,250,000	33,006,875	6.875%
Ashbal Al-Arab Contracting Establishment	35,000,000	12,002,500	2.500%
Almarai Company	35,000,000	12,002,500	2.500%
Al Jeraisy Development Company Limited	17,500,000	6,001,250	1.250%
Architectural Elite Establishment for General Contracting	17,500,000	6,001,250	1.250%
Rakisa Holding Company	13,750,000	4,715,268	0.982%
Al Sale Al Sharkiya Company Limited	8,750,000	3,000,625	0.625%
Other Shareholders			
ADIH[107]	30,000,000	10,287,857	2.143%
Public shareholders	700,000,000	240,050,000	50.000%
Total	1,400,000,000	480,100,000	100.000%

Source: the Company

Details relating to the ownership of each of the Founding Shareholders are set out in Section 5 (*Founding Shareholders, Corporate Structure and Governance*).

13.3 Capital Reduction

Prior to the Offering, the Company carried out a reduction of its share capital from SAR14,000,000,000 (consisting of 1,400,000,000 Shares) to SAR4,801,000,000 (consisting of 480,100,000 Shares) by the cancellation of 919,900,000 Shares *pro rata* to each Shareholder's shareholding in the Company.

The Shareholders approved the Capital Reduction at the Capital Restructuring EGM. In addition, the Capital Reduction required certain waivers from the Murabaha Banks. The Capital Reduction resulted in the cancellation of 919,900,000 Shares *pro rata* to each Shareholder's proportionate shareholding at the relevant time. The Capital Reduction, therefore, extinguished part of the Company's accumulated losses *pro rata* to the amount of Shares cancelled.

An independent auditor's limited review report stating the reasons for the Capital Reduction, and the effect of the Capital Reduction on the Company's obligations, was presented to the Shareholders at the Capital Restructuring EGM (the "**Independent Auditor's Report**").

106 Pursuant to the Settlement Agreements, ADIH acquired 30,000,000 Shares from Rakisa on 15 May 2012G.

13.4 Share Capital

The share capital of the Company is SAR4,801,000,000 divided into 480,100,000 Shares.

The Company is not subject to any option agreement or arrangement that requires the issue of further Shares to any third party.

13.5 Ownership of Shares by Directors, Company Secretary and Senior Executives

Except as set out below, none of the Directors, Company Secretary, senior executives of the Company or any of their relatives or affiliates have any other direct or indirect interests (including options or similar rights) in the Shares or debt instruments of the Company.

Table 66: Shareholdings of Directors, Company Secretary and senior executives of the Company

Individual	Position	Number of Shares held directly following the Capital Reduction[107]	Percentage of Shares held indirectly
HRH Prince Hussam Bin Saud Abdul Aziz	Chairman	1,000	6.875% indirect interest in the Company[108]
Hisham Abdulrahman Akbar	Non-Executive Director	1,000[109]	Nil
Nabeel Khalaf Said Bin Salamah	Managing Director	1,000[110]	0.004137% indirect interest in the Company[111]
Bader Nasser Al-Kharafi	Non-Executive Director	1,000[112]	0.0006% indirect interest in the Company[113]
Ossama Matta	Non-Executive Director	1,000[114]	Nil
Abdullah Ibrahim Al-Rakhis	Non-Executive Director	1,000	0.982% indirect interest in the Company[115]
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Non-Executive Director	1,000	0.021739% indirect interest in the Company[116]
Fahad Ibrahim Al Deghaither	Non-Executive Director	1,000	Nil
Ammar Abdulwahid Al Khudairy	Non-Executive Director	1,714	Nil
Fraser Mark Curley	Chief Executive Officer	Nil	Nil
Khalil Fawaz	Chief Financial Officer	Nil	Nil
Saud Al Bawardi	Chief Commercial Officer	Nil	Nil
Mohammed Al-Marshed	Chief Technology Officer	Nil	Nil
Mohammad Abed Nadeem	HR Director	28	Nil
Waleed Alhakeem	Company Secretary	Nil	Nil

107 Each of the Directors is obliged to maintain a shareholding in the Company with a value of not less than SAR10,000, in accordance with Article 68 of the Companies Law.
108 HRH Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
109 Legally held by MTC.
110 Legally held by MTC.
111 Nabeel Khalaf Said Bin Salamah holds 712,800 shares in (i.e. 0.01655% of) MTC.
112 Legally held by MTC.
113 Bader Nasser Al-Kharafi holds 100,000 shares in (i.e. 0.0023% of) MTC.
114 Legally held by MTC.
115 Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakhis Holding Company.
116 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 3,478,261 shares in (i.e. 0.87% of) Almarai Company.

13.6 Significant Transactions Involving Shareholders

Except for the Shareholder Financing, the Management Agreement and the Trademark Licensing Agreement, the Company has not entered into any significant transactions with Shareholders, save for the agreements with the Founding Shareholders (save for Architectural Elite and Rakisa) and the Financial Advisors, whereby the Founding Shareholders (save for Architectural Elite and Rakisa) will subscribe for Rights Issue Shares pursuant to the Offering (the "**Shareholder Financing Settlement Agreements**") (see Section 10.2 (*Use of Proceeds – Capitalisation of Shareholder Financing*)).

Under the Shareholder Financing Settlement Agreements, the Founding Shareholders (save for Architectural Elite and Rakisa) have undertaken to capitalise all or part (as applicable) of their respective proportionate amounts of the Shareholder Financing for Rights Issue Shares pursuant to the Offering. In accordance with the terms of the Shareholder Financing Settlement Agreements, the relevant Founding Shareholders undertook to vote in favour of the Capital Reduction and the Capital Increase at the Capital Restructuring EGM. The conditions for capitalisation of the relevant amount of the Shareholder Financing included the Offering being approved at the Capital Restructuring EGM and by the CMA, and the Rights Issue Shares being admitted to trading on the Exchange.

13.7 Related Party Arrangements

The Company has not entered into any contracts or arrangements with the Directors, or any of their relatives or affiliates.

Under the Companies Regulations, members of the Board are not permitted to have any direct or indirect interest in transactions or contracts carried out for the account of the Company unless authorised by the Ordinary General Assembly. Such authorisation must be renewed annually. The Board member is required to report to the Board any interest he has in the transactions and contracts carried out for the account of the Company. Such report must be recorded in the minutes of the meeting. No Board member may, without authorisation by the General Assembly (to be renewed every year), participate or deal in any business that may compete with that of the Company.

13.8 Properties

The table below is a summary of properties leased by the Company from third parties (none of which is the Founding Shareholders), which are, of material importance to the Company:

Table 67: Properties Leased by the Company

Building name	Type of Property	City	Size / Area in Sqm	Address
Al Meftaha Inf. & Trading Co.	Core network building	Abha	214	King Saud Road
Manafea Co.	Network regional office	Abha	524	Abh Khamees Road
Salem Obaid Al Ghedani	Network regional office	Buraidah	Flat	Al Faizyah area, 60th Street
Al Mairah	Car Parking	Dammam	1,600	King Fahad Highway, Al Naseriya
Al Mairah	Core network building	Dammam	3,200	King Fahad Highway, Al Naseriya
Obhor Land	Land	Jeddah	2,500	Kaeb ben Zohir Street, Al Morjan Area
Core network building	Core network building	Jeddah	3,200	Madinah way (Nazil) South from Sari Street
Salama Centre	Network regional office	Jeddah	1,620	Prince Sultan Street
Saudi Business Centre	Core network building	Jeddah	450	Saudi Business Centre, Al-Sharfiah

Building name	Type of Property	City	Size / Area in Sqm	Address
Abu Of Blaza	Network regional office	Madinah	250	Madinah Munawara Airport Road
Abu Of Blaza	Network regional office	Madinah	180	Madinah Munawara Airport Road
Abu Of Blaza	Core network building	Madinah	286	Madinah Munawara Airport Road
Al Muhasny	Core network building	Makkah	1,128	Ajead Street
Al Muhasny (amendment 1)	Core network building	Makkah	22	Ajead Street
Alshareef International Mall	Core network building	Makkah	281	Alshareef International Mall, Alazeeziah
Alshareef International Mall (amendment 1)	Generator room	Makkah	180	Alshareef International Mall, Alazeeziah
Alshareef International Mall (amendment 2)	Core network building	Makkah	641	Alshareef International Mall, Alazeeziah
Al Rajhi Centre	Network regional office	Makkah	180	Al Rajhi Centre, Azizia Area
Al Mouhawas Tower	Headquarters	Riyadh	9,687	Olaya - King Fahad Road, North Qairo Square
Marafai Al-Sharq	Core network building	Riyadh	7 floors	Olaya - King Fahad Road
Eid Awad Saad Al-Baqmi	Network regional office	Tabouk	350	Sulaimaniyah, King Fahad road
Taif Hube	Core network building	Taif	350	Shobra area
Khobar Node1	Core network building	Khubar	2 floors + roof	Prince Humod street, Al Angariah

Source: The Company

The Company has signed multiple standard form site lease agreements with certain landlords across the KSA to enable it to install transmission technology. These agreements are for a period of between five months and 10 years and include more than 1,300 site leases for greenfield towers and more than 1,400 rooftop agreements.

13.9 Directors' Service Contracts and Executive Management Employment Contracts

The Company has not entered into any service contracts or letters of appointment with any Director.

No Director is entitled to receive any remuneration for acting as a director of the Company other than as set out in the By-Laws (see Section 13.10 (*Legal Information – Remuneration and benefits in kind granted to the Directors and Executive Management*)).

The Company has entered into employment contracts with each member of the Executive Management team (as listed in Section 5.14 (*Founding Shareholders, Corporate Structure and Governance - Executive Management*)), save for Mohammed Al-Marshed who is employed by MTC and seconded to the Company.

13.10 Remuneration and benefits in kind granted to the Directors and Executive Management

The Chairman of the Board of Directors and the members of the Board of Directors receive remuneration for their services based on the annual net profits of the Company. No payment has been made to the members of the Board of Directors to date. An aggregate amount of SAR28.3 million has been paid to Executive Management by way of remuneration and benefits during the three financial years prior to the date of this Prospectus.

13.11 Contract or arrangement in which the CEO, CFO, Directors or any relative is interested

The Company has not entered into any contracts or arrangements in which the CEO, CFO or a Director or any relative of the CEO, CFO or a Director is materially interested or which is significant in relation to the business of the Company.

13.12 Insurance

The Company has the benefit of the following insurance policies, which provide cover for the following types of liability:

- Property (All Risks) insurance provided by Al-Sagr Cooperative Insurance Company PJSC for the period 1 October 2011G to 30 September 2012G. This policy provides the Company with insurance against any liability or damage to any property owned or used by the Company.
- Public Liability Policy insurance provided by Al-Sagr Cooperative Insurance Company PJSC for the period 1 October 2011G to 30 September 2012G. This policy provides the Company with insurance against any accidental bodily injury to any third party or accidental direct damage to any third party property in the KSA.
- Worker's Compensation/Employer's liability insurance provided by Al Sagr Cooperative Insurance Company PJSC for the period 5 September 2011G to 4 September 2012G. This policy provides the Company with insurance against personal injury claims brought by workmen against the Company as a result of an accident sustained at work.
- Money Insurance Policy provided by Arabian Shield Cooperative Insurance Company for the period 25 May 2011G to 24 May 2012G. The policy provides the Company with insurance against loss of money or damage or loss caused by thieves to any insured safe or strong room.
- Fidelity Guarantee Insurance Policy provided by Arabian Shield Cooperative Insurance Company for the period 25 May 2011G to 24 May 2012G. The policy provides the Company with insurance against any loss of money or goods caused by any act of fraud or dishonesty of any employees committed in connection with his employment.

The Company's insurance policies are pledged to the Murabaha Banks under the Murabaha Facility and are expected to be pledged to the lenders as part of the security package under the refinancing of the Murabaha Facility.

13.13 Intellectual property

The Company does not own any material intellectual property but the Company uses the Zain brand name (and other MTC trademarks) in the KSA in return for payment of a royalty fee to MTC pursuant to the terms of the Management Agreement (see Section 13.15.3 (*Legal Information – Material Contracts – Management Agreement*)) and the Trademark Licensing Agreement (see Section 13.15.4 (*Legal Information – Material Contracts – Trademark Licensing Agreement*)).

13.14 Litigation

The Directors confirm that, as at the date of this Prospectus, the Company is not a party to any litigation, arbitration or proceedings (including any pending or threatened litigation, arbitration or proceedings) which may, either individually or in aggregate, have a material adverse effect on the Company's financial condition or results of operations. However, there are currently four disputes between the Company and the CITC before the Grievances Board. The outcome of these disputes may or may not have a material adverse effect on the Company's financial condition or results of operations.

The Telecommunications Regulation states that, prior to filing a claim before the Grievances Board, the Company must file its complaint with the Minister of Communications and Information Technology (the "**MCIT**"). If the MCIT confirms the validity of the CITC Resolution to which the complaint refers, the claimant may file a claim with the Grievances Board.

A summary of the four cases for which the Company is awaiting a final decision from the Grievances Board is set out below:

- The Company filed a claim with the Grievances Board against the CITC regarding the validity of CITC's Resolution No. 1265/TC, issued on 29/1/1430H (corresponding to 26/01/2009G), which relates to roaming services ("**Resolution 1265/TC**"). Resolution 1265/TC establishes the requirements and restrictions relating to the provision by telecommunications service providers of free roaming services outside the KSA. Resolution 1265/TC effectively prohibits the Company from offering Customers the ability not to incur charges for receiving incoming calls whilst roaming outside the KSA as part of its "One Network" roaming service and other similar offerings provided by STC and Mobily, despite the Company having highlighted this service as a key offering to Customers in its bid for the Licence. The MCIT upheld the validity of Resolution 1265/TC pursuant to MoCI Letter No. 274 dated 17/6/1430H (corresponding to 11/06/2009G) . Accordingly, the Company filed a claim against the CITC, requesting that the Grievances Board (i) nullify Resolution 1265/TC issued by the CITC on 29/1/1430H (corresponding to 26/01/2009G); (ii) compel the CITC to repay the Company certain fees that had been paid for the Licence; (iii) compel the CITC to compensate the Company for the damages that it has sustained as a result of Resolution 1265/TC restricting the Company's mobile service offering; and (iv) compel the CITC to compensate the Company for its legal fees in respect of the claim.
- The Company filed a claim with the Grievances Board against the CITC regarding the CITC's Resolution No. 204/1429, issued on 6/5/1429H (corresponding to 12/05/2008G) ("**Resolution 204/1429**"). Under Resolution 204/1429, the CITC approved a revised termination cost relating to STC. The point in dispute relates to the recovery by the Company of its actual costs in providing a termination service and the application of local termination costs on the networks of other operators. In its claim, the Company requested that the Grievances Board (i) nullify Article 2 of the CITC's Resolution No. 204/1429, which states that the rates for terminating calls set out in the Reference Interconnection Offer are applicable to the Company, unless the CITC decides otherwise; (ii) with immediate effect, suspend the implementation of Resolution 204/1429 temporarily until the claim has been settled; and (iii) compel the CITC to compensate the Company for its legal fees arising out of the claim. Prior to filing a claim before the Grievances Board, the Company must file its complaint with the MCIT, as required by regulations. The Company filed its complaint with the MCIT on 09/07/1429H (corresponding to 13/07/2008G) and the MCIT confirmed the validity of Resolution 204/1429 pursuant to H.E. Letter No. 2636 dated 10/09/1429H (corresponding to 11/09/2008G). Accordingly, the Company filed a claim before the Grievances Board. The Grievances Board rejected this claim in a judgment dated 12 October 2011G. Subsequently, the Company has filed an appeal against the Grievances Board's judgment at the Court of Appeal, which had not delivered its verdict as at the date of this Prospectus.
- The Company filed a claim with the Grievances Board against the CITC regarding its number portability service, as the Company had the technical capability to implement this service but other telecommunications operators in the KSA were not cooperating with the Company in order to provide the service to customers. In its claim, the Company requested that the Grievances Board (i) compel each of the telecommunications operators to activate number portability; (ii) impose the penalties contemplated in the Telecommunications Law and its Implementing Regulations on any operator that does not comply with number portability requirements; (iii) fully implement the Telecommunications Law and its Implementing Regulations in connection with any operator that has been designated as a dominant operator by the CITC; and (iv) compensate the Company for the monetary damages caused as a result of the failure of certain operators to comply with the number portability obligations. The Company entered into an agreement dated 9/8/1432H (corresponding to 11 July 2011G) with STC and Mobily whereby a subscriber to any one of their respective mobile telecommunications services would be able to keep the same mobile telephone number when changing to become a subscriber of the services of another of them. Consequently, the Company's only outstanding claim against the CITC is for compensation to cover the period from the date when the Company launched commercial services, 26 August 2008G, to the date of such agreement, 11 July 2011G.

- The Company filed a claim with the Grievances Board against the CITC regarding international call termination routed through the Company's network to other networks. STC and Mobily do not currently allow international traffic routed through the Company's network to be terminated on their networks, resulting in a loss of income and wholesale negotiation power for the Company. In its claim, the Company requested that the Grievances Board compel the CITC to (i) instruct STC to allow international traffic that is routed through the Company's network to be terminated on STC's network; (ii) compensate the Company for the damages and losses sustained as a result of STC and Mobily not permitting such termination on their networks, and (iii) compensate the Company for its legal fees arising out of the claim. The Company filed its complaint with the MCIT on 20/5/1431H (corresponding to 04/05/2010G) and the MCIT informed the Company in letter No. 744 dated 18/7/1431H (corresponding to 30/06/2010G) that the CITC has jurisdiction to act upon the claim. Accordingly, the Company filed a claim before the Grievances Board. Subsequently, the CITC issued Decision No. 314 on 1/5/1432H (corresponding to 5 April 2011G) compelling mobile telecommunications providers in the KSA to permit international traffic on their networks to be terminated by the provider that routed such traffic, and the Company has signed an agreement with Mobily in relation to these tariffs. Consequently, the Company's claim against the CITC is for compensation between the date when the Company launched commercial services, 26 August 2008G, to the date of such agreement, 5 April 2011G.

In addition, the Company has filed a claim against the CITC in relation to an over-payment that it made to the CITC. The CITC calculated an amount due to it under the terms of the Licence on an incorrect basis and, consequently, invoiced the Company more than was due. The Company paid the invoiced amount in error and, having realised its mistake, attempted to recover the amount of the overpayment from the CITC. The CITC refused to repay the amount of the overpayment, and the MCIT subsequently turned down the Company's request to compel the CITC to make the repayment. Therefore, the Company filed a claim in the courts and the first hearing was held on 30 January 2012G. In this hearing, the Company presented its claim and the CITC requested time to review the case and prepare a statement. As at the date of this Prospectus, the parties are now in the process of exchanging statements.

13.15 Material Contracts

The Company has entered into the material contracts set out below.

Prior to the incorporation of the Company, as disclosed in the prospectus published by the Company on 2/2/1429H (corresponding to 9/2/2008G) relating to the IPO, the Founding Shareholders and the Company intended to enter into a subscription and shareholders' agreement to govern the relationship between them. This agreement was not, and is not intended to be, entered into.

13.15.1 The Financing Agreements

The terms of the Company's material financing agreements are summarised in Section 8 (*The Financing Agreements*).

13.15.2 Underwriting Agreement

The terms of the Underwriting Agreement are summarised in Section 14 (*Underwriting*).

13.15.3 Management Agreement

The Company and MTC have entered into the Management Agreement for the provision of mobile network management and operational services by MTC to the Company. The Management Agreement includes provisions for the use by the Company of the Zain and MTC brands. A summary of its terms is set out below.

Overview

Under the terms of the Management Agreement, MTC is responsible for the operation of the Company's business and for procuring that the Company develops and operates a mobile telecommunications network within the scope of the Licence. The services provided by MTC include financial, accounting, engineering, procurement, personnel, marketing and contracting services (in particular, negotiating interconnection and roaming agreements with other network operators). The Company is responsible for all costs and expenses of MTC in providing the services.

Management and Operational Services

Financial and accounting services provided by MTC include treasury management, cash flow management, receivables and payables, cost accounting, budgeting and payroll accounting. Operational services provided by MTC include the supervision of policies, practices and procedures to ensure the economic and efficient provision of services to Customers. Administrative services provided by MTC include the management of personnel and the operation of the Company's bank accounts.

Management Fee

Pursuant to the Management Agreement, the Company is obliged to pay to MTC a quarterly management fee (the "**Management Fee**") for the provision of the management and operational services. The Management Fee is calculated based on a percentage of the total annual revenues of the Company, being 4 per cent. from Service Launch to 31 December 2008G, reducing to 3.5 per cent. in the year to 31 December 2009G, 2.5 per cent. in the year to 31 December 2010G and 2 per cent. in the year to 31 December 2011G. Thereafter, in any year where the Company incurs a net loss, no Management Fee shall be payable; in any year where the Company realises a net profit equal to or less than 6 per cent. of the total annual revenue, the Management Fee shall be 1 per cent. and where the Company realises a net profit in excess of 6 per cent. of the total annual revenue, the Management Fee shall be 2 per cent. However, payment of the Management Fee in cash ceased on 27 July 2009G as the Murabaha Facility prohibits payments to related parties. The amount due to MTC instead accrue and will become payable subject to the terms of the Murabaha Facility.

Zain Branding

As part of the Management Fee, the Company pays to MTC a royalty fee of 0.7 per cent. of the Company's annual revenues during the term of the Management Agreement for the use of the Zain and MTC brand names (and other MTC trademarks). In addition to the Management Agreement, the Trademark Licensing Agreement has been entered into by MTC and the Company which grants the Company the licence to use certain MTC brands (see Section 13.15.4 (*Legal Information - Material Contracts – Trademark Licensing Agreement*)).

Indemnity

The Company has agreed to indemnify MTC for any loss, liability, cost and expense incurred by MTC as a result of MTC performing its obligations under the terms of the Management Agreement. MTC is not liable to the Company for any losses, damages, expenses or claims by the Company unless they were the result of MTC's fraud, intentional breach or gross negligence.

Term and Termination

The Management Agreement is for a term of 25 years unless terminated earlier in certain circumstances, including the following:

- The Company may terminate the Management Agreement: (i) if MTC is found to have committed an act of gross negligence, or is in wilful default of its obligations; (ii) if MTC is in default of a material obligation which has a material adverse effect on the Company (and such default continues un-remedied for a period of 60 Business Days); or (iii) if MTC's shareholding in the Company falls below 15 per cent. (in which case MTC has agreed to use its reasonable efforts to assist the Company in locating another manager within a 60 day period following notice of the intended sale by MTC). In the event that the Company terminates the Management Agreement for any other reason, it is obliged to pay MTC liquidated damages equal to three times the aggregate of the management fee and the branding royalty fee received by MTC during the previous full financial year.
- MTC has the right to terminate the Management Agreement upon expiry of the Licence, or in the event the Company is in material default of its obligations and fails to remedy such default within 60 Business Days, or in the event the Company fails to pay any amounts owing to MTC exceeding in aggregate US$500,000 (within 60 Business Days' notice of the failure to pay such amounts).

The Management Agreement may only be amended with consent of MTC, the Company and the CITC.

Governing Law and Arbitration

The Management Agreement is governed by the UNIDROIT Principles of International Commercial Contracts and any dispute must be submitted to arbitration in Bahrain.

13.15.4 Trademark Licensing Agreement

On 02/08/1431H (corresponding to 14/07/10G), the Company and MTC entered into a trademark licence agreement (the "**Trademark Licensing Agreement**"). Pursuant to the Trademark Licensing Agreement, MTC has granted the Company the right to use the following MTC trademarks:

- Trademark Registration number 982/9 dated 20/3/1429H;
- Trademark Registration number 982/10 dated 20/3/1429H;
- Trademark Registration number 982/11 dated 20/3/1429H; and
- Trademark Registration number 982/12 dated 20/3/1429H,

(the "**MTC Trademarks**").

The Trademark Licensing Agreement permits the Company to use the MTC Trademarks both within and outside the KSA in consideration for a fee (which is set out in the Management Agreement (see Section 13.15.3 (*Legal Information – Material Contracts – Management Agreement*)). MTC is under an obligation to renew the MTC Trademarks every 10 years in accordance with the Trademark Law. The Trademark Licensing Agreement states that it will terminate upon the termination of the Management Agreement and therefore the Company's right to use the MTC Trademarks will expire in the event the Management Agreement is terminated. On 15/11/1431H (corresponding to 23/11/2010G), the Company registered the Trademark Licensing Agreement with the authorities in the KSA to ensure, amongst other things, that third parties are given notice of the existence of the trademark licence. Trademark registration certificates were issued by the authorities on 1/2/1432H (corresponding to 5/01/2011G) confirming that the Company has been licensed to use the trademarks of MTC.

13.15.5 Network Supply Agreements

Nokia Siemens

Pursuant to a contract of adherence dated 10 December 2008G between Mada and Nokia Siemens Tietoliikenne Oy as novated to the Company by a novation agreement dated 25 June 2008G, the parties have entered into a contract for the provision of products and services on a non-exclusive basis. The products and services to be provided are set out in accepted purchase orders and include hardware, software, company programmes, civil works, mechanical and electrical works, implementation services and maintenance and support services. The contract of adherence was effective as of 31 August 2007G for a minimum term of three years and continues thereafter until terminated by either party giving prior written notice at least three months prior to such termination.

The contract of adherence incorporates the terms of a group framework agreement entered into between MTC and NSN dated 21 August 2007G. The framework agreement provides, *inter alia*, that MTC shall be responsible for negotiating prices with NSN for any products and services to be purchased pursuant to any contracts of adherence and accepted purchase orders. The framework agreement was effective as of 21 August 2007G for an initial term of two years, after which it automatically extends for successive periods of one year unless prior written notice is given by either party at least three months prior to the automatic renewal date. Either party may terminate the framework agreement in the event of the insolvency or bankruptcy of the other party, the other party ceasing or threatening to cease to carry on its business or a force majeure event preventing the other party from performing its obligations under the agreement for a period exceeding three months.

Pursuant to a contract of adherence dated 17 September 2009G between the Company and Nokia Siemens Tietoliikenne Oy (as amended on 2 February 2010G), the parties entered into a contract for the provision of products and services on a non-exclusive basis. The products and services to be provided are set out in accepted purchase orders and include hardware, software, company programmes, civil works, mechanical and electrical works, implementation services and maintenance and support services.

The contract of adherence incorporates the terms of a group framework agreement entered into between MTC and NSN dated 28 April 2009G (the "**2009 NSN Group Framework Agreement**"). The contract of adherence was effective as of 17 September 2009G and will continue in force until the 2009 NSN Group Framework Agreement is terminated unless the contract of adherence is terminated in accordance with the terms of the 2009 NSN Group Framework Agreement.

The 2009 NSN Group Framework Agreement provides that, *inter alia*, MTC shall be responsible for negotiating prices with NSN for any products and services to be purchased pursuant to any contracts of adherence and accepted purchase orders. The 2009 NSN Group Framework Agreement was effective as of 28 April 2009G for an initial term of three years, after which it automatically extends for successive periods of one year unless three months' written notice of termination is given by either party prior to the following renewal date.

Motorola

Pursuant to a contract of adherence between Mada and Motorola, a contract of adherence between Mada and Motorola Arabia, a project schedule between Mada and Motorola and a project schedule between Mada and Motorola Arabia, each as novated to the Company by novation agreements dated 27 June 2008G, the parties have entered into contracts for the provision of products and services on a non-exclusive basis. The products and services to be provided are set out in accepted purchase orders and include any equipment, software, any services described in purchase orders, implementation services and maintenance and support services. The contracts of adherence were each effective as of 3 January 2008G for a minimum term of 12 months and continue thereafter until terminated by either party giving prior written notice at least three months prior to such termination. The Company also entered directly into a contract of adherence with Motorola on 13 December 2009G, which was immediately effective for a minimum term of 12 months and continues thereafter until terminated by either party giving at least three months written notice prior to the following renewal date.

The contracts of adherence each incorporate the terms of a group framework agreement entered into between MTC and Motorola dated 21 November 2007G and 27 September 2009G. The framework agreement provides, *inter alia*, that MTC shall be responsible for negotiating prices with Motorola for any products and services to be purchased pursuant to any contracts of adherence and accepted purchase orders. The framework agreement was effective as of 21 November 2007G for an initial term of five years, after which it automatically extends for successive periods of one year unless prior written notice is given by either party at least three months prior to the automatic renewal date.

Pursuant to the terms of NSN's acquisition of Motorola Network Solutions' assets in April 2011, Motorola has assigned the adherence agreements and the related framework agreements to NSN. As a result of these assignments, all services that had previously been provided by Motorola under these adherence contracts and framework agreements are now provided by NSN. In order to mitigate the risk of relying upon NSN as its sole supplier of certain goods and services, the Company entered into certain agreements with Huawei.

Huawei

On 15 March 2011G, the Company and Huawei entered into an agreement to swap the deployed Motorola network equipment in the KSA for Huawei network equipment. Under this agreement, Huawei agrees to upgrade the Company's 2G network sites to 3G capability, and to swap the deployed Motorola network equipment in the regions of Dammam and Madinah for Huawei network equipment. The agreement provides for the supply, installation and maintenance of the Company's upgraded 3G network sites on a full turn-key basis. The agreement sets out a schedule of deferred payments to be made in instalments, which the Company intends to pay from cash generated from the operation. The first payment is due in September 2012 and the final payment is due in March 2014. The Company will also pay a fee for managed services on a monthly basis as invoiced by Huawei. The term of the agreement commenced on 15 March 2011G and will remain in force until 15 March 2013G, unless terminated earlier. The agreement will automatically renew unless either party provides notice of its intention to terminate at least three months prior to the end of the initial term or the end of any subsequent third term.

Network Infrastructure Outsourcing Agreement in relation to the USF2 Project with ZTE Corporation and ZTE (HK) Limited Saudi Arabia dated 30 March 2011G (the "ZTE Outsourcing Agreement")

Pursuant to this agreement, ZTE has agreed to participate in the supply, installation, commissioning, integration, civil works and operation and maintenance of network infrastructure in respect of the USF2 project initiated by the CITC. ZTE has agreed to complete the USF2 project on a full turn-key basis. In consideration for the services provided by ZTE, the Company has agreed to pay a lump sum fee. The term of the ZTE Outsourcing Agreement is for two years and ZTE has agreed to provide additional services, including the provision of broadband and voice services, to the Company for a period of 12 months from the completion of the USF2 project, after which, ZTE is obliged to provide these services within the terms and conditions of the Licence. The ZTE Outsourcing Agreement may be terminated by the Company providing written notice to ZTE.

Supply and Installation Agreement with Alcatel Lucent dated 16 October 2010G

The Company has entered into a contract of adherence and a master purchase order each dated 16 October 2010G with Alcatel Lucent Shanghai Bell Co. Ltd., for the supply and installation of metro and long haul DWDM transmission and fibre cable throughout the KSA. The project is divided into nine phases with each phase focussing on a different region or city within the KSA. These arrangements were entered into pursuant to a global framework agreement entered into between Zain Group Holding Bahrain SPC and is subject to its terms. The Alcatel Lucent Global Framework Agreement has an initial term of two years and has standard termination provisions.

13.15.6 Clearing Agreements

The Company has entered into a data clearing agreement and a financial clearing agreement, each with EDCH FZE dated 8 October 2007G, for the provision of data and financial clearing services in relation to roaming services to be provided by third parties to the Company.

13.15.7 Interconnection, National and Network Services Agreements

Interconnection Agreement between the Company and Mobily dated 18 June 2008G

The Company has entered into an interconnection agreement with Mobily to provide for the interconnection of their networks in order to ensure that the users of both companies' networks can exchange information with users of the other, and also to enable their users to gain access to third party service providers with access to each company's network.

Interconnection Agreement between the Company and STC dated 4 February 2008G

The Company has entered into an interconnection agreement with STC to enable the interconnection of their networks and to supply certain other services to each other in order to allow each other's customers to communicate effectively with each other.

Any amendments to this agreement are subject to the approval of the CITC. Either party may terminate the agreement with 24 months' written notice.

Services Agreement between the Company and Mobily dated 6 May 2008G as amended on 4 August 2009G and 13 October 2010G (the "Mobily Services Agreement")

Pursuant to the Mobily Services Agreement, the Company has agreed to purchase certain services from Mobily, including infrastructure sharing, transmission links and international traffic conveyance, as well as national roaming capabilities. In consideration for the services provided, the Company pays the relevant fees applicable to each service and Mobily has agreed to maintain such fees at the lowest rate it charges other third parties for provision of the same services at similar volumes and under substantially the same conditions.

The national roaming provisions of the Mobily Services Agreement enable the Company to provide mobile services (for example voice, SMS, MMS and mobile Internet) to Customers when they move outside the Company's network coverage area, for example to remote areas. The Company pays Mobily for the provision of these services at a fixed rate according to the levels of usage by the Company's Customers of Mobily's network.

Wholesale Services Agreement between the Company and STC dated 16 June 2008G as amended on 18 December 2010G (the "STC Services Agreement")

Pursuant to the STC Services Agreement, the Company has agreed to purchase certain services from STC, including infrastructure sharing, transmission links, international call conveyance and Internet connectivity. STC has agreed to provide the services under the agreement at the lowest prices possible and to the same standard as for similar services provided at similar volumes to other national licensed operators, and the Company has agreed to purchase the services at certain levels and volumes as set out in the agreement. Except for the services of site sharing and international call conveyance, the Company has agreed to pay to STC all applicable government royalty and licence fees.

The STC Services Agreement can be terminated for any breach of its terms or if the other party becomes insolvent. Also, either party may terminate the agreement with two years' written notice.

International Interconnection Agreements

The Company has also entered into a number of international interconnection agreements, on standard terms and conditions, with telecommunications operators in other countries to enable the termination of traffic to various international jurisdictions.

International Roaming

The Company's Customers have the benefit of roaming facilities with more than 500 international operators as a result of MTC Group's existing roaming agreements. The Company is also a full, accredited member of the GSM Association.

13.15.8 Distribution Agreements

The Company has entered into several non-exclusive distribution agreements on standard terms with distributors in the KSA. These distribution agreements provide for the retail and distribution of the Company's products, such as recharge vouchers, Post-paid SIM packs, Pre-paid SIM packs and broadband products. The agreements are generally for terms of five years with the option to renew automatically for further five year periods unless either party notifies the other of its intention not to renew or by the mutual consent of the parties. The agreements give the Company (but not the distributors) a right to terminate for convenience provided that 30 days' notice is given to the distributors, or termination rights if the distributors make a false or misleading representation in relation to one of the Company's products or the distributors fail to provide the Company with an irrevocable letter of guarantee, guaranteeing payments of any outstanding invoices. Either party may terminate if the other party is in material breach of any term of the Agreement.

13.15.9 Leasing and Supply Agreements

Infrastructure facilities leasing agreement with an affiliate of Saudi Electric Company (the "SEC Agreement")

On 27 March 2010G, the Company entered into an infrastructure facilities leasing agreement with an affiliate of Saudi Electric Company pursuant to which the Company agreed to lease certain infrastructure facilities from SEC. The Company shall pay an annual fee in arrears to SEC on a quarterly basis.

The Agreement has a term of five years unless terminated earlier in accordance with its terms. Either party may terminate the agreement for convenience on 180 days' prior written notice. SEC has the right to disconnect the Company's use of the infrastructure if the Company fails to pay an invoice within 30 days of receipt of such invoice.

13.15.10 Outsourcing Agreements

Agreements with Friendi (the "Friendi Management Agreement" and the "Friendi Licensing Agreement")

Pursuant to an outsourced IT services and management agreement dated 21 July 2010G between the Company and Friendi Group and a brand licensing agreement dated 21 July 2010G between the Company and Mobility Telecom International Holding (BVI) (an affiliate of Friendi), the Company and Friendi have agreed to launch the "Friendi Mobile" brand in the KSA using the Company's network. The Friendi brand is licensed exclusively to the Company pursuant to the Friendi Licensing Agreement, and the Company undertakes only to use the Friendi brand in accordance with the Friendi Management Agreement.

Pursuant to the Friendi Management Agreement, a subsidiary of Friendi trades in the Friendi mobile brand name under the Company's name and licence. Friendi sells Friendi branded products and services to customers in the KSA focusing initially on the Filipino customer segment only, but this scope may be extended to include other customers if certain subscription objectives are met. The Friendi Group may terminate the Friendi Management Agreement with immediate effect by notice to the Company.

Master Services Outsourcing Agreement between Zain Group Holding Bahrain SPC ("MTC Bahrain") and International Turnkey Systems ("ITS") dated May 2009 (the "ITS Outsourcing Agreement")

The Company has the benefit of the ITS Outsourcing Agreement between MTC Bahrain and ITS which provides the contractual framework for the supply of information technology infrastructure and application services by ITS. The ITS Outsourcing Agreement provides that any company within the MTC Group may enter into individual contracts of adherence with ITS or an ITS group company to govern the supply of the services. In consideration for the services, the Company pays charges to ITS in accordance with the fee mechanisms and invoicing procedure set out in the ITS Outsourcing Agreement and individual contracts of adherence. The initial term of the ITS Outsourcing Agreement expired in May 2012 (the "**Initial Term**"), and renewed automatically. Subsequent 12 month terms will also renew automatically unless either party provides notice of its intention to terminate at least six months prior to the end of the term.

Call Centre Managed Services Agreement with Etisal International Company (the "Etisal Agreement")

On 11/6/1432H (corresponding to 15 May 2011G), the Company entered into a legally binding memorandum of understanding with Etisal International Company – Riadaa Group ("**Etisal**") in relation to the outsourcing by the Company of the operation of, and managed services at, its call centres in the KSA (the "**Etisal Managed Services**"). Etisal began offering the Etisal Managed Services on the basis of the legally binding memorandum with a view to the Company entering into a full services agreement with Etisal.

On 3 April 2012G, the Company entered into a non-exclusive agreement with Etisal for the provision of the Etisal Managed Services. The Etisal Agreement has an initial term of one calendar year which renews automatically for further one year terms unless Etisal provides three months', or the Company four months', written notice of termination.

Pursuant to the Etisal Agreement, the Company has granted Etisal a non-transferable licence to use the Zain logo in the KSA. Etisal has also granted a non-exclusive, non-transferable, royalty-free and irrevocable licence to the Company to use Etisal's intellectual property to the extent required to enable the Company to use the Etisal Managed Services.

The Company may terminate the Etisal Agreement with immediate effect in the event of a material breach by Etisal, a change of control in Etisal without having obtained the Company's prior written consent, or if Etisal fails to meet the minimum standard requirements set out in the Etisal Agreement. The Company may also terminate the Etisal Agreement for convenience on three months' written notice following the expiry of the Etisal Agreement's initial one year term.

Rollout and Logistic Services Agreement with Shabakkat Operation Company ("Shabakkat") dated 13 November 2007G (the "Shabakkat Agreement")

The Company has entered into the Shabakkat Agreement and several amendments thereto for the provision of certain rollout and logistics services. These services include, amongst other things:

- Network Rollout Management, including the provision of "Rollout and Governance" teams in all regions of the KSA providing supervision and audit of vendors;
- logistical support in each region of the KSA for all work required for the rollout of the Company's operations, including site acquisition supervision, supervision of civil and tower construction and consultancy and support to vendor teams on the ground; and
- Project Management, Project Administration & Coordination.

The term of the Shabakkat Agreement has been extended by amendment until 31 December 2011G. The agreement provides that the renewal of the services provided by Shabakkat is subject to semi-annual evaluation of Shabakkat's performance by the Company.

Agreements between the Company and Dimensions for Communications Company ("Dimensions") for (i) the Assembly and Warehousing of SIM Kits, Handset Packs and other Company products dated 1 February 2008G (the "Assembly Agreement"); and (ii) the Provision of Pickup, Delivery, Sorting, Scanning, Validation, Archiving and Warehousing Storage Services dated 16 March 2010G (the "Archiving Agreement")

The Company has entered into the Assembly Agreement in order to outsource the assembly and storage of certain of the Company's products, including SIM cards, handsets packs, scratch cards, promotional packs and marketing material. The Archiving Agreement provides for the collection, scanning and electronic archiving of contracts and key documents of the Company's Customers (both Pre-paid and Post-paid). Both the Assembly Agreement and the Archiving Agreement contain certain "service level agreements" and "key performance indicators" that Dimensions must satisfy. The agreements also allow for the Company to create a variable remuneration plan based on Dimensions' achievement and fulfilment of the service levels and key performance indicators.

The original term of the Assembly Agreement has been extended until 1 February 2014 by an amendment agreement. Following the expiry of this term in 2014, the agreement can be extended by mutual agreement. However, at the end of each contractual year the Company has the right to review the fees and performance of Dimensions, and to elect to either renew or terminate the agreement.

The term of the Archiving Agreement was renewed on 1 February 2011G and is extendable for a further one year. The performance of Dimensions will be assessed at the end of every year prior to renewal of subsequent terms.

Agreements between the Company and Excellent Solutions Trading Company Limited ("EST")

The Company has entered into a number of agreements with EST pursuant to which EST provides certain recruitment and employee training services, including conversational English language training services for call centre agents.

13.15.11 Advisory Services Agreement between the Company and Oliver Wyman

The Company has entered into an advisory services agreement with Oliver Wyman, pursuant to which Oliver Wyman has agreed to provide advisory services to the Company's management team and deliver and produce reports and other materials as specified and agreed between the parties. Oliver Wyman has agreed to provide these services in consideration of (i) a project fee and (ii) professional fees and expenses.

13.15.12 Service Agreement with the Universal Service Fund of the CITC

On 23/01/1432H (corresponding to 29/12/2010G), the Company entered into an agreement (the "**USF Agreement**") with the CITC's Universal Service Fund (the "**USF**") which has a value of SAR39,996,885 (approximately US$10,600,000). Pursuant to the USF Agreement, the Company has been appointed to install, maintain and own a network for voice, broadband Internet and other telecommunications services in respect of certain selected regions in the KSA which have low coverage for such services and which have been deemed eligible by the USF to receive subsidised services. Such services will be for the benefit of 500 housing compounds in the Al Jouf, Jazan and Northern provinces of Saudi Arabia. The Company will receive payment for achieving certain milestones that have been set over the two year term of the USF Agreement. Failure by the Company to achieve such milestones will give the USF the right to terminate the USF Agreement. The two year term of the contract can be extended by the mutual agreement of both parties.

13.16 Independent Auditor

The Company engaged Deloitte to provide certain information for inclusion in this Prospectus. Deloitte has consented to the use of their name in the form and context in which it appears in this Prospectus. Deloitte has no interest in the Company other than the provision of certain professional services, which are provided on an arms' length basis.

13.17 Commission

Except for the fees and expenses payable in connection with the Offering, no person has received any commission, discount, brokerage fee or non-cash consideration in relation to the share capital of the Company.

13.18 Working Capital

The Directors are of the opinion that, taking into consideration the Company's existing available bank facilities and the sources of funding described in Section 8 (*The Financing Agreements*), the Company will have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this Prospectus. As at 31 December 2011G, the Company had a working capital (current assets minus current liabilities) deficit of approximately SAR13,078,600,000[117]. As set forth in Section 10.5 (*Use of Proceeds – Reduction of current liabilities*), the Company intends to allocate approximately SAR1,433,809,360 from the Offering proceeds to reduce the amount of current liabilities and hence improve the working capital of the Company.

Table 68: Working Capital and Liquidity

	As at 31 Dec 2009G	As at 31 Dec 2010G	As at 31 Dec 2011G	As at 31 Mar 2010G	As at 30 June 2010G	As at 30 Sept 2010G	As at 31 Mar 2011G	As at 30 June 2011G	As at 30 Sept 2011G
	(Audited)			(Reviewed)					
Total current assets	1,849.9	2,602.6	2,432.2	2,072.5	2,134.9	2,629.1	1,407.4	1,676.4	1,981.3
Total current liabilities	789.2	7,454.0	15,510.8	6,529.8	6,784.8	7,382.3	6,266.4	3,967.6	14,296.6
Working capital[118]	(939.3)	(4,851.4)	(13,078.6)	(4,457.3)	(4,649.9)	(4,753.2)	(4,858.9)	(2,291.2)	(12,315.3)

Source: Financial Statements. Units: SAR million.

13.19 Contingent Liabilities

As at the date of this Prospectus, the Directors confirm that the Company is not subject to any contingent liabilities save as disclosed in Section 9.10 (*Management's Discussion and Analysis of Financial Conditions and Operations – Commitments and Contingencies*).

117 Source: Audited Financial Statements for the year ended 31 December 2011.
118 The working capital figures are negative for all periods measured as a result of the total current liabilities exceeding the total current assets in each case.

13.20 Debt instruments and term loans

The Company has not issued, or authorised or otherwise created but unissued, any debt instruments or term loans.

13.21 Assets or Operations outside the Kingdom

The Company has no material assets or trading operations outside the Kingdom.

13.22 Research and Development

The Company does not carry out research and development programmes and has had no significant policy relating to the research and development of new products and processes over the past three years.

13.23 Investments in new plants and factories

The Company has not made, and is not intending to make, any investments in research and development or new plant or factories in the immediate future.

14 Underwriting

14.1 Underwriters

The Company and the Underwriters have entered into an underwriting agreement dated 8/7/2012G (the "**Underwriting Agreement**"), pursuant to which the Underwriters have agreed to underwrite the Offering in the following proportions:

Table 69: Underwriting

	Number of Rights Issue Shares	Percentage of Rights Issue Shares
Saudi Fransi Capital Limited	268,559,532	44.76%
Al Rajhi Capital Company	268,559,532	44.76%
Albilad Investment Company	22,880,936	3.81%
Alinma Investment Company	20,000,000	3.33%
Saudi Hollandi Capital	20,000,000	3.33%
Total	600,000,000	100.00%

14.2 Summary of the Underwriting Agreement

Pursuant to the terms and conditions of the Underwriting Agreement,

(a) the Company undertakes to the Underwriters that on the Allocation Date (as defined in the Underwriting Agreement) it will issue and sell all underwritten Rights Issue Shares that were not subscribed by Eligible Shareholders to the Underwriters; and

(b) the Underwriters severally undertake to the Company that they will purchase all underwritten Rights Issue Shares that were not subscribed by Eligible Shareholders at the Offering Price on the Allocation Date.

The obligation of each Underwriter to purchase any Rights Issue Shares is subject to certain customary termination provisions, including force majeure events, and the fulfilment of certain conditions precedent in connection with the Offering. The Company has also given certain customary representations, undertakings and warranties to the Underwriters and has provided a customary indemnity to the Underwriters in the Underwriting Agreement. In consideration of the Underwriters entering into the Underwriting Agreement, the Company has agreed to pay the Underwriters certain fees and expenses relating to the Offering and Admission.

15 Description Of the Shares

15.1 Share Capital

The share capital of the Company is SAR4,801,000,000 consisting of 480,100,000 Shares all of which are paid-up in full.

15.2 Increase in Share Capital

Once it is ascertained to be economically feasible and after obtaining the approval of the competent authorities, the General Assembly may, in an Extraordinary General Assembly meeting, adopt a resolution to increase the share capital of the Company once or several times by issuing Shares having the same nominal value as the Shares, provided that the original share capital shall have been paid in full, with due consideration to the requirements of the Companies Regulations. The resolution shall specify the mode of increasing the capital and the Existing Shareholders shall have pre-emptive rights to subscribe for the Shares. The Rights Issue Shares shall be allotted to the Shareholders who have expressed their desire to subscribe for the Rights Issue Shares, in proportion to the Shares owned by them, provided that the number of Shares allotted to them shall not exceed the number of Rights Issue Shares they have applied for. The remaining Rights Issue Shares shall be allotted to the Shareholders who have asked for more than their proportionate share, in proportion to the Shares they own, provided that that their total allotment does not exceed the number of Rights Issue Shares they have asked for. Any remaining Rights Issue Shares shall be acquired by the Underwriters.

15.3 Decrease in Share Capital

The Company may, based on certain justifiable causes and with the approval of the Ministry of Commerce and Industry and the relevant authorities, reduce its share capital if it proves to be in excess of its needs or if the Company sustains losses. This decision must be made through a resolution adopted by the General Assembly in an Extraordinary General Assembly meeting, and requires approval of the CMA. Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations, with due consideration to the provisions of the Companies Regulations. The resolution shall provide for the manner in which the reduction shall be made. If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

15.4 Shareholders' Rights

Each Share shall give its holder equal rights in the Company's assets and dividends as well as the right to attend and vote at meetings of the General Assembly provided that the holder owns a minimum of twenty Shares.

15.5 Shareholders Assemblies

A General Assembly duly convened shall be deemed representing all the Shareholders, and shall be held in the city where the Company's head office is located. Except for matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year, within six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assemblies may be convened whenever needed. The Extraordinary General Assembly shall have the power to amend the By-Laws, except for such provisions as may not be permitted to be amended under the Companies Regulations. Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter. A notice of the date and agenda of the General Assembly shall be published in the Official Gazette of the KSA and in a daily newspaper circulated in the city where the Company's head office is located at least 25 days prior to the time set for such meeting. Notwithstanding the foregoing, it is sufficient to send invitations by registered mail to all Shareholders. A copy of the invitation and the agenda shall be sent to the Companies Department at the Ministry of Commerce and Industry within the aforementioned notice period.

The Board of Directors shall convene a meeting of the Ordinary General Assembly if requested to do so by the independent auditor or by a number of Shareholders representing at least 5 per cent. of the Company's share capital. The meeting of the Ordinary General Assembly shall not have a quorum unless attended by Shareholders holding at least 51 per cent. of the Company's share capital. If such quorum cannot be attained at the first meeting, a second meeting shall be convened within 30 days. Such notice shall be published in the same manner described above. The second meeting shall be deemed valid irrespective of the number of shares represented.

To attain quorum, the meeting of the Extraordinary General Assembly should be attended by Shareholders representing at least 51 per cent. of the Company's capital. If such requirement is not met in the first meeting, a second meeting shall be convened within 30 days. The second meeting shall be considered as having the quorum if attended by a number of Shareholders holding at least one-quarter of the Company's share capital.

The General Assembly shall be presided over by the Chairman of the Board of Directors or, in his absence, the person designated by him. The Chairman shall appoint a secretary for the meeting and a canvasser. Minutes shall be prepared for the meeting showing the names of Shareholders present in person or represented by proxy, the number of the shares held by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the canvasser.

15.6 Voting Rights

Each Shareholder owning at least 20 Shares shall have the right to attend the General Assemblies, and each Shareholder may authorise another Shareholder, other than the members of the Board of Directors, to attend the Assembly on the Shareholder's behalf. Votes at the meetings of General Assemblies shall be computed on the basis of one vote for each Share represented at the meeting. Resolutions of the Ordinary General Assembly shall be adopted by an absolute majority of the Shares represented thereat. Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two thirds of the Shares represented at the meeting. Each Shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions to the members of the Board in this respect. Each Shareholder shall have the right to direct questions to the independent auditor in relation to the its audit and review reports. The Board of Directors or the independent auditor shall answer the Shareholders' questions to the extent that it does not jeopardise the interests of the Company. Should a Shareholder consider the reply unsatisfactory, the Shareholder may resort to the General Assembly whose resolution is to be considered as final.

15.7 The Shares

The Shares are nominal shares and may not be issued at a value less than their nominal value. However, the Shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the statutory reserve, even if the reserve has reached its maximum legal limit. A Share shall be indivisible **vis-à-vis** the Company. In the event that a Share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the Share, and they shall be jointly responsible for the obligations arising from the ownership of the Share. The transfer of Shares shall be governed by and comply with the rules, regulations and directives issued by the CMA. Transfers made other than in accordance with the By-Laws shall be void.

15.8 Duration of the Company

The duration of the Company is 99 years from the date of the declaration of incorporation of the Company by the Minister of Commerce and Industry. The Company's duration may always be extended by a resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of the duration of the Company.

15.9 Dissolution and Winding Up of the Company

Upon the expiry of the Company's duration, or if it is dissolved prior to the time set for the expiry thereof, the Extraordinary General Assembly shall, based on a proposal by the Board of Directors, decide the method of liquidation, appoint one or more liquidators and specify their powers and fees. The powers of the Board of Directors shall cease upon the Company's expiry. However, the Board of Directors shall remain responsible for the management of the Company until the liquidators are specified. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators.

16 Subscription Terms, Conditions and Instructions

All Eligible Shareholders must read the instructions relating to the Offering (the **"Subscription Instructions"**) carefully before completing the Subscription Application Form. Signing the Subscription Application Form shall be considered agreement to and acceptance of the Subscription Instructions.

16.1 Subscription to the Rights Issue Shares

Eligible Shareholders wishing to subscribe to the Rights Issue Shares should submit a Subscription Application Form within the Offering Period. Eligible Shareholders may obtain the Prospectus and the Subscription Form from the following Receiving Agents:

NCB	BANK ALJAZIRA	BANK ALBILAD	anb	Al Rajhi Bank	Banque Saudi Fransi
riyad bank	alinma bank	The Saudi Investment Bank	Saudi Hollandi Bank	SABB	samba

Eligible Shareholders who do not subscribe to the Rights Issue Shares shall not receive any of the benefits or privileges for their Rights and shall retain the same number of Existing Shares that they possess. The calculation of any Compensation Amount is described in Section 16.3 (*Subscription Terms, Conditions and Instructions - Eligible Shareholders who do not subscribe to the Rights Issue Shares*).

Each Eligible Shareholder must agree to the Subscription Instructions and complete all parts of the Subscription Application Form. If a Subscription Application Form does not satisfy any of the Subscription Instructions, the Company shall have the right to reject that Subscription Application Form in whole or in part. The Subscriber must accept whatever number of Rights Issue Shares is allocated to him. Any Subscription Application Form containing incomplete or incorrect information or which has not been stamped by the Lead Manager or a Receiving Agent shall be deemed invalid. A Subscription Application Form may not be altered or withdrawn after it has been submitted. Once accepted by the Company, a Subscription Application Form shall be considered a binding contract between the Subscriber and the Company.

16.2 Completing the Subscription Application Form to subscribe to Rights Issue Shares

An Eligible Shareholder must specify on the Subscription Application Form the number of Rights Issue Shares he wishes to subscribe to and enclose the full subscription amount due (**"Subscription Monies"**). Each Eligible Shareholder shall have the right to subscribe for one Rights Issue Share for every 0.800167 Existing Shares that he owns at the Record Date. Eligible Shareholders can apply to subscribe to additional Rights Issue Shares and may be allocated the Rights Issue Shares to which other Eligible Shareholders have not applied to subscribe. Rights Issue Shares which have not been subscribed to by Eligible Shareholders shall be allocated *pro rata* to the other Eligible Shareholders who applied for additional Rights Issue Shares (**"Over-Subscribing Shareholders"**). Remaining Rights Issue Shares, if any, shall be purchased by the Underwriters.

16.3 Eligible Shareholders who do not subscribe to the Rights Issue Shares

Eligible Shareholders who do not subscribe to the Rights Issue Shares (**"Non-Participating Shareholders"**) shall be subject to a reduction in the proportion of their equity in the Company as well as a reduction in the value of their Existing Shares. In line with the instructions and requirements of the CMA, Non-Participating Shareholders may receive compensation, if applicable, to be calculated as stated below and they will keep the Existing Shares that they owned prior to the Offering. If the highest bid price for Unsubscribed Shares matches the Offer Price, the Non-Participating Shareholders shall not receive any compensation as a result of their non-subscription to the Rights Issue Shares.

The amount of compensation (**"Compensation Amount"**), if any, for Non-Participating Shareholders shall be calculated as follows:

- **Proceeds of subscription to Unsubscribed Shares**

Unsubscribed Shares shall be allocated to Over-Subscribing Shareholders, on condition that they have already subscribed to their full entitlement of Right Issue Shares, on the basis of the price they specified in the Subscription Application Form to subscribe for Unsubscribed Shares (**"Bid Price"**).

Priority in respect of allocation shall be given to Over-Subscribing Shareholders who applied to subscribe to Unsubscribed Shares at the highest Bid Price. Proceeds from subscription to these Shares (after deduction of the Offer Price, which will go to the Company) shall be distributed to Non-Participating Shareholders.

- **Compensation Amount**

The Compensation Amount due for each Unsubscribed Share shall be determined by dividing the amount of compensation, if any (after deduction of the Offer Price, which will go to the Company), by the total number of Unsubscribed Shares. The Compensation Amount due for each Unsubscribed Share (if any) will be paid to Non-Participating Shareholders within thirty (30) days from the date of allocation of the Rights Issue Shares.

16.4 Subscribing to Unsubscribed Shares

Eligible Shareholders shall have the right to apply to subscribe to Unsubscribed Shares. Subscription shall only be by one of the following Bid Prices:

1. The Offer Price;
2. The Offer Price plus an amount equal to 30 per cent. of the difference between: (i) the Company's share price on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction); and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number;
3. The Offer Price plus an amount equal to 60 per cent. of the difference between: (i) the Company's share price on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction); and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number;
4. The Offer Price plus an amount equal to 90 per cent. of the difference between: (i) the Company's share price on the day of the Capital Restructuring EGM (adjusted to take account of the Capital Reduction); and (ii) the Company's adjusted share price immediately after the Capital Restructuring EGM, multiplied by the Eligibility Ratio, rounded up to the nearest whole number.
5. The prices of subscription to the Unsubscribed Shares shall be as follows: SAR10 per Unsubscribed Share, SAR11.70 per Unsubscribed Share, SAR13.40 per Unsubscribed Share and SAR15.10 per Unsubscribed Share. Eligible Shareholders may only over-subscribe for Unsubscribed Shares at one of the Bid Prices.

16.5 Subscription to the Rights Issue Shares due to an Eligible Shareholder in full

An Eligible Shareholder who wishes to exercise his entire right and subscribe to all the Rights Issue Shares to which he is entitled must complete the Subscription Application Form and submit it, together with the full Subscription Monies and required documentation, to any branch of the Lead Manager or a branch of Receiving Agents within the Offering Period.

The number of Rights Issue Shares to which an Eligible Shareholder shall have the right to subscribe shall be calculated by multiplying the number of Existing Shares he owns on the Record Date by 14/8/1433H (4/7/2012G). The Subscription Monies which must be paid by the Eligible Shareholder shall be calculated by multiplying SAR10 by the number of Rights Issue Shares applied for.

Fractions of Shares may not be subscribed to and, wherever necessary, the entitlement figure shall be rounded down. Fractions of Shares shall be accumulated in one portfolio and then sold by the Lead Manager at the prevailing market price and the proceeds shall be distributed within 30 days after allocation of the Rights Issue Shares and the distribution of excess Subscription Monies to Eligible Shareholders who have participated in the Rights Issue on a *pro rata* basis to the number of fractions to which each such Shareholder is entitled.

Rights Issue Shares which have not been subscribed to by Eligible Shareholders by the Record Date shall be allocated *pro rata* to other Eligible Shareholders who are registered on the Record Date and who submitted applications to subscribe to Rights Issue Shares in excess of their entitlement on the basis of Existing Shares. Remaining Rights Issue Shares, if any, shall be purchased by the Underwriters. Any surplus Subscription Monies shall be returned to the relevant Eligible Shareholders after the allocation of Rights Issue Shares.

If an Eligible Shareholder does not wish to exercise his right to the Rights Issue Shares, he is not required to take any measures. Rights Issue Shares which are not subscribed to by an Eligible Shareholder during the Offering Period will be allocated either to other Eligible Shareholders or to the Underwriters.

If an Eligible Shareholder wishes to subscribe to some but not all of his entitlement to Rights Issue Shares, he must submit a Subscription Application Form together with the Subscription Monies for the Rights Issue Shares applied for and other required documentation during the Offering Period. Information relating to calculation of the cost of subscribing to the Rights Issue Shares may be found above.

16.6 Documents required to be submitted with applications to subscribe

The Subscription Application Form must be accompanied by the following documentation, as applicable. Staff of the Lead Manager or at a branch of a Receiving Agent will compare copies with originals and return originals to the Subscriber:

- Original and copy of personal national identification card (individual Subscriber);
- Original and copy of family identification card (family members) (individual Subscriber);
- Original and copy of instrument of legal proxy, custodianship deed or sustenance deed (for proxy Subscriber);
- Original and copy of Certificate of Guardianship for minors;
- Original and copy of Certificate of Guardianship for orphans (individual Subscriber);
- Original and copy of death certificate for Saudi widows and children from a foreign husband;
- Original and copy of a Limitation of Succession Deed for beneficiaries;
- Original and copy of attorney's personal identification card;
- Original and copy of residency permit for non-Saudis (individual Subscriber);
- Original and copy of passport for citizens of GCC states; and
- Original and copy of Commercial Registration (corporate entity) together with the original and copy of the personal identification card of the authorised signatory.

The Subscription Monies must be paid in full upon submitting the Subscription Application Form at a branch of the Lead Manager or Receiving Agents by authorising a debit of the appropriate amount from the Subscriber's account with the Receiving Agent through whom the Subscription Application was submitted, or via certified cheque to be withdrawn on a local bank and issued in the name of the Company.

A proxy shall be limited to family members (children and parents). If an application is submitted on behalf of another person, the Subscriber's agent must state his name in and sign the Subscription Application Form. The original and copy of a valid legal proxy issued by a notary public (for persons resident in the Kingdom of Saudi Arabia) or attested by the Saudi embassy or consulate in the Subscriber's country (for persons resident outside the Kingdom of Saudi Arabia) must be attached.

16.7 Submission of applications to subscribe

The Lead Manager and Receiving Agents will begin receiving Subscription Application Forms at their branches in the Kingdom of Saudi Arabia on 20/8/1433H (corresponding to 10/7/2012G) and shall continue until the close of business on 27/8/1433H (corresponding to 17/7/2012G). Eligible Shareholders who would like to participate in the Offering can obtain Subscription Application Forms during the Offering Period from branches of the Receiving Agents, the internet or via any ATM of the Lead Manager or of the Receiving Agents providing such a service. The Subscription Application Form includes further instructions which must be followed precisely. Upon completing, signing and submitting the Subscription Application Form, it will be stamped by the Receiving Agent and a copy given to the Eligible Shareholder.

The Eligible Shareholder agrees to subscribe to the number of Rights Issue Shares stated in the Subscription Application Form submitted by him and to purchase these for:

- an amount equal to the number of Rights Issue Shares to be subscribed for as part of his initial entitlement, multiplied by the Offer Price; and
- for Unsubscribed Shares for which he intends to subscribe, an amount equal to the number of such Unsubscribed Shares, multiplied by one of the Bid Prices.

The Eligible Shareholder shall have purchased the number of Rights Issue Shares allocated to him upon the following conditions being met:

- the Eligible Shareholder having submitted a Subscription Application Form to a branch of the Lead Manager or the Receiving Agents;
- the Eligible Shareholder having paid the Subscription Monies (as determined above) in full via the Lead Manager or a Receiving Agent; and
- the Eligible Shareholder having received from the Lead Manager or a Receiving Agent a notification specifying the number of Rights Issue Shares allocated to him.

16.8 Applicant declarations

By completing and submitting the Subscription Application Form, the Subscriber:

- agrees to subscribe to a number of Rights Issue Shares set forth in the Subscription Application Form;
- warrants that he has read and carefully studied this Prospectus and understands all of its contents;
- accepts the By-Laws and all of the terms and conditions for subscription mentioned in this Prospectus;
- accepts that the Company shall have the right to refuse any unsatisfactory, incomplete or unclear Subscription Application Form;
- accepts the number of Rights Issue Shares allocated to him (to a maximum of the amount he has subscribed for) and all other instructions of subscription stated in the Subscription Application Form and this Prospectus; and
- undertakes that he will not cancel or amend the Subscription Application Form after submission to the Lead Manager or the Receiving Agent.

The Subscriber reserves the right to take action against the Company for compensation for any damages incurred as a result of information contained in this Prospectus being incorrect or insufficient or as a result of omission of material information which should have been included herein and which could have had a direct influence on his decision to subscribe for Rights Issue Shares.

16.9 Allocation and refund of surplus

Banque Saudi Fransi shall open a trust account (collection) to be called the "Mobile Telecommunications Company Saudi Arabia Account for subscription to the Rights Issue Shares". The Lead Manager and the Receiving Agents shall deposit all funds received from Eligible Shareholders in this account.

The Company shall announce the final allocation and refund of surplus Subscription Monies not later than 5/9/1433H (corresponding to 24/7/2012G) by the publication of a notice in local newspapers in the KSA, and will instruct the Lead Manager and the Receiving Agents to refund the surplus Subscription Monies, without any fees or deduction by the Lead Manager of the Receiving Agents, on the date of the announcement.

The surplus amounts will be refunded without any fees or deductions, by crediting them to Subscribers' accounts with the respective Receiving Agents. Eligible Shareholders should contact the branch of the Receiving Agent where the Subscription Application Form was submitted to obtain further information.

16.10 Other provisions

The Subscription Application Form and all relevant terms, conditions and undertakings shall be binding on Subscribers and their assignees, executors, estate managers and beneficiaries, unless specifically stipulated otherwise in this Prospectus. Neither the Subscription Application Form nor any of the rights, benefits and obligations arising therefrom shall be assigned or delegated by any of the parties to the Offering without the prior written consent of the other party.

The terms and conditions, and receipt of the Subscription Application Form and contracts arising therefrom shall be subject to the laws of the Kingdom of Saudi Arabia and must be interpreted and applied in accordance therewith.

This Prospectus has been issued in both Arabic and English languages. In the event of a discrepancy between the Arabic and English texts, the Arabic text of this Prospectus shall prevail.

16.11 The Saudi Stock Exchange (Tadawul)

The Saudi Stock Exchange remained unofficial until the early 1980s, when the government began to consider the creation of a regulated market and the necessary regulations. In 1984, a ministerial committee, consisting of the Ministry of Finance and National Economy, Ministry of Trade and Industry and SAMA, was formed to regulate and develop the Exchange. SAMA was the government body responsible for the regulation and supervision of the Exchange until the CMA was established on 02/06/1424H (corresponding to 08/01/2003G), under the Capital Market Law promulgated pursuant to Royal Decree No. 30/M. The CMA supervises the regulation and control of the Exchange by issuing rules and regulations designed to protect investors and ensure market fairness and efficiency.

On 29/02/1428H (corresponding to 19/03/2007G), the Saudi Council of Ministers, chaired by the Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz, approved the establishment of a Saudi joint company – the Saudi Stock Exchange (Tadawul) Company. This decree implemented Article 20 of the Capital Market Law, requiring the Exchange to have the legal status of a joint stock company.

Share dealing via the Tadawul system is carried out by means of an integrated mechanism covering the trading process in full, starting with the execution of a transaction and concluding with its settlement. Trading is carried out and orders executed each working day, from Saturday to Wednesday, in one session from 11:00 am to 3:30 pm. Outside these times, it is permitted to enter, alter and cancel orders until 8:00 pm (the system closes down from 8:00 pm until 10:00 am the next working day). New entries and enquiries can be made from 10:00 am. The session starts at 11:00 am, at which time the system begins opening proceedings and determining opening prices and orders which have to be executed pursuant to the rules of compliance. These hours change during the month of Ramadhan, as determined by the CMA.

The Tadawul system seeks to match orders by price, followed by limit orders (orders placed at a price limit). If a number of orders are booked at the same price, they are executed on a first come basis. The system provides full information through various channels, the main ones being the Tadawul website and electronic links providing market data instantaneously to information agencies such as "Reuters".

Transactions are settled automatically during the day, meaning that share ownership is transferred immediately upon execution of the transaction. Issuers must declare all significant decisions and information to the public via the Tadawul system. The Tadawul system, being an automated market operation system, is responsible for market supervision, with the aim of ensuring fair trading and an orderly market.

16.12 Registration on the Official List

Application has been made to the CMA to register and include the Rights Issue Shares in the official Saudi stock market listing. Registration is expected to be approved and trading to commence on the Exchange once the final allocation of the Rights Issue Shares has been concluded. An announcement will be made on the Tadawul website in due course. The dates and times stated in this Prospectus are only provisional and may be changed or extended at any time subject to approval of the CMA.

Although the Shares are registered on the Official List, it will only be possible to trade in the Rights Issue Shares once the allocation of Rights Issue Shares to Eligible Shareholders has been approved and these have been placed in their Tadawul accounts. It is absolutely forbidden to trade in the Rights Issue Shares until the allocation has been approved.

Eligible Shareholders who engage in any forward trading activity shall be acting at their own risk. The Company shall have no legal responsibility in such an event.

17 Documents Available for Inspection

The following documents will be available at the Company's Headquarters, King Fahad Highway, P.O. Box 295814, Riyadh 11351, Saudi Arabia, from 11.00am to 3.30pm every day other than a Thursday, Friday or public holiday from 20/8/1433H (corresponding to 10/7/2012G) up to 27/8/1433H (corresponding to 17/7/2012G) (both dates inclusive):

Constitutional/Corporate

- By-Laws and Articles of Association.
- Royal Decree No. M/48 dated 26/05/1428H (corresponding to 12/06/2007G).
- Minister of Commerce and Industry Resolution No. 81/Q dated 04/03/1429H (corresponding to 12/03/2008G).
- Council of Ministers Resolution No. 175 dated 25/05/1428H (corresponding to 11/06/2006G).
- Council of Ministers Resolution No. 357 dated 28/12/1428H (corresponding to 7/01/2008G).
- Resolution of the Board recommending the Capital Increase.
- Resolution of the Capital Restructuring EGM approving the Capital Increase.

Offering

- MoCI approval to convene the Capital Restructuring EGM.
- CMA approval for the Offering.

Financial

- Independent Auditor's Report.
- The Company's audited financial statements for the financial years ended 31 December 2009G, 31 December 2010G, 31 December 2011G and the notes thereto.

Third Party

- CITC Annual Report 2010.
- IPSOS Loyalty Survey (Zain KSA SAT Plan Wave 1) dated December 2010.
- Arab Advisors Group
- Wireless Intelligence

Letters of consent

Letters of consent from the following parties to include their respective names and logos in the Prospectus:

- Saudi Fransi Capital Limited
- Al Jadaan & Partners Law Firm
- Clifford Chance LLP
- Deloitte & Touche Bakr Abulkhair & Co
- Arab Advisors Group
- GSM Media LLC
- Al Rajhi Capital Company
- Khalid A. Al-Thebity Law Firm in affiliation with Dewey & LeBoeuf LLP
- Oliver Wyman FZ-LLC
- M: Communications FZ-LLC

MOBILE TELECOMMUNICATIONS COMPANY
SAUDI ARABIA
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009 AND INDEPENDENT AUDITORS' REPORT

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT

February 21, 2010

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

We have audited the accompanying balance sheet of Mobile Telecommunications Company Saudi Arabia (the "Company") (a Saudi Joint Stock Company) as of December 31, 2009 and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes which form an integral part of these financial statements. These financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all necessary information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principals generally accepted in Saudi Arabia appropriate to circumstances of the Company; and

- Comply, in all material respects, with the requirements of the Regulations for the Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Company incurred a net loss of Saudi riyals 3.1 billion for the year ended December 31, 2009 and has accumulated losses of Saudi riyals 5.4 billion as of that date. Also, at December 31, 2009, the Company's current liabilities exceeded its current assets by Saudi riyals 4.9 billion. Further, as explained in Note 1 to the financial statements, the lenders have provided waiver for noncompliance with certain covenants for the year ended December 31, 2009 under the Syndicated Murabaha Financing Agreement (the "Agreement") subject to the Company providing revised financial milestones for the quarters ending December 31, 2010 for lenders' approval. The Company is currently in the process of providing such information and believes that negotiations with the lenders to obtain their approval on such revised financial milestones will be successful, and it will also be successful in its efforts to secure funding to meet its obligations in the normal course of operations. Further, no repayment of principal amount under the Agreement was due as of December 31, 2009, and the Company has paid all commission amounts related to the borrowing on due dates through December 31, 2009. Accordingly, the accompanying financial statements have been prepared under the going concern basis and the borrowing has been classified as non-current in accordance with the original repayment schedule.

PricewaterhouseCoopers Al Juraid

By: ____________________
Rashid S. Al Rashoud
License Number 366

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	As at December 31,	
		2009	2008
Assets			
Current assets			
Cash and cash equivalents	4	505,792	583,450
Accounts receivable - net	5	1,007,247	317,669
Inventories	6	39,422	59,832
Prepayments and other receivables - net	7	297,475	220,632
		1,849,936	1,181,583
Non-current assets			
Property and equipment	8	3,846,700	2,408,987
Intangible assets	9	22,133,477	23,074,860
		25,980,177	25,483,847
Total assets		27,830,113	26,665,430
Liabilities			
Current liabilities			
Accounts payable	10	1,814,792	413,799
Accrued and other liabilities	11	2,028,378	564,050
Deferred revenue		251,259	251,623
Due to related parties	15	542,563	534,189
Notes payable	12	2,152,219	1,847,544
Advances from shareholders - current portion	13	-	314,890
Syndicated Murabaha financing from banks	14	-	9,164,001
		6,789,211	13,090,096
Non-current liabilities			
Advances from shareholders - non-current portion	13	2,914,000	1,849,110
Syndicated Murabaha financing from banks	14	9,494,023	-
Employee termination benefits		10,400	4,396
		12,418,423	1,853,506
Total liabilities		19,207,634	14,943,602
Shareholders' equity			
Share capital	16	14,000,000	14,000,000
Accumulated losses		(5,377,521)	(2,278,172)
Total shareholders' equity		8,622,479	11,721,828
Total liabilities and shareholders' equity		27,830,113	26,665,430
Contingencies and commitments	25		

The notes on pages 6 to 20 form an integral part of these financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Statement of operations

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Revenue	17	3,004,052	505,196
Cost of revenue	18	(2,127,026)	(488,737)
Gross profit		877,026	16,459
Operating expenses			
Distribution and marketing	19	(1,573,741)	(1,021,382)
General and administrative	20	(375,898)	(260,082)
Depreciation and amortization	8,9	(1,394,310)	(434,714)
Loss from operations		(2,466,923)	(1,699,719)
Other income (expenses)			
Commission income		1,316	65,339
Financial charges	13,14	(633,742)	(225,532)
Loss before pre-operating expenses		(3,099,349)	(1,859,912)
Pre-operating expenses - net	21	-	(418,260)
Net loss for the year/period		(3,099,349)	(2,278,172)
Loss per share (Saudi Riyals):			
• Loss from operations	22	(1.76)	(1.21)
• Non-operating loss	22	(0.45)	(0.11)
• Net loss	22	(2.21)	(1.63)

The notes on pages 6 to 20 form an integral part of these financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Cash flow statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Cash flow from operating activities			
Net loss for the year/period		(3,099,349)	(2,278,172)
Adjustments for non-cash items			
Provision for doubtful debts	5	82,461	14,557
Provision for doubtful advances	7	-	8,000
Depreciation and amortization	8,9	1,394,310	434,791
Other adjustments			
Commission income		(1,316)	(65,339)
Financial charges		633,742	225,532
Changes in working capital			
Accounts receivable – net		(772,039)	(332,226)
Inventories		20,410	(59,832)
Prepayments and other receivables – net		(76,843)	(228,632)
Accounts payable		1,400,993	413,799
Accrued and other liabilities		1,405,820	564,050
Deferred revenue		(364)	251,623
Employee termination benefits		6,004	4,396
Net cash generated from (utilized in) operating activities		993,829	(1,047,453)
Cash flow from investing activities			
Purchase of property and equipment	8	(1,840,393)	(2,497,791)
Additions to intangible assets	9	(51,932)	(23,421,370)
Proceeds from sale of property and equipment		1,685	523
Commission income received		1,316	65,339
Net cash utilized in investing activities		(1,889,324)	(25,853,299)
Cash flow from financing activities			
Notes payable		304,675	1,847,544
Advances from shareholders		750,000	2,164,000
Due to related parties		8,374	534,189
Proceeds from Syndicated Murabaha financing from banks - net		330,022	9,164,001
Share capital contribution		-	14,000,000
Financial charges paid		(575,234)	(225,532)
Net cash generated from financing activities		817,837	27,484,202
Net (decrease) increase in cash and cash equivalents		(77,658)	583,450
Cash and cash equivalents at beginning of year/period		583,450	-
Cash and cash equivalents at end of year/period	4	505,792	583,450

The notes on pages 6 to 20 form an integral part of these financial statements.

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Statement of changes in shareholders' equity

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Share capital	Accumulated losses	Total
January 1, 2009	14,000,000	(2,278,172)	11,721,828
Net loss for the year	-	(3,099,349)	(3,099,349)
December 31, 2009	14,000,000	(5,377,521)	8,622,479
March 12, 2008	14,000,000	-	14,000,000
Net loss for the period	-	(2,278,172)	(2,278,172)
December 31, 2008	14,000,000	(2,278,172)	11,721,828

The notes on pages 6 to 20 form an integral part of these financial statements.

1- General information

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain - KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a Saudi Joint Stock Company established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008), Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Saudi Arabia on 4 Rabi Awal 1429H (corresponding to March 12, 2008) to operate as the 3rd GSM public mobile cellular and 3G public mobile cellular licensee in the Kingdom of Saudi Arabia for 25 Hijra years. The head office of the Company is situated in Riyadh, Kingdom of Saudi Arabia.

The Company incurred a net loss of Saudi riyals 3.1 billion for the year ended December 31, 2009 and has accumulated losses of Saudi riyals 5.4 billion as of that date. Also, at December 31, 2009, the Company's current liabilities exceeded its current assets by Saudi riyals 4.9 billion. Further, as explained in Note 14 to the financial statements, the lenders have provided waiver for noncompliance with certain covenants for the year ended December 31, 2009 under the Syndicated Murabaha Financing Agreement (the "Agreement") subject to the Company providing revised financial milestones for the quarters ending December 31, 2010 for lenders' approval. The Company is currently in the process of providing such information and believes that negotiations with the lenders to obtain their approval on such revised financial milestones will be successful, and it will also be successful in its efforts to secure funding to meet its obligations in the normal course of operations. Further, no repayment of principal amount under the Agreement was due as of December 31, 2009, and the Company has paid all commission amounts related to the borrowing on due dates through December 31, 2009. Accordingly, the accompanying financial statements have been prepared under the going concern basis and the borrowing has been classified as non-current in accordance with the original repayment schedule.

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

These financial statements were approved by the Management on February 17, 2010.

2- Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

(a) Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are over due, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

(b) Property and equipment

Property and equipment also represent a significant proportion of the asset base of the Company, being 14% (2008: 9%) of the Company's total asset. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimate of useful life

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

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

(c) Intangible assets

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

The relative size of the Company's intangible assets makes the judgments surrounding the estimated useful lives critical to the Company's financial position and performance.

Estimate of useful life

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

(i) Computer software licenses

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

(ii) Mobile telecommunication license

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

2.3 Segment reporting

(a) Business segment

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

(i) engaged in revenue producing activities;

(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and

(iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.4 Foreign currency translations

(a) Reporting currency

These financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for 2009 and 2008, are recognized in the statement of operations.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2.6 Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of operations and reported under "distribution and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "distribution and marketing expenses" in the statement of operations.

2.7 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except capital work in progress which is carried at cost. Depreciation is charged to the statement of operations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

Leasehold improvements (lease term or0 useful life which ever is shorter)	5 Years
Telecommunications equipment	8 Years
Civil works (telecommunications)	15 Years
Information technology systems	2 Years
Information technology servers	5 Years
Furniture and fixtures	5 Years
Office equipment	2 Years
Vehicles and other transportation equipment	5 Years

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of operations.

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

2.9 Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 Hijra years and is primarily determined by reference to the unexpired license period, the conditions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are expected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining software are recognized as an expense when they are incurred.

2.10 Impairment of non-current assets

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

2.11 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of operations.

2.12 Capital leases

The Company accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the statement of operations applying the straight-line method at the rates applicable to the related assets.

2.13 Accounts payable and accruals

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

2.14 Provisions

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

2.15 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of operations. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.17 Revenues

The Company's revenue comprises revenue from mobile telecommunications. Revenue from mobile telecommunications comprises amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's network.

Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company's performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

2.18 Distribution, marketing, general and administrative expenses

Distribution, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

2.19 Operating leases

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

3- Financial instruments and risk management

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

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

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

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

3.1 Currency risk

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

3.2 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial positions and cash flows. The Company's interest rate risks arise mainly from its notes payable, advances from shareholders and syndicated murabaha financing from the banks which are at floating rate of interest and are subject to repricing on a periodic basis.

(All amounts in Saudi Riyals thousands unless otherwise stated)

3.3 Price risk

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

3.4 Credit risk

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

3.5 Liquidity risk

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

The following table analyze the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years
2009		
Accounts payable	1,814,792	-
Accrued and other liabilities	1,983,449	-
Notes payable	2,152,219	-
Due to related parties	542,563	-
Advances from shareholders	-	2,914,000
Syndicated Murabaha financing from banks	-	9,750,000
2008		
Accounts payable	413,799	-
Accrued and other liabilities	527,123	-
Notes payable	1,847,544	-
Due to related parties	534,189	-
Advances from shareholders	314,890	1,849,110
Syndicated Murabaha financing from banks	9,164,001	-

3.6 Fair value

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

4- Cash and cash equivalents

	2009	2008
Cash in hand	200	353
Cash at banks	505,592	583,097
	505,792	583,450

5- Accounts receivable - net

	2009	2008
Billed receivables	992,802	219,136
Unbilled receivables	111,319	112,814
Other	144	276
	1,104,265	332,226
Less: provision for doubtful debts	(97,018)	(14,557)
	1,007,247	317,669

Movement in provision for doubtful debts is as follows:

	2009	2008
Beginning balance	14,557	-
Additions	82,461	14,557
Ending balance	97,018	14,557

6- Inventories

	2009	2008
Handsets and accessories	18,051	7,240
Sim cards	18,006	42,203
Prepaid recharge cards	3,365	10,029
Inventory in transit	-	360
	39,422	59,832

7- Prepayments and other receivables - net

	2009	2008
Advances for transmission lines and fiber links	171,683	75,732
Prepaid rent	64,351	56,589
Advances to suppliers and refundable deposits	27,554	62,074
Prepaid software license fee	8,138	1,739
Prepaid insurance	362	1,560
Other	33,387	30,938
	305,475	228,632
Less: provision for doubtful advances	(8,000)	(8,000)
	297,475	220,632

(All amounts in Saudi Riyals thousands unless otherwise stated)

Movement in provision for doubtful advances is as follows:

	2009	2008
Beginning balance	8,000	-
Additions	-	8,000
Ending balance	8,000	8,000

8- Property and equipment

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

	March 12, 2008	Additions	Disposals	December 31, 2008
Cost				
Leasehold improvements	-	69,586	(317)	69,269
Telecommunications equipment	-	2,102,176	-	2,102,176
IT systems and servers	-	169,697	-	169,697
Furniture, fixtures and office equipment	-	56,454	(324)	56,130
Vehicles and other transportation equipment	-	4,756	-	4,756
Capital work in progress	-	95,122	-	95,122
	-	2,497,791	(641)	2,497,150
Accumulated depreciation				
Leasehold improvements	-	3,858	(53)	3,805
Telecommunications equipment	-	65,115	-	65,115
IT systems and servers	-	15,395	-	15,395
Furniture, fixtures and office equipment	-	3,491	(65)	3,426
Vehicles and other transportation equipment		422	-	422
	-	88,281	(118)	88,163
	-			2,408,987

(All amounts in Saudi Riyals thousands unless otherwise stated)

The Company is in the process of expanding its network. Capital work in progress at December 31, 2009 principally represents costs incurred on several network expansions.

9- Intangible assets

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

	March 12, 2008	Additions	December 31, 2008
Cost			
License fee*	-	23,359,180	23,359,180
Computer software licenses	-	62,190	62,190
	-	23,421,370	23,421,370
Accumulated amortization			
License fee*	-	(343,005)	(343,005)
Computer software licenses	-	(3,505)	(3,505)
	-	(346,510)	(346,510)
	-		23,074,860

* Pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 Hijra years was granted to the Company for an amount of Saudi Riyals 22.91 billion. The license fee also comprises an amount equal to Saudi Riyals 449.18 million related to financing costs which was capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia (see also Note 2.2).

(All amounts in Saudi Riyals thousands unless otherwise stated)

10- Accounts payable

	2009	2008
Trade	1,799,287	391,749
Withholding tax	5,544	4,188
Staff	145	1,449
Other liabilities	9,816	16,413
	1,814,792	413,799

11- Accrued and other liabilities

	2009	2008
Trade	1,696,371	417,792
Financial charges	103,559	108,680
Accrued financial charges on shareholders' advances	63,629	-
Employees	41,762	33,134
Obligations under capital leases (Note 23)	3,167	3,793
Other	119,890	651
	2,028,378	564,050

12- Notes payable

	2009	2008
Nokia Siemens Tietoliikenne Oy	577,758	1,574,461
Motorola Inc.	1,574,461	273,083
	2,152,219	1,847,544

13- 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 at December 31, 2009 carries finance cost that approximate the prevailing market rates.

The following is a breakdown of the advances from shareholders as at December 31:

	2009	2008
Mobile Telecommunications Company K.S.C	1,859,397	1,109,397
Faden Trading & Contracting Est.	314,890	314,890
Saudi Plastic Factory	301,365	301,365
Rakisa Holding Company	136,984	136,984
Almarai Company	109,587	109,587
Ashbal Al-Arab Contracting Est.	109,587	109,587
Al Jeraisy Development Company Limited	54,793	54,793
Al Sale Al Sharkiyah Company Limited	27,397	27,397
	2,914,000	2,164,000
Less current portion	-	(314,890)
Non-current portion	2,914,000	1,849,110

The non-current portion of the advances at December 31, 2009 including accrued financial charges is not scheduled .for repayment until after August 2011

(All amounts in Saudi Riyals thousands unless otherwise stated)

14- Syndicated Murabaha financing from banks

A Syndicated Murabaha facility of approximately Saudi Riyals ("SR") 9.75 billion was arranged by the Banque Saudi Fransi ("Murabaha facility") to refinance the previous financing outstanding at December 31, 2008 of SR 9.16 billion. This facility consists of a SR portion totaling SR 7.09 billion and a US$ portion totaling US$ 710 million (SR 2.66 billion).

Financing charges as specified under the Murabaha facility are payable in quarterly installments over two years. The principal amount is payable in one bullet payment on August 12, 2011.

Financial covenants imposed by the lending banks are:

- Negative pledge on all revenues and assets;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and
- Compliance with various financial milestones across time.

At December 31, 2009 the Company was in noncompliance with certain covenants. However, the lenders provided waiver for such noncompliance subject to the Company providing revised financial milestones for the quarters ending December 31, 2010 for lenders' approval. The Company is currently in the process of providing such information and believes that negotiations with the lenders to obtain their approval on such revised financial milestones will be successful. Further, no repayment of principal amount against the borrowing was due as of December 31, 2009 and the Company has paid all commission amounts related to the borrowing on due dates through December 31, 2009. Accordingly, the borrowing has been classified as non-current in accordance with the original repayment schedule.

15- Related party matters

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

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

15.1 Related party transactions

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

	2009	2008
Revenue	47,874	13,573
Consultancy and services	4,372	2,020
Management fees	126,132	23,744
Salaries and benefits	5,086	7,066

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

Also see Note 13 for shareholders' advances.

(All amounts in Saudi Riyals thousands unless otherwise stated)

15.2 Related party balances

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

(i) Payable to related parties

	2009	2008
MTC Head Office	539,374	514,738
Mada	2,000	14,873
MTC - Bahrain	-	4,114
Others	1,189	464
	542,563	534,189

16- Share capital

The share capital of the Company as of December 31, 2009 and 2008 was comprised of 1.4 billion shares stated at Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share capital
Mobile Telecommunications Company K.S.C.	350,000,000	3,500,000
Saudi Plastic Factory	96,250,000	962,500
Faden Trading & Contracting Est.	96,250,000	962,500
Rakisa Holding Company	43,750,000	437,500
Almarai Company	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	35,000,000	350,000
Al Jeraisy Development Company Limited	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	8,750,000	87,500
Total founding shareholders	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Saudi nationals IPO subscribed	630,000,000	6,300,000
Total	1,400,000,000	14,000,000

17- Revenue

	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Usage charges	2,879,162	486,382
Subscription	122,429	18,814
Other	2,461	-
	3,004,052	505,196

(All amounts in Saudi Riyals thousands unless otherwise stated)

18- Cost of revenue

	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Access charges	1,491,086	267,804
Government charges	204,351	56,051
Leased lines	192,350	77,107
Discount on prepaid recharge cards	105,682	37,732
Other	133,557	50,043
	2,127,026	488,737

19- Distribution and marketing expenses

	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Dealer's commission	299,618	67,015
Advertising	296,921	317,890
Repairs and maintenance	236,015	-
Employees' salaries and related costs	217,685	264,567
Rentals	155,897	117,394
Management fees (Note 15)	126,132	23,744
Bad debts expense (Note 5)	82,461	22,557
Systems support and licenses	67,468	2,943
Utilities	26,506	13,061
Customer loyalty and retention	8,090	105,106
Other	56,948	87,105
	1,573,741	1,021,382

20- General and administrative expenses

	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Consulting	114,722	159,142
Employees' salaries and related costs	96,870	64,793
System support and maintenance	59,893	-
Withholding tax expense	46,628	16,844
Repairs and maintenance	19,103	-
Legal and professional	15,649	1,598
Other	23,033	17,705
	375,898	260,082

(All amounts in Saudi Riyals thousands unless otherwise stated)

21- Pre-operating expenses - net

Pre-operating expenses for the period from March 12, 2008 to December 31, 2008 are summarized as follows:

IPO costs	94,874
Employees' salaries and related benefits	83,094
Bank credit facilities commitment charges and financing charges	70,029
Consulting fees	36,092
Rent	20,833
Advertising	11,769
Depreciation	77
Legal fees	299
Other expenses	104,714
Withholding taxes	107
Pre-operating income	(3,628)
	418,260

22- Loss per share

Loss per share for the year/ period ended December 31, 2009 and 2008 has been computed by dividing the operating loss, non-operating items - net and net loss for the year/ period by the weighted average number of shares outstanding during the year/ period which was 1.4 billion shares.

23- Capital leases

The Company's obligations under capital leases as at December 31 are as follows:

	2009	2008
Within 12 months	1,972	1,413
Within 12 - 24 months	1,195	1,570
Within 24 - 36 months	-	810
	3,167	3,793

The rate of return for capital lease ranges from 7.92% to 8.29% per annum. Rentals are payable in monthly installments. The Company has the option to purchase the related assets at the end of lease term.

(All amounts in Saudi Riyals thousands unless otherwise stated)

24- Operating leases

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

	2009	2008
Within 12 months	475,746	99,625
Within 2 - 5 years	874,964	305,250
Over 5 years	487,148	455,310
	1,837,858	860,185

25- Contingencies and commitments

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. The capital commitments at December 31 are comprised of the following:

	2009	2008
Within 12 months	814,040	2,760,007
Within 2 - 5 years	1,174,633	1,056,084
Over 5 years	-	22,073
	1,988,673	3,838,164

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

26- Segment information

The Company commenced commercial activities on August 26, 2008 and since commencement of activities, the Company's operations are substantially from mobile phone services. Accordingly, segment information is not applicable.

(All amounts in Saudi Riyals thousands unless otherwise stated)

27- Zakat

27.1 Components of zakat base

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

	2009	2008
Shareholders' equity at beginning of year / period	11,721,828	14,000,000
Provisions at beginning of year / period	26,953	-
Long-term borrowings and shareholders' advances	12,408,023	11,328,001
Adjusted net loss for the year / period	(3,010,884)	(2,251,219)
Property and equipment, as adjusted	(3,846,700)	(2,408,987)
Intangible assets	(22,133,477)	(23,074,860)
Approximate zakat base of the Company	(4,834,257)	(2,407,065)

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

Calculation of adjusted net loss

	Year ended December 31, 2009	For the period from March 12, 2008 to December 31, 2008
Net loss for the year / period	(3,099,349)	(2,278,172)
- Employee termination benefits	6,004	4,396
- Provision for doubtful debts	82,461	14,557
- Other - Provision against doubtful advances	-	8,000
Adjusted net loss for the year / period	(3,010,884)	(2,251,219)

27.2 Provision for zakat

No provision was made for the period ended December 31, 2008 as the Company did not complete one Hijra year from the date of its Commercial Registration. The Company completed one Hijra year during the first quarter of year ended December 31, 2009. As of December 31, 2009, the Company's zakat base is negative and the Company has incurred losses. Accordingly, no zakat provision has been made for the year ended December 31, 2009.

27.3 Status of assessments

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

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

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

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT

February 20, 2011

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

Scope of audit

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

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

Unqualified opinion

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

- Present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to circumstances of the Company; and

- Comply, in all material respects, with the requirements of the Regulations for the Companies and the Company's Bylaws with respect to the preparation and presentation of financial statements.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Company incurred net loss for the year ended December 31, 2010 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. The Company believes that it will be successful in meeting its obligations in the normal course of operations. Accordingly, the accompanying financial statements have been prepared under the going concern basis.

PricewaterhouseCoopers

By: ____________________
Khalid A. Mahdhar
License Number 368

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Balance sheet

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Statement of operations

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Cash flow statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Cash flow from operating activities			
Net loss for the year		(2,358,437)	(3,099,349)
Adjustments for non-cash items			
Provision for doubtful debts	5,7	159,889	82,461
Provision for slow moving items	6	2,250	-
Depreciation and amortization	8,9	1,494,220	1,394,310
Other adjustments			
Financial charges		1,195,511	633,742
Commission income		(655)	(1,316)
Changes in working capital			
Accounts receivable - net		(623,808)	(772,039)
Inventories		8,373	20,410
Prepayments and other receivables - net		(103,052)	(76,843)
Accounts payable		289,711	1,400,993
Accrued and other liabilities		622,474	1,405,820
Deferred revenue		200,083	(364)
Due to related parties		139,720	(482,824)
Employee termination benefits		6,696	6,004
Net cash generated from operating activities		1,032,975	511,005
Cash flow from investing activities			
Purchase of property and equipment	8	(284,633)	(1,840,393)
Additions to intangible assets	9	(24,234)	(51,932)
Proceeds from sale of property and equipment		1,217	1,685
Commission income received		655	1,316
Net cash utilized in investing activities		(306,995)	(1,889,324)

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Cash flow statement

(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Cash flow from financing activities			
Short-term borrowing facility	12	2,193,750	-
Notes payable	13	(2,152,219)	304,675
Advances from shareholders		-	1,241,198
Syndicated Murabaha financing from banks - net		-	330,022
Financial charges paid		(571,186)	(575,234)
Net cash (utilized in) generated from financing activities		(529,655)	1,300,661
Net change in cash and cash equivalents		196,325	(77,658)
Cash and cash equivalents at beginning of year		505,792	583,450
Cash and cash equivalents at end of year	4	702,117	505,792
Supplemental non-cash information			
Fair value of derivative financial instruments and corresponding debit to shareholders' equity	16	134,630	-
Notes payable issued against additions to property and equipment	13	659,221	-

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

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

Statement of changes in shareholders' equity

(All amounts in Saudi Riyals thousands unless otherwise stated)

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

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

1- General information

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain - KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a Saudi Joint Stock Company established pursuant to the Ministerial Resolutions No. 175 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008), Royal Decree No. M/48 dated 26 Jumada I, 1428H (corresponding to June 12, 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Saudi Arabia on 4 Rabi Awal 1429H (corresponding to March 12, 2008) to operate as the 3rd GSM public mobile cellular and 3G public mobile cellular licensee in the Kingdom of Saudi Arabia for 25 Hijra years. The head office of the Company is located in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the year ended December 31, 2010 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern depends upon the Company's ability to arrange adequate funds in a timely manner. The Company believes that it will be successful in its efforts to secure funding to meet its obligations in the normal course of its operations. Accordingly, the accompanying financial statements have been prepared under the going concern basis.

The Board of Directors (the "Board") in their meeting held on February 20, 2011 recommended to restructure the share capital of the Company by reducing it from Saudi Riyals 14,000,000,000 to saudi Riyals 6,265,000,000 and the total number of shares from 1.4 billion shares to 626,500,000 shares by cancellation of 773,500,000 shares with a 55.25% reduction of share capital, an average reduction of approximately one share for every 1.80995 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Company as of December 31, 2010 further. the Board has recommended to increase the share capital by Saudi Riyals 4,383,487,180 through the issuance of 438,348,718 new shares (rights issue). The recommendation of the Board is subject to approval by shareholders in the extra ordinary general assembly meeting.

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

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

2- Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments at fair value, and in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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

(a) Intangible assets

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

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

Estimate of useful life

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

(i) Mobile telecommunication license

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

(ii) Computer software licenses

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

(b) Property and equipment

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

Estimate of useful life

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

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

(c) Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

2.3 Segment reporting

(a) Business segment

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

(i) engaged in revenue producing activities;

(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and

(iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

2.4 Foreign currency translations

(a) Reporting currency

These financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which were not significant for 2010 and 2009, are recognized in the statement of operations.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2.6 Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of operations and reported under "distribution and marketing expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "distribution and marketing expenses" in the statement of operations.

2.7 Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation except capital work in progress which is carried at cost. Depreciation is charged to the statement of operations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

Leasehold improvements	Shorter of lease term or useful life
Telecommunications equipment	8 Years
Civil works (telecommunications)	15 Years
Information technology systems	2 Years
Information technology servers	5 Years
Furniture and fixtures	5 Years
Office equipment	2 Years
Vehicles and other transportation equipment	5 Years

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of operations.

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

2.9 Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 Hijra years and is primarily determined by reference to the unexpired license period, the conditions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are expected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining software are recognized as an expense when they are incurred.

2.10 Impairment of non-current assets

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

2.11 Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of operations.

2.12 Capital leases

The Company accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the statement of operations applying the straight-line method at the rates applicable to the related assets.

2.13 Accounts payable and accruals

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

2.14 Provisions

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

2.15 Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and charged to the statement of operations. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

2.17 Revenues

The Company's revenue comprises revenue from mobile telecommunications. Revenue from mobile telecommunications comprises amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's network.

Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company's performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

2.18 Distribution, marketing, general and administrative expenses

Distribution, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

2.19 Operating leases

Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rental expenses under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

2.20 Derivative financial instruments

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

2.21 Reclassifications

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

(i) Balance amounting to Saudi Riyals 491.2 million has been reclassified from due to related parties (Note 17) to advances from shareholders (Note 14).

(ii) For better presentation accrued financial charges amounting to Saudi Riyals 63.6 million has been reclassified from accrued and other liabilities (Note 11) to advances from shareholders (Note 14).

3- Financial instruments and risk management

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

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

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

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

3.1 Currency risk

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

3.2 Fair value and cash flow commission rate risks

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

3.3 Price risk

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

3.4 Credit risk

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

3.5 Liquidity risk

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

3.6 Fair value

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

4- Cash and cash equivalents

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

5- Accounts receivable - net

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

Movement in provision for doubtful debts is as follows:

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

6- Inventories - net

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

Prepayments and other receivables - net

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

Movement in provision for doubtful advances is as follows:

	2010	2009
Beginning balance	8,000	8,000
Reversal	(8,000)	-
Ending balance	-	8,000

(All amounts in Saudi Riyals thousands unless otherwise stated)

7- Prepayments and other receivables - net

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

Movement in provision for doubtful advances is as follows:

	2010	2009
Beginning balance	8,000	8,000
Reversal	(8,000)	-
Ending balance	-	8,000

(All amounts in Saudi Riyals thousands unless otherwise stated)

8- Property and equipment

Cost	January 1, 2010	Additions	Disposals/ Transfers	December 31, 2010
Leasehold improvements	147,285	16,380	-	163,665
Telecommunications equipment	3,309,368	753,695	(9,068)	4,053,995
IT systems and servers	247,270	24,752	-	272,022
Furniture, fixtures and office equipment	62,134	1,151	(1,205)	62,080
Vehicles and other transportation equipment	6,105	-	(340)	5,765
Capital work in progress	563,442	608,046	(460,170)	711,318
	4,335,604	1,404,024	(470,783)	5,268,845
Accumulated depreciation				
Leasehold improvements	35,883	29,357	-	65,240
Telecommunications equipment	369,178	411,947	(9,068)	772,057
IT systems and servers	71,781	43,578	-	115,359
Furniture, fixtures and office equipment	10,537	5,098	(215)	15,420
Vehicles and other transportation equipment	1,525	1,157	(113)	2,569
	488,904	491,137	(9,396)	970,645
	3,846,700			4,298,200
Leasehold improvements	69,269	78,016	-	147,285
Telecommunications equipment	2,102,176	1,207,192	-	3,309,368
IT systems and servers	169,697	77,610	(37)	247,270
Furniture, fixtures and office equipment	56,130	6,004	-	62,134
Vehicles and other transportation equipment	4,756	3,251	(1,902)	6,105
Capital work in progress	95,122	928,422	(460,102)	563,442
	2,497,150	2,300,495	(462,041)	4,335,604
Accumulated depreciation				
Leasehold improvements	3,805	32,078	-	35,883
Telecommunications equipment	65,115	304,063	-	369,178
IT systems and servers	15,395	56,403	(17)	71,781
Furniture, fixtures and office equipment	3,426	7,111	-	10,537
Vehicles and other transportation equipment	422	1,340	(237)	1,525
	88,163	400,995	(254)	488,904
	2,408,987			3,846,700

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

9- Intangible assets

Cost	January 1, 2010	Additions	December 31, 2010
License fee*	23,359,180	-	23,359,180
Computer software licenses	114,122	24,234	138,356
	23,473,302	24,234	23,497,536
Accumulated amortization			
License fee*	(1,321,105)	(978,101)	(2,299,206)
Computer software licenses	(18,720)	(24,982)	(43,702)
	(1,339,825)	(1,003,083)	(2,342,908)
	22,133,477		21,154,628
License fee*	23,359,180	-	23,359,180
Computer software licenses	62,190	51,932	114,122
	23,421,370	51,932	23,473,302
Accumulated amortization			
License fee*	(343,005)	(978,100)	(1,321,105)
Computer software licenses	(3,505)	(15,215)	(18,720)
	(346,510)	(993,315)	(1,339,825)
	23,074,860		22,133,477

* Pursuant to the Ministerial Resolutions No. 175 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. M/48 dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 Hijra years was granted to the Company for an amount of Saudi Riyals 22.91 billion. The license fee also comprises an amount equal to Saudi Riyals 449.18 million related to financing costs which was capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia (see also Note 2.2).

10- Accounts payable

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

11- Accrued and other current liabilities

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

12- Short-term borrowing facility

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

13- Notes payable

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

14- Advances from shareholders

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

The following is a breakdown of the advances from shareholders as at December 31:

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

15- Syndicated Murabaha financing from banks

A Syndicated Murabaha facility ("Murabaha facility") of approximately SR 9.75 billion was arranged by Banque Saudi Fransi to refinance the previous financing which matured in July 2009. This facility consists of a SR portion totaling SR 7.09 billion and a US$ portion totaling US$ 710 million (SR 2.66 billion).

Financing charges as specified under the Murabaha facility are payable in quarterly installments over two years. The principal amount is payable in one bullet payment on August 12, 2011. As per the terms of the Murabaha facility agreement and in the event that no default has occurred, the Company has the option to extend the initial maturity date (August 12, 2011) by six months by giving notice to the lenders. The Company intends to exercise such option. Accordingly, the outstanding balance at December 31, 2010 has been classified as long term.

Financial covenants imposed by the lending banks are:

- Negative pledge on all revenues and assets;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and
- Compliance with various financial milestones across time.

16- Derivative financial instruments

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

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

17- Related party matters

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

17.1 Related party transactions

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

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

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

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

Also see Note 14 for shareholders' advances.

17.2 Related party balances

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

(i) Due to related parties

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

18- Share capital

The share capital of the Company as of December 31, 2010 and 2009 was comprised of 1.4 billion shares stated at Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share capital
Mobile Telecommunications Company K.S.C.	350,000,000	3,500,000
Saudi Plastic Factory	96,250,000	962,500
Faden Trading & Contracting Est.	96,250,000	962,500
Rakisa Holding Company	43,750,000	437,500
Almarai Company	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	35,000,000	350,000
Al Jeraisy Development Company Limited	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	8,750,000	87,500
Total founding shareholders	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Public shareholding	630,000,000	6,300,000
Total	1,400,000,000	14,000,000

19- Revenue

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

20- Cost of revenue

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

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

21- Distribution and marketing expenses

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

22- General and administrative expenses

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

23- Loss per share

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

(All amounts in Saudi Riyals thousands unless otherwise stated)

24- Operating leases

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

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

25- Contingencies and commitments

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. The capital commitments at December 31 are comprised of the following:

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

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

26- Segment information

The Company commenced commercial activities on August 26, 2008 and since commencement of activities, the Company's operations are substantially from mobile phone services. Accordingly, segment information is not applicable.

(All amounts in Saudi Riyals thousands unless otherwise stated)

27- Zakat

27.1 Components of zakat base

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

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

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

Calculation of adjusted net loss

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

27.2 Provision for zakat

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

27.3 Status of assessments

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

MOBILE TELECOMMUNICATIONS COMPANY
SAUDI ARABIA
(A Saudi Joint Stock Company)
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011 AND INDEPENDENT AUDITORS' REPORT

Deloitte.

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بكر أبو الخير وشركاهم
محاسبون قانونيون - ترخيص رقم ٩٦

صندوق البريد ٢١٣ - الرياض ١١٤١١
المملكة العربية السعودية

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تقرير مراجعي الحسابات

إلى السادة المساهمين المحترمين
شركة الإتصالات المتنقلة السعودية
(شركة مساهمة سعودية)
الرياض - المملكة العربية السعودية

نطاق المراجعة

لقد راجعنا قائمة المركز المالي المرفقة لشركة الإتصالات المتنقلة السعودية (" الشركة ") - وهي شركة مساهمة سعودية كما في ٣١ ديسمبر ٢٠١١ وقوائم العمليات والتدفقات النقدية والتغيرات في حقوق المساهمين للسنة المنتهية في ذلك التاريخ، والإيضاحات من رقم ١ إلى ٢٨ المعتبرة جزءاً لا يتجزأ من هذه القوائم المالية والمعدة من قبل الشركة وفقا لنص المادة ١٢٣ من نظام الشركات والمقدمة لنا مع كافة المعلومات والبيانات التي طلبناها. إن هذه القوائم المالية هي مسؤولية إدارة الشركة وأن مسؤوليتنا هي إبداء رأينا على هذه القوائم المالية بناءً على المراجعة التي أجريناها.

لقد قمنا بمراجعتنا وفقا لمعايير المراجعة المتعارف عليها في المملكة العربية السعودية، وتتطلب تلك المعايير أن نقوم بتخطيط وتنفيذ مراجعتنا للحصول على درجة معقولة من القناعة بأن القوائم المالية خالية من أية أخطاء جوهرية. تشتمل إجراءات المراجعة على فحص اختباري للمستندات المؤيدة للمبالغ والإفصاحات التي تحتويها القوائم المالية ، كما تشتمل على تقييم المعايير المحاسبية المتبعة والتقديرات الهامة التي استعملتها الإدارة وعلى تقييم عرض القوائم المالية ككل. وفي اعتقادنا أن مراجعتنا تشكل أساسا معقولا نستند عليه في إبداء رأينا.

رأي مطلق

برأينا، إن القوائم المالية المرفقة تظهر بعدل، من كافة النواحي الجوهرية، المركز المالي للشركة كما في ٣١ ديسمبر ٢٠١١ ونتائج أعمالها وتدفقاتها النقدية للسنة المنتهية في ذلك التاريخ وفقا لمعايير المحاسبة المتعارف عليها في المملكة العربية السعودية الملائمة لظروف الشركة كما وتتفق مع متطلبات نظام الشركات والنظام الأساسي للشركة فيما يتعلق بإعداد وعرض القوائم المالية .

لفت إنتباه

دون تعديل تقريرنا، نود لفت الانتباه للإيضاح رقم ١ حول القوائم المالية حيث تكبّدت الشركة صافي خسارة للسنة المنتهية في ٣١ ديسمبر ٢٠١١، كما تجاوزت المطلوبات المتداولة الموجودات المتداولة. تعتقد الشركة بأنها سوف تتمكن من الوفاء بالتزاماتها من خلال قيامها بعملياتها الاعتيادية وجهودها في تأمين التمويل اللازم المشروط بإعادة هيكلة رأسمال الشركة. وبناءً عليه، فقد تم إعداد القوائم المالية المرفقة على أساس مبدأ الاستمرارية في النشاط.

ديلويت آند توش
بكر أبو الخير وشركاهم

ناصر الدين محمد السقا
(محاسب قانوني - ترخيص رقم ٣٢٢)

٢٧ ربيع الأول ١٤٣٣
١٩ فبراير ٢٠١٢

Member of
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MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

BALANCE SHEET

AS AT DECEMBER 31,2011

	Notes	2011 SR'000	2010 SR'000
Assets			
Current assets			
Cash and cash equivalents	3	780,273	702,117
Accounts receivable	4	1,006,574	1,463,166
Inventories	5	43,617	28,799
Prepaid expenses and other assets	6	601,706	408,527
Total current assets		2,432,170	2,602,609
Non-current assets			
Property and equipment	7	4,058,813	4,298,200
Intangible assets	8	20,252,778	21,154,628
Total non-current assets		24,311,591	25,452,828
Total assets		26,743,761	28,055,437
Liabilities and shareholders' equity			
Current liabilities			
Notes payable	9	915,876	-
Short-term borrowing facility	10	-	2,193,750
Syndicated Murabaha financing current	11	9,747,638	-
Accounts payable	12	1,609,284	2,104,503
Due to related parties	13	26,673	117,294
Deferred revenue		434,392	451,342
Derivative financial instruments	14	45,781	-
Accrued expenses and other liabilities	15	2,731,184	2,587,223
Total current liabilities		15,510,828	7,454,112
Non-current liabilities			
Notes payable	9	153,937	659,221
Long-term borrowing facility	10	2,223,529	-
Syndicated Murabaha financing	11	-	9,655,693
Advances from shareholders	16	4,018,550	3,665,497
Due to related parties	13	520,651	339,776
Derivative financial instruments	14	-	134,630
Provision for employee's end-of-service benefits		23,201	17,096
Total non-current liabilities		6,939,868	14,471,913
Total liabilities		22,450,696	21,926,025
Shareholders' equity			
Share capital	17	14,000,000	14,000,000
Hedging reserve	14	(45,781)	(134,630)
Accumulated deficit		(9,661,154)	(7,735,958)
Total shareholders' equity		4,293,065	6,129,412
Total liabilities and sharehold- ers' equity		26,743,761	28,055,437
Contingencies and Commit- ments	24, 25		

The accompanying notes form an integral part of these financial statements

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR'000	2010 SR'000
Revenue	18	6,699,060	5,934,370
Cost of revenue	19	(3,498,893)	(3,403,922)
Gross profit		3,200,167	2,530,448
Operating expenses			
Distribution and marketing expens- es	20	(1,972,132)	(1,848,666)
General and administrative ex- penses	21	(329,185)	(351,143)
Depreciation and amortization ex- penses	7, 8	(1,710,328)	(1,494,220)
Total operating expenses		(4,011,645)	(3,694,029)
Operating loss		(811,478)	(1,163,581)
Other income / (expenses)			
Finance charges	9,10,11,16	(1,113,856)	(1,195,511)
Commission income		138	655
Net loss for the year		(1,925,196)	(2,358,437)
Loss per share (in Saudi Riyals):	22		
• From operating loss		(0.58)	(0.83)
• From non-operating loss		(0.80)	(0.85)
• From net loss		(1.38)	(1.68)

The accompanying notes form an integral part of these financial statements

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR'000	2010 SR'000
OPERATING ACTIVITIES			
Net loss for the year		(1,925,196)	(2,358,437)
Adjustments to reconcile loss			
for the year to net cash from op- eration activities:			
Provision for doubtful receivables and advances	4, 6	76,461	159,889
Depreciation and amortization expenses	7, 8	1,710,328	1,494,220
Provision for slow moving in- ventory items	5	750	2,250
Finance charges		1,113,856	1,195,511
Provision for employee's end-of-service benefits		7,415	6,981
Operation income before chang- es in working capital		983,614	500,414
Changes in working capital:			
Accounts receivable		380,131	(623,808)
Inventories		(15,568)	8,373
Prepaid expenses and other as-sets		(193,179)	(103,052)
Accounts payable		(344,622)	289,711
Due to related parties		90,254	139,720
Deferred revenue		(16,950)	200,083
Accrued expenses and other liabili- ties		(786,365)	622,474
Cash generated from operation		97,315	1,033,915
Financial charges paid		(183,530)	(571,186)
Employee's end-of-service benefits paid		(1,310)	(285)
Net cash (used in)/ generated from operating activities INVE- STING ACTIVITIES		(87,525)	462,444
Purchase of property and equip-ment	7	(302,009)	(284,633)
Additions to intangible assets	8	(8,815)	(24,234)
Proceeds from sale of property and equipment		1,728	1,217
Net cash used in investing ac- tivities		(309,096)	(307,650)

The accompanying notes form an integral part of these financial statements

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011 SR'000	2010 SR'000
FINANCING ACTIVITIES			
Notes payable	9	-	(2,152,219)
Short-term borrowing facility	10	(2,193,750)	2,193,750
Proceeds from long-term bor-rowing facility	10	2,223,529	-
Syndicated Murabaha financing		91,945	-
Advances from shareholders		353,053	-
Net cash generated from financ-ing activities		474,777	41,531
Net change in cash and cash equivalents		78,156	196,325
Cash and cash equivalents, be-ginning of the year		702,117	505,792
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3	780,273	702,117
Non-cash transactions:			
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	14	88,849	134,630
Adjustment to property and equipment with corresponding effect to notes payable	9	410,592	659,221
Adjustment to property and equipment with corresponding effect to accounts payable	12	150,597	-

The accompanying notes form an integral part of these financial statements

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

AS AT DECEMBER 31,2011

	Note	Share capital	Hedging reserve	Accumulat-ed deficit	Total equity
January 1, 2010		14,000,000	-	(5,377,521)	8,622,479
Net loss for the year		-	-	(2,358,437)	(2,358,437)
Net loss for the year	14	-	(134,630)	-	(134,630)
December 31, 2010		14,000,000	(134,630)	(7,735,958)	6,129,412
Net loss for theyear		-	-	(1,925,196)	(1,925,196)
Derivative financial instruments	14	-	88,849	-	88,849
December 31, 2011		14,000,000	(45,781)	(9,661,154)	4,293,065

The accompanying notes form an integral part of these financial statements

28- ORGANIZATION AND ACTIVITIES

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain - KSA"), provides mobile telecommunication services in the Kingdom of Saudi Ara- bia in which it operates, purchases, delivers, installs, manages and maintains mo- bile telephone services.

The Company is a Saudi Joint Stock Company established pursuant to the Minis-terial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008), Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Saudi Arabia on 4 Rabi Awal 1429H (corresponding to March 12, 2008) to operate as the 3rd GSM public mobile cellular and 3G public mobile cellular license in the King- dom of Saudi Arabia for 25 years. The head office of the Company is located in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the year ended December 31, 2011 and its cur- rent liabilities exceeded its current assets and has accumulated deficit as of that date. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company's ability to arrange adequate funds in a timely manner.

The Board of Directors (the "Board") in their meeting held on February 20, 2011 and subsequent meeting held on October 26, 2011 recommended to restructure the share capital of the Company by reducing it from SR 14,000,000,000 to SR 4,801,000,000 and the total number of shares from 1.4 billion shares to 480,100,000 shares by cancellation of 919,900,000 shares with a 65.7% reduction of share cap- ital, an average reduction of approximately one share for every 1.5219 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Com- pany as at September 30, 2011. Further, the Board has recommended to increase the share capital by SR 6,000,000,000 through the issuance of 600,000,000 new shares (rights issue) which is expected to involve capitalization of advances from shareholders to equity, which is subject to the approval of the founding sharehold- ers, and raising of fresh cash from existing shareholders. The recommendation of the Board is subject to the approval of the stockholders in the extra ordinary gen- eral assembly meeting, the Capital Market Authority (the "CMA") and the Ministry of Commerce and Industry (the "MOCI"). The Company has submitted the required document for above-mentioned restructuring plan to the CMA on December 28, 2011 for their review and approval to enable the Company to commence with the rights issue process. Proceeds of the rights issue will be utilized to partially re- pay the Syndicated Murabaha Financing ("Murabaha Facility"), reduce the working capital and finance capital expenditure as well as the development of the network.

1- ORGANIZATION AND ACTIVITIES (Continued)

On October 11, 2011 the Board approved to commence the negotiations with the current existing lenders and to seek new potential lenders to refinance the existing Murabaha Fa- cility. Currently, the Company is evaluating the terms and conditions of various potential lenders and the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012.

In addition, in the same Board meeting dated October 11, 2011, the Board of Directors approved the appointment of the new CEO Mr. Khalid S. A. Al Omar who replaced the existing CEO Mr. Saad Barrak effective October 11, 2011.

The discussions and negotiations relating to the proposed acquisition by Kingdom Hold- ing Company (KHC) – Saudi Arabia and Batelco Group – Bahrain (the "consortium") of the 25% shareholding in the Company owned by Mobile Telecommunications Company K.S.C. – Kuwait has ended effective September 29, 2011. Consequent to the above, Mo- bile Telecommunication Company K.S.C. is no longer considering to sell its stake in the Company, it will focus instead on speeding up the Company's capital restructuring plan with its full support.

In December 2011, the Company has formally submitted the request to exercise the op- tion to extend the maturity date of the Murabaha Facility by six months to facilitate these discussions and obtained the required approval from the lenders during January 2012.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these 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 financial statements were approved by the Board of directors on --------------, 2012.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments at fair value, and in compliance with accounting standards promul- gated by Saudi Organization for Certified Public Accountants ("SOCPA").

Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabili- ties 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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(a) Intangible assets

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

The relative size of the Company's intangible assets being 75.7% (2010: 75.4%) of the Company's total assets, makes the judgments surrounding the estimated useful lives criti- cal to the Company's financial position and performance.

Estimate of useful life

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

(i) Mobile telecommunication license

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

(ii) Computer software licenses

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment

Property and equipment also represent a significant proportion of the asset base of the Company, being 15.2% (2010: 15.3%) of the Company's total assets. Therefore, the esti- mates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

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

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Provision for doubtful receivables

A provision for impairment of accounts receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the accounts receivable are impaired. For significant individual amounts, assessment is made at in- dividual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

Segment reporting

(a) Business segment

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

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

Foreign currency translations

(a) Reporting currency

These financial statements are presented in Saudi Riyals which is the reporting currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses result- ing from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash with banks and other shortterm highly liquid investments, if any, with maturities of three months or less from the purchase date.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of provision for doubtful receivables. 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 statement of operations and reported under "distribu- tion and marketing expenses". When an account receivable is uncollectible, it is writtenoff against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited against "distribution and marketing expenses" in the statement of operations.

Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined us- ing weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation except capital work in progress which is carried at cost. Depreciation is charged to the statement of op- erations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives:

	Years
Leasehold improvements Telecommunications equipment	Shorter of lease term or useful life
Telecommunications equipment	8
Civil works (telecommunications)	15
Information technology systems	2
Information technology servers	5
Furniture and fixtures	5
Office equipment	2
Vehicles and other transportation equipment	5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of operations.

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 years and is primarily determined by reference to the unexpired license period, the condi- tions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are ex- pected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining software are recognized as an expense when they are incurred.

Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circum- stances 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 recover- able 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 car- rying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years.

A reversal of an impairment loss is recognized as income immediately in the statement of operations. Impairment losses recognized on intangible assets are not reversible.

Borrowings

Borrowings are recognized at the proceeds received, net of transaction costs incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of operations.

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts payable and accruals

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

Provisions

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

Zakat

The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Employee's end-of-service benefits

Employee's end-of-service benefits required by Saudi Labor and Workman Law are ac- crued by the Company and charged to the statement of operations. The liability is calcu- lated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on the employee's final salary 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 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 recog- nized 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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 deliver- ables provided to the customer as part of the same arrangement, is deferred and recog- nized 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 Com- pany 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 indi- rect costs not specifically part of cost of revenue as required under generally accepted accounting principles. Allocations between distribution, marketing and general and admin- istrative 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 un- der operating leases are charged to the 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 desig- nated and qualify as cash flow hedge is recognized in hedging reserve under sharehold- ers' equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the statement of operations in the period in which the hedged item impacts the statement of operations.

3- CASH AND CASH EQUIVALENTS

	2011 SR'000	2010 SR'000
Cash at banks	228,789	201,917
Cash on hand	234	200
Time deposits	551,250	500,000
	780,273	702,117

4- ACCOUNTS RECEIVABLE

	2011 SR'000	2010 SR'000
Billed receivables (Notes 4.1 and 4.2)	1,231,298	1,609,535
Unbilled receivables	116,158	118,239
Other	486	299
	1,347,942	1,728,073
Less: provision for doubtful receivables	(341,368)	(264,907)
	1,006,574	1,463,166

Movement in provision for doubtful receivables is as follows:

	2011 SR'000	2010 SR'000
Balance as at 1 January	264,907	97,018
Additions	76,461	167,889
Balance as at 31 December	341,368	264,907

4.1 The Company has agreements with other operators whereby amount receivable from and payable to the same operator are subject to offsetting. At December 31, 2011 and 2010, the net amounts are included in accounts receivable and accounts payable are as follows:

	2011 SR'000	2010 SR'000
Accounts receivables, net	605,745	928,154
Accounts payables, net	738,404	1,196,810

4.2 Billed receivable includes amount due from related parties amounting to SR 14.6 million (2010: SR 5.3 million) for providing telecommunication services to related parties

5- INVENTORIES

	2011 SR'000	2010 SR'000
Sim cards	21,769	21,196
Prepaid recharge cards	11,134	1,544
Handsets and accessories	528	7,099
Other	13,186	1,210
	46,617	31,049
Less: Provision for slow moving inventory items	(3,000)	(2,250)
	43,617	28,799

5- INVENTORIES (Continued)

Movement in provision for slow moving inventory items is as follows:

	2011 SR'000	2010 SR'000
Balance as at 1 January	2,250	-
Additions	750	2,250
Balance as at 31 December	3,000	2,250

6- PREPAID EXPENSES AND OTHER ASSETS

	2011 SR'000	2010 SR'000
Advances for transmission lines and fiber links	239,175	177,110
Advances to suppliers and refundable deposits	224,867	102,489
Prepaid rent	86,938	71,596
Prepaid advertisement	13,689	13,558
Prepaid software license fee	8,339	2,358
Prepaid insurance	3,712	3,076
Other	24,986	38,340
	601,706	408,527

Movement in provision for doubtful advances to suppliers is as follows:

	2011 SR'000	2010 SR'000
Balance as at 1 January,	-	8,000
Reversal during the year	-	(8,000)
Balance as at 31 December,	-	-

Movement in provision for doubtful advances to suppliers is as follows:

7- PROPERTY AND EQUIPMENT

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

The Company is in the process of expanding its network. Capital work in progress at December 31, 2011 and 2010 principally represents costs incurred on several network expansions.

8- INTANGIBLE ASSETS

	January 1, 2011	Additions	December 31, 2011
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	138,356	8,815	147,171
	23,497,536	8,815	23,506,351
Accumulated amortization			
License fee*	(2,299,206)	(882,117)	(3,181,323)
Computer software licenses	(43,702)	(28,548)	(72,250)
	(2,342,908)	(910,665)	(3,253,573)
Carrying Amount	21,154,628		20,252,778

8- INTANGIBLE ASSETS (Continued)

	January 1, 2011	Additions	December 31, 2011
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	114,122	24,234	138,356
	23,473,302	24,234	23,497,536
Accumulated amortization			
License fee*	(1,321,105)	(978,101)	(2,299,206)
Computer software licenses	(18,720)	(24,982)	(43,702)
	(1,339,825)	(1,003,083)	(2,342,908)
Carrying Amount	22,133,477		21,154,628

* Pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corre- sponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 years was granted to the Company for an amount of Saudi Riyals 22.91 billion. The license fee also comprises an amount equal to Saudi Ri- yals 449.18 million related to financing costs which was capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia. During the year 2011 the company has retroactively adjusted the accumulated amortiza- tion of the license resulted from changing the useful life of the license from 25 Hijra years to 25 Gregorian years. (Also refer note 1).

9- NOTES PAYABLE

	2011 SR'000	2010 SR'000
Current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	73,125	-
Motorola Inc.	842,751	-
	915,876	-
Non-current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	153,937	-
Motorola Inc.	-	659,221
	153,937	659,221

10- SHORT AND LONG TERM BORROWING FACILITIES

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

The long-term borrowings facility balance as at 31 December 2011 was netted by the unamortized balance of the upfront fees.

11- SYNDICATED MURABAHA FINANCING

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 US$ portion totalling US$ 710 million (equivalent to SR 2.66 billion).

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

In December 2011, the Company has formally submitted the request to exercise its sec- ond and final option to extend the maturity date of the Murabaha Facility till July 27, 2012 and obtained the required approval from the lenders on January 24, 2012. Accordingly, the outstanding balance as at December 31, 2011 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.

On October 11, 2011 the Board approved to commence the negotiations with the current existing lenders and to seek new potential lenders to refinance the existing syndicated Murabaha Facility on a long-term basis. Currently, the Company is evaluating the terms and conditions of various potential lenders and the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012, (refer to Note 1).

12- ACCOUNTS PAYABLE

	2011 SR'000	2010 SR'000
Trade payables	1,528,001	2,083,291
Withholding tax provision	16,310	6,096
Staff	350	301
Other	64,623	14,815
	1,609,284	2,104,503

13- RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Related Party Transactions

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

	2011 SR'000	2010 SR'000
Revenue	44,602	31,416
Cost of revenue	13,273	10,738
Consultancy and services	-	3,094
Management fees (Note 20)	180,875	189,900
Salaries and benefits	-	5,900
Financial charges	162,289	177,295

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

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

Also see Note 16 for the advances from shareholders.

Related Party Balances

Significant year end balances arising from transactions with related parties are as fol- lows:

(i) Due from related parties – current

	2011 SR'000	2010 SR'000
Zain Jordan	15,081	17,085
Zain Bahrain	3,762	7,562
Others	2,379	2,379
	21,222	27,026

13- RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

.(ii) Due to related parties – current

	2011 SR'000	2010 SR'000
Mobile Telecommunications Company K.S.C – current account	9,344	97,258
Zain Sudan	37,541	42,175
MTC Touch	810	2,687
MADA	-	2,000
Others	200	200
	47,895	144,320
Due to related parties – current, net	26,673	117,294

(iii) Due to related parties – non current

	2011 SR'000	2010 SR'000
Mobile Telecommunications Company K.S.C – management fee	520,651	339,776

14- DERIVATIVE FINANCIAL INSTRUMENTS

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

		Negative fair value	
	Contract notional amount SR'000	December 31, 2011 SR'000	December 31, 2010 SR'000
Derivative financial instruments	8,287,500	45,781	134,630

All commission rate swaps were matured on January 14, 2012.

15- ACCRUED EXPENSES AND OTHER LIABILITIES

	2011 SR'000	2010 SR'000
Trade	1,760,011	2,148,108
Government fee (Note 19)	741,572	176,086
Employees	62,470	54,648
Financial charges	61,861	140,795
Others	105,270	67,586
	2,731,184	2,587,223

16- ADVANCES FROM SHAREHOLDERS

Certain 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 certain founding shareholders as at December 31:

	2011 SR'000	2010 SR'000
Mobile Telecommunications Company K.S.C.	2,505,074	2,350,595
Faden Trading & Contracting Est.	314,890	314,890
Saudi Plastic Factory	301,365	301,365
Rakisa Holding Company	136,984	136,984
Almarai Company	109,587	109,587
Ashbal Al-Arab Contracting Est.	109,587	109,587
Al Jeraisy Development Company Limited	54,793	54,793
Al Sale Al Sharkiyah Company Limited	27,397	27,397
	3,559,677	3,405,198
Accrued financial charges	458,873	260,299
Total	4,018,550	3,665,497

The advances from shareholders as at December 31, 2011 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Murabaha Facility of SR 9.75 billion (Note 11).

As disclosed in note 1, the share capital increase will involve capitalization of advances from the founding shareholders by converting the above advances to equity which is subject to the approval of the founding shareholders.

17- SHARE CAPITAL

The share capital of the Company as of December 31, 2011 and 2010 was comprised of 1.4 billion shares stated at Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share Capital SR'000
Mobile Telecommunications Company K.S.C.	350,000,000	3,500,000
Saudi Plastic Factory	96,250,000	962,500
Faden Trading & Contracting Est.	96,250,000	962,500
Rakisa Holding Company	43,750,000	437,500
Almarai Company	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	35,000,000	350,000
Al Jeraisy Development Company Limited	17,500,000	175,000
Architectural Elite Est. for Engineering and Con- tracting	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	8,750,000	87,500
Total founding shareholders	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Public shareholding	630,000,000	6,300,000
Total	1,400,000,000	14,000,000

18- REVENUE

	2011 SR'000	2010 SR'000
Usage charges	6,524,467	5,814,827
Subscription	142,941	114,860
Other	31,652	4,683
	6,699,060	5,934,370

19- COST OF REVENUE

	2011 SR'000	2010 SR'000
Access charges	2,145,240	2,199,778
Government charges	644,175	588,807
Discount on prepaid recharge cards	274,634	262,020
Leased lines	247,480	205,377
Other	187,364	147,940
	3,498,893	3,403,922

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

20- DISTRIBUTION AND MARKETING EXPENSES

	2011 SR'000	2010 SR'000
Advertising	407,853	252,053
Repairs and maintenance	343,665	417,318
Employees' salaries and related charges	309,578	231,019
Dealers' commission	293,087	305,975
Rent expenses	189,843	189,586
Management fees (Note 13)	180,875	189,900
Bad debts expense (Notes 4 and 6)	76,461	159,889
Customer promotions	40,079	11,302
Systems support and licenses	31,637	31,040
Utilities	23,322	4,586
Other	75,732	55,998
	1,972,132	1,848,666

21- GENERAL AND ADMINISTRATIVE EXPENSES

	2011 SR'000	2010 SR'000
Employees' salaries and related costs	101,883	100,699
Consulting services	69,327	74,694
System support and maintenance	42,135	52,514
Repairs and maintenance expenses	37,933	31,991
Withholding tax expense	33,830	61,683
Legal and professional charges	3,873	8,279
Other	40,204	21,283
	329,185	351,143

22- LOSS PER SHARE

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

23- ZAKAT

Components of zakat base

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

	2011 SR'000	2010 SR'000
Shareholders' equity at beginning of year	6,129,412	8,622,479
Provisions at beginning of year	284,253	115,418
Long-term borrowings and shareholders' advances	6,396,016	13,980,411
Adjusted net loss for the year (see below)	(1,842,630)	(2,189,602)
Property and equipment	(4,058,813)	(4,298,200)
Intangible assets	(20,252,778)	(21,154,628)
Approximate negative zakat base of the Company	(13,344,540)	(4,924,122)

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

Calculation of adjusted net loss

	2011 SR'000	2010 SR'000
Net loss for the year	(1,925,196)	(2,358,437)
- Employee termination benefits	6,105	6,696
- Provision for doubtful receivables and for slow moving inventory items	76,461	162,139
Adjusted net loss for the year	(1,842,630)	(2,189,602)

Provision for zakat

No zakat provision has been made in these financial statements as the Company's zakat base is negative and the Company has incurred losses since inception.

Status of assessments

The Company has filed its zakat returns for the period ended December 31, 2008 and for the years 2009 and 2010 with the DZIT, however, no final zakat assessments have been received yet.

24- OPERATING LEASES COMMITMENTS

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

	2011 SR'000	2010 SR'000
Within 12 months	164,216	164,520
Within 2 to 5 years	632,292	614,753
Over 5 years	299,840	294,747
	1,096,348	1,074,020

25- CONTINGENCIES AND COMMITMENTS

The Company has entered into arrangements with suppliers for the purchase of tele- communication equipment and with other mobile telecom companies for providing mo- bile cellular services. The capital commitments at December 31 are comprised of the following:

	2011 SR'000	2010 SR'000
Within 12 months	318,212	480,367
Within 2 to 5 years	97,554	912,494
	415,766	1,392,861

Also see Note 24 for operating lease commitments.

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

26- 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 balance sheet date, accordingly, the Company's man- agement believes that operating segment information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

27- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, borrowings, notes payable and accounts payables. The particular recognition methods adopted are disclosed in the individual policy statements associ- ated with each item.

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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, and US Dollars which is pegged to the Saudi Riyals. Management closely moni- tors the exchange rate fluctutations and believes that Company's exposure to currency risk is not significant.

Fair value and cash flow commission rate risks

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

Price risk

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

27- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an

obligation and cause the other party to incur a financial loss. The Company has no sig- nificant concentration of credit risk. Cash is placed with banks with sound credit ratings. Account receivables are carried net of provision for doubtful receivables.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Com- pany incurred net loss for the year ended December 31, 2011 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. These condi- tions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company's ability to arrange adequate funds in a timely manner. The directors have a reasonable expectation that

the Company has adequate resources to continue in operational existence for the fore- seeable future. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments. (Also see note 1).

Fair value

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

28- RECLASSIFICATION

Balance amounting to SR 339,776 thousand as of December 31, 2010 has been reclas- sified from due to related parties – current liabilities to due to related parties – non-cur- rent liabilities to conform with the 2011 presentation.