Annual Board of Directors Report & Financial Statements of 2013

Dear shareholders of Mobile Telecommunications Company Saudi Arabia (Zain), we hereby present to your good selves the annual board of directors' report about your Company's activities and operations during the past financial year of 2013:

Company's Establishment and Activities

Mobile Telecommunications Company Saudi Arabia (hereinafter referred to as the "Company", "Zain", "Zain KSA" or "we"), 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) and 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 public mobile licensee in the Kingdom of Saudi Arabia for 25 Hijrah years.

The Company provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates; purchases, delivers, installs, manages and maintains mobile telephone and paging systems; and invest surplus funds in investment securities.

Zain's License

Zain officially received the third mobile telecom operator license in the Kingdom of Saudi Arabia from the Communications and Information Technology Commission ("CITC") having completed all required procedures for the launch of its activities in the Saudi market and the full payment of the license fees. The terms of the license provide for a term of 25 years and permits Zain 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. The license also requires the Company to comply with specific roll-out and coverage obligations, including coverage of at least 93% of the population within five years of service launch. In addition to the license fee, the Company is required to pay certain annual fees during the term of the license, calculated in accordance with a specific formula or as a percentage of net revenues.

Operational Overview

Zain launched its commercial operations on August 26, 2008, a year after it was awarded its mobile license. By the end of 2013 and after our fifth full year of operation, we had achieved a better performance under challenging competition environment and some regulatory controls over the labor market. The following sections will outline those achievements in operational aspects i.e. network, IT and commercial:

Network

- **Spectrum**

Zain's license includes usage of the global spectrum for 2G (GSM) services in the 900 MHZ and 1800 MHZ plus 3G (UMTS) services in the 2100 MHZ spectrum and LTE in 1800 MHZ. Zain continues to enhance the offered MBB services to higher speeds in line with market needs (>150

Mbps). The network also uses various frequency bands to provide backhaul and backbone transmission as needed by the network. In addition to the microwave links, Zain has also leased fiber lines and dark fibers with DWDM to provide high capacity backbone transmission links supporting the existing microwave and providing interconnections with other operators' networks. For future expansions, Zain also plan to expand the microwave and DWDM transmission to extend service areas to new cities and remote villages and roads.

- **Network Technology**

Zain's own primary network technology platform is based on the latest 2G, 3G, HSPA+ and LTE global standards. The network was designed to provide reliable services; it incorporates several levels of protection to keep the network running during various breakdown conditions. As a result zain's network provided stable and reliable services during high traffic conditions in Ramadan and during Hajj season. Also, the designed capacity of the network has enabled the network to accommodate the increasing numbers of subscribers and will be able to cater for higher capacity as our market share grows. The network is highly scalable and flexible to accommodate increasing numbers of subscribers in line with the marketing roadmap and the anticipated growth in our market share for both voice and data services. Zain was the first operator lunching Mobility LTE in Saudi Arabia and Middle East.

- **Network Expansion**

In August of 2008 Zain launched commercial operations. The Company's voice and messaging services, based on 2G technologies, covered 34 cities representing 53% of the Saudi population and 3G data services covered 43%.

In 2009, Zain continued building its voice and data networks to cover more cities and highways reaching 353 cities and 38 highways which represent 83% of the Kingdom's population.

Zain continued building its voice and Mobile Broadband (MBB) services; voice services covered more than 400 cities and 59 highways, serving 92% of population coverage for 2G, 80% of population coverage for 3G and 36% of population coverage for LTE. Network Growth has also included providing MBB and LTE services in all major cities. The following key projects were also successfully completed by the end of 2013:

- The Ramadan expansion project which aimed to maintain the high quality services in Makkah and Madina during Ramadan peak traffic;
- The building of the Hajj Network with a capacity of 3 million customers, enabling Zain to capture a higher market share than the previous Hajj seasons with triple the capacity in data traffic;
- In order to provide more robust network services, Zain Deployed LTE core in three main cities: Dammam, Riyadh and Jeddah;
- Modernize all the major cities with latest Radio & Transmission solution;
- Expand the Cores with Pooling concept for better efficiency;
- Improve the network quality on services level and introduce the Key Quality Indicators (KQIs);
- Zain completed USF2 project (part of the CITC universal service fund program)
- Zain completed USF4.

In 2013, Zain continued building its voice and Mobile Broadband (MBB) services; voice services now cover more than 600 cities and 120 highways, 93% of population coverage for 2G, 82% of population coverage for 3G and 52% of population coverage for LTE. Network Growth has also included providing MBB and LTE services in all major cities. The following key projects were also successfully completed by the end of 2013:

- Zain focused more on the data services infrastructures by unifying and modernizing the packet core to handle the 2G/3G/LTE services with extra capacity can support up 2.5 million active subscribers with better efficiency which gives better customer experience.
- Zain continued improving its data network by expanding and modernizing the ISP network to cater the huge demand on data services.
- One of the main key projects in 2013 was the Leased Lines Migration for the Metro and Long-Haul which aimed to reduce the OpEx by around 40 Million SAR, and to upgrade the existing transmission network with more capacity.
- Insource the network quality which led in improving the customer Experience and reducing the monthly Opex by 74%.
- In the other hand, Ramadan and Hajj seasons for 2013 was successful as the KPIs maintained and customer experience assured.

- **Strategy for 2014**

In line with Zain's business direction to continue improving network quality, the Company has planned to expand of their current network coverage and capacity. To accomplish this strategy, key projects have been identified:

- Expand 2G/3G network for coverage and capacity; minimum 3G capacity is 21Mbps/sector.
- Expand on LTE network in all major cities in Saudi Arabia including three LTE core locations with VoLTE capability.
- Complete rollout the fiber network project to significantly reduce current Leased Line Opex.
- Enhance indoor coverage with building dedicated indoor solutions to provide best levels of 2G/3G/HSAP+/LTE services.
- Minimize national roaming by increasing Zain foot print in uncovered areas.
- Modernizing Transmission and Radio with latest technologies.
- Increase the backhauling capabilities by modernizing the IP MPLS.
- Modernize efficiency the Core network to reduce the opex.
- Introducing new technologies to the market (VoLTE).
- Understanding the behavior of data customers by deploying usage analytics system which will allow marketing to introduce new packages to the market.

IT Infrastructure and Applications

Zain KSA started its operation with state-of-the art IT systems, providing maximum flexibility and capabilities. In 2013, ZAIN KSA continued building IT systems and focused on Operations optimization to create an efficient IT environment and enabling on-time solution delivery. Below are highlights of Major achievement from IT in 2013:

- ZAIN contact center System is expended in terms of capacity which can support up to 700 concurrent calls at a time while IVR is handling more than 65 % of daily calls
- Contact center capabilities have been upgraded to enable multi-channel queues including web sessions, intelligent segment based routing and call back queuing
- High quality and swift product development that was the key factor for the timely launch of new Zain products in 2013.
- Better operational process to support Customer problems.
- Enhancements in company's Financial & ERP system to make it more productive for finance and staff.
- Roll out of state of the art IT Services in ZAIN flagships.
- Enhancements in Infrastructure which has increased the performance of billing & credit control.

  Introduction of managed services arm to empower operations
- Introduction of the state of the art Ericsson IN side by side with existing IN pool
- Launch of the innovative Convergent charging platform
- Enhancement Business capabilities and rules refresh and update
- Elevation of self-care and customer services management through Zain's dynamic portal capabilities

- **Launch of new state of the art Data Warehouse platform Strategy for 2014**

In 2014 and beyond, Zain is planning an overall transformation initiative that targets bringing Zain IT capabilities to a state of the art level and enable business entry into an expansion phase. The transformation is aimed at three major axis:

Empowering the all layers of consumer segment:

- Marketing insight and product definition capabilities
- Sales operations and field management,
- Distribution and partner management
- Product development
- Customer Relationship Management: customer experience, customer service, customer touch points, service centers, customer lifecycle management and customer retention
- State of the art retail experience and journey
- Enabling Zain offering in the SME sector
- Creating a customer centric telecom services offering through a smart network moving and reacting in tandem with customer behavior
- Launching business decision capabilities in a new dimension with the introduction of Big Data and various operational analytics engines across the entire technology stack

In addition, IT will continue on its key strategic initiatives with a target launch of the state of the art charging and Billing in One convergent system that would be a key center joint for innovative products and services and elevated customer experience.

In addition and on other fronts IT infrastructure will experience the following upgrades:

- Infrastructure optimization using virtualization & consolidation which will reduce Opex and increase the efficiency in IT systems.

- Continue the development and enhancement of the IT applications Architecture to support the introduction of more and new services to our customers, with an enhanced time to market lifecycle.
- Further improve the “customer experience” oriented end to end KPI’s ensuring the best services to Zain customers.
- Further improve IT Security to avoid any electronic invasions or hackings.
- Significant IT retail state of the art expansion.

Commercial Overview

The Company has adopted new commercial initiates during 2013 that have boosted its commercial performance. While continuing to push to increase its market share, the commercial department has put lots of effort to increase the quality of the sales and push the customer value. Those commercial initiatives include the following:

- ### Prepaid Services

The company has launched 3 main new products to address the entire market segment. Zain one to push Zain market share with a mass market approach, Zain Max to cater to local users heavily using data and at the end of year “Kareeb” package to address the expat segment.

Zain strategy has been to focus to get better quality customers with higher ARPU, thus resulting in better ARPU.

- ### Postpaid Services

“Mazaya” line of products has continued to perform well in the market. A particular emphasis has been put to capture roaming customer with the Vodafone passport bundled in “Mazaya”. It has been very well received with an increase of roaming customers since the launch.

- ### Mobile Broadband (Data Only Services)

During the second semester the company has launched new long term plans for MBB customers. The launch of these products with an improved go to market has proven very successful with results higher than expectations. It is interesting to note that the long term plan capture high value customers that are willing to pay upfront several months in advance of data usage.

The long MBB products have been launched with an emphasis to expand from our traditional sales network to capture directly the customers where they are with a dedicated sale force.

Following the launch Zain has witnessed a sizeable increase in monetized data usage

- ### Customer Life Value Management

Zain has re-launched its customer life value management. Several campaigns have been implemented to push customer usage, increase the retention rate, and expand the life time value of Zain customers.

- **Develop the Most effective Sales and Distribution Channels in the KSA Market**

The Company has developed and pursued a strategy to broaden and deepen its sales and distribution channels in order to increase customer base numbers and optimize the distribution of its products and services to its customer base. The Company has drawn on the 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.

During 2013, Zain KSA continued to develop its sales and distribution model and despite a sharp increase in airtime distribution, Zain managed to maintain a very solid distribution network. Independent research showed than Zain's sales and airtime coverage in 2013 significantly increased and was similar to or better than competition that started their operations years before Zain. In this line Zain KSA also pushed to implement more efficient logistics models relying on electronic channels to distribute airtime, which allowed the Company to increase the contribution weight of EVD (Electronic Voucher Distribution) significantly by end of 2013.

Finally, Zain embarked in the revamp of the incentive scheme for its sales partners. This exercise aimed to adjust to the realities of the market and also geared towards driving acquiring quality customer base performance in order to deliver an excellent customer experience. The revamped incentive scheme achieved a significant reduction in prepaid churn compare to 2012 and also controlled the price wars as by allowing and seeking its partners' profitability. Moreover, the implementation of the new incentive scheme allowed the Company to capture the majority of the pre-paid gross ads generated throughout the year in KSA.

By the end of the year, twelve flagships were up and running, recent ones in Riyadh and Jeddah, offering the best Zain customer experience and allowing the company to compete in the best-in-class retail environment, and also having 192 operating franchise outlets across KSA that provide Zain products and services. The plan is to have a total of 25 flagships by the year end 2014.

The Company will continue to assess its sales and distribution partner network and is seeking and engaging strategic partnerships, and establish new alternative sales distribution channels, and also to ensure that the distribution channel network is as diversified as possible, allowing for a more effective targeting of specific customer segments. For example, in line with the Company's intention to increase postpaid and 4G customer base seek to expand the availability of mobile recharge options to its customers in a cost effective manner, also the Zain KSA Company is continuing to develop its prepaid distribution network across KSA, and increase the electronic recharge contribution to distribution network across the KSA.

Strategy Moving Forward – 2014 and Beyond

The Company's objective is to gain fair market share, in order to provide the best possible returns for Shareholders. We will achieve this objective through the execution of the following strategic initiatives:

- **Improving and Innovating our Services and Products**

We will continue to lead the market in terms of innovative products and services delivering real value to our customers. We aim to increase the spend and loyalty of our existing customers, as well as attracting new customers. We will build upon the success of our new product platforms; "Zain Max" and "Kareeb" packages.

- **Enhancing our Brand**

We strive to clearly differentiate the Zain brand in the mind of consumers. We will continue to build upon our leadership position in customer care; we have been independently rated as offering the best customer care amongst our competitors in the Kingdom.

- **Extending our Distribution Network**

We will continue with the expansion and transformation of our retail distribution network making our products available through more points of sales across the Kingdom.

- **Continuous Improvement of our Network and Operations**

We aim to deliver a consistently excellent data experience to our customers through the widespread deployment of 4G LTE and 3G radio access technologies, and by connecting our network together with high capacity backhaul links. We offer our customers an ultrahigh speed, low latency mobile data network. We will continue to build upon this leadership position, being the first mobile network in the Kingdom to introduce true 4G data services using the latest LTE 1800 technology. We are committed to constantly continuing to improve our network and operational efficiency. We will target our capital investment to maximize the financial returns from our current and forecasted demand. Our strategic partnership with Vodafone is enabling us to build a truly world class operation in KSA. We now strive to meet international benchmarks for operational excellence.

- **Aiming to Excel in Wholesale Segment**

We aim to be number 1 in the MVNO wholesale market. We have decided to support Axiom as our MVNO partner. Axiom is one of the leading retailers of smartphones in the Kingdom of Saudi Arabia; they have access to a customer base which is complementary to Zain's customer base. Working in partnership we aim to build a successful and long term business relationship with Axiom. International experience shows that late entrants have successfully used MVNOs as a key element of their commercial strategy.

Summary of Zain KSA financial results

Balance Sheet Highlights as at 31 December 2009, 2010, 2011, 2012 and 2013

The following table summarizes the financial position of Zain KSA as at December 31, 2009, 2010, 2011, 2012 and 2013:

SAR Million	2009 Audited	2010 Audited	2011 Audited	2012 Audited	2013 Audited	Change 12/13	% Change 12/13
Current assets	1,850	2,602	2,432	4,380	3,315	(1,065)	(24.3%)
Non-current assets	25,980	25,453	24,312	23,636	22,927	(709)	(3.0%)
Total assets	**27,830**	**28,055**	**26,744**	**28,016**	**26,242**	**(1,774)**	**(6.3%)**
Current liabilities	6,789	7,454	15,511	15,400	3,826	(11,574)	(75.2%)
Non-current liabilities	12,419	14,472	6,940	4,164	15,657	11,493	276.0%
Total liabilities	**19,208**	**21,926**	**22,451**	**19,564**	**19,483**	**(81)**	**(0.4%)**
Shareholders' equity	8,622	6,129	4,293	8,452	6,759	(1,693)	(20.0%)
Total liabilities and shareholders' equity	**27,830**	**28,055**	**26,744**	**28,016**	**26,242**	**(1,774)**	**(6.3%)**

Source: Audited financial statements for the years ended 2009, 2010, 2011, 2012 and 2013

As at 31 December 2013, the Company had total assets amounted to SAR 26,242 million, of which SAR 18,276 million (69.6% of total assets) relating to the carrying amount of the CITC license acquired back during year 2007. In addition; property and equipment amounted to SAR 4,293 million as at 31 December 2013 represented 16.4% of total assets.

At the same date, the Company's total liabilities amounted to SAR 19,483 million, of which 72.6% amounting to SAR 14,135 million are related to the following:

- Murabaha Facility;
- Advances from Shareholders;
- Junior Debt - ANB;
- Governmental Loan; and
- Vendors' Financing.

Overview of the Company's Borrowings

As at 31 December 2013, the outstanding balances of borrowing arrangements amounted to SAR 14,135 million. The following table summarizes those borrowing arrangements as at 31 December 2013 (Note: All figures are in (Millions) Saudi Arabia, Riyals):

Type of borrowing	Term	Principal Amount	Repaid during 2013	Lender	Outstanding balance	Maturity
Murabaha Facility	5 years	8,631	-	Consortium of 8 banks	8,631	30 Jun, 2018
Advances from Shareholders	Open	2,273	-	Founding Shareholders	2,273	Open
Junior Debt - ANB	3 years	2,250	-	Consortium of 4 banks	2,250	02 Jun, 2016
Governmental Loan	14 years	275	-	Ministry of Finance	275	31 May, 2027
Vendors' Financing	5.5 years	1,219	178	Export Credit Agency	706	31 Jan, 2018
Total					**14,135**	

Note: All figures are in (Millions) Saudi Arabia, Riyals
Source: Company's Information

- ***Syndicated Murabaha Financing***

The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 9,750 million was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SAR portion totaling SAR 7.09 billion and a USD portion totaling USD 710 million (equivalent to SAR 2.66 billion). The initial purpose of this agreement was to partially finance the acquisition of CITC license back in year 2008.

Financing charges as specified under the Murabaha Facility are payable in quarterly installments over the life of the loan. As per the terms of the Murabaha Financing Agreement the Company exercised its two (2) options to extend the initial maturity date (12 August 2011) for six (6) months each, totaling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. Subsequently, the Company has successfully obtained several approvals to extend the facility until 31 July 2013. The Company has also partially settled an amount of SAR 750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company has signed an amended and restated "Murabaha financing Agreement" with consortium of banks which also includes existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ending 30 June 2018. The new facility has been restructured as an amortizing facility, 25% of which will be due between 3.5 to 4.5 years of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SAR 8,631 billion, SAR portion totaling 6.3 billion and USD portion totaling 0.6 billion (SAR 2.3 billion).

Accordingly, the outstanding balance as at 31 December 2013 has been classified as non-current liability.

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

Financial and other covenants imposed by the financing banks are:

a. Assignment of certain contracts and receivables;
b. Pledge of insurance contracts and operating accounts;
c. Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
d. No further financial indebtedness, pari passu, insurance on all assets; and
e. EBITDA and leverage level.

Throughout the year 2013, the Company was not in breach of any financing covenants and was able to meet the milestones agreed with the funding banks to ensure compliance.

- ***Advances from Shareholders***

The founding shareholders have provided advances to the Company, in accordance with the arrangements agreed with the shareholders during the third (3rd) quarter of year 2007. The outstanding balance as at 31 December 2013 amounted to SAR 2,273 million. The initial agreements with shareholders carry financing costs that approximate the prevailing market rates.

The Company initially obtained these advances from the founding shareholders in order to serve the following purposes:

- Partially finance the acquisition of CITC license;
- Finance the working capital requirements; and
- Provide security required by syndicated Murabaha financing agreement.

The advances from shareholders as at 31 December 2013 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

In addition, a founding shareholder Rakisa Holding Company ("Rakisa") and ADIH entered into a settlement agreement dated 18 July 2008 and a supplement to this agreement dated 28 October 2008 (together, the "Settlement Agreements") in relation to a claim that ADIH had filed against Rakisa. The terms of the Settlement Agreements required Rakisa to transfer certain number of its assets to ADIH, including 30 million of its shares in the Company and its full amount of the advances provided to the Company, being approximately SAR 137 million. In order to enforce Rakisa's compliance with the Settlement Agreements, ADIH filed a claim dated 9 September 2009 against Rakisa at the Second Commercial Circuit at the Grievances Board in Riyadh. On 20 October 2010, the Grievances Board issued a judgment requiring Rakisa to comply with the terms of the Settlement Agreements. The ADIH transfer took place on 15 May 2012.

- ***Junior Debt – ANB***

On 5 April 2011, local commercial banks arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility. This facility consists of a SAR portion totaling SAR 1,875 million and a USD portion totaling USD 100 million (equivalent SAR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company

K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility and was due for repayment on 3 April 2013.

The Company has successfully obtained approval from financing banks to extend this long term facility until 5 June 2013. On 5 June 2013 the Company has signed a new long-term borrowing facility agreement amounting to SAR 2.25 billion with three years maturity to refinance the above facility. The new facility is provided by a syndicated of four banks; three of which are local banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the Murabaha Facility, and secured by an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C. The new facility will be repaid in one bullet payment at the maturity date of 2nd June, 2016.

The initial purpose of obtaining this type of financing was to refinance the Company’s obligations under previous vendor financing arrangements. The interest is payable from Mobile Telecommunications Company K.S.C. and cross charged back to the Company.

- ***Governmental Loan***

The Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at an amount not exceeding SAR 5.6 billion. This agreement is considered as a commercial loan, since it is bearing an interest that’s lower than market prevailing levels. Financing costs will be paid quarterly starting from June 2014.

As at 31 December 2013, the Company accrued an amount of SAR 275 million as an outstanding loan of actual deferred payments under this agreement during 2013.

- ***Vendor financing***

On 20 June 2012 an Export Credit Agency Facility Agreement having two tranches (A and B) totaling USD 325 million was signed between the Company and three international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

At 31 December 2013, the Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B has been cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual installments over the life of the loan. Repayment will take place over five (5.5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). The final maturity of this facility will be on 31/1/2018. As at 31 December 2013, four installments were repaid. Principal and interest is payable from Mobile Telecommunications Company K.S.C. and cross charged back to the Company.

Statements of Operation Highlights for years ended December 31, 2009, 2010, 2011, 2012 and 2013

The following table summarizes the statement of operation for the years ended 31 December 2009, 2010, 2011, 2012 and 2013:

SAR Million	2009 Audited	2010 Audited	2011 Audited	2012 Audited	2013 Audited	Change 12/13	% Change 12/13
Revenues	3,004	5,934	6,699	6,171	6,523	352	5.7%
Cost of revenues	(2,127)	(3,404)	(3,499)	(3,311)	(3,388)	(77)	2.3%
Gross profit	**877**	**2,530**	**3,200**	**2,860**	**3,135**	**275**	**9.6%**
Distribution and marketing	(1,574)	(1,848)	(1,972)	(1,687)	(2,028)	(341)	20.2%
General and administrative	(376)	(351)	(329)	(295)	(216)	79	(26.8%)
EBITDA	**(1,073)**	**331**	**899**	**878**	**891**	**13**	**1.5%**
Depreciation and amortization	(1,394)	(1,494)	(1,710)	(1,810)	(1,840)	(30)	1.7%
Loss from operations	**(2,467)**	**(1,163)**	**(811)**	**(932)**	**(949)**	**(17)**	**1.8%**
Commission income	1	1	-	6	21	15	250.0%
Financial charges	(633)	(1,196)	(1,114)	(823)	(723)	100	(12.2%)
Net loss for the year	**(3,099)**	**(2,358)**	**(1,925)**	**(1,749)**	**(1,651)**	**98**	**(5.6%)**

Source: Audited financial statements for the years ended 2009, 2010, 2011, 2012 and 2013

During 2013, revenues increased by 5.7% reaching to SAR 6,523 million up from SAR 6,171 million in 2012. Main drivers of this increase in revenues were increase in the internet segment revenues, alongside revenues increase in the postpaid segment.

Adding to the revenues increase, it is worth mentioning that the Company's subscribers' base increased by end of 2013 by a double digit growth of 10% reaching to 8.7 million subscribers as compared to 2012. It is worth mentioning that majority of this growth was driven by increased subscribers in the internet service.

Cost of revenues increased in 2013 by 2.3% reaching to SAR 3,388 million up from SAR 3,311 million in 2012. This increase in cost of revenues is attributable mainly to an increase in the international interconnection cost related to number of international destinations.

Additionally, gross margin has improved during 2013 to reach 48% up from 46% in 2012. Gross margin improvement came as a result of revenues increase besides imposing more controls on the costs of revenues.

EBITDA improved during 2013 by 1.5% reaching to SAR 891 million up from SAR 878 million in 2012. The Company maintained its EBITDA Margin during 2013 at 14%.

Loss from operations increased by around 1.8% in 2013 reaching to SAR 949 million up from SAR 932 million in 2012. This is attributable to the increased maintenance costs under the distribution and marketing costs, which is a result of the increased number of network sites.
Financial charges has significantly decreased by 12.2% during 2013 reaching to SAR 723 million down from SAR 823 million in 2012, such decrease is attributable basically to capitalizing majority of advances from shareholders back in 2012 that accordingly minimized the commission related to it. Moreover, financial charges related to Murabaha Facility decreased as a result of lowering the carrying interest rate took place during July 2013.

The following table presents revenue breakdown for years 2009, 2010, 2011, 2012 and 2013:

SAR Million	2009	2010	2011	2012	2013	Change 12/13	% Change 12/13
Usage charges	2,879	5,815	6,524	5,909	6,127	218	3.7%
Subscription	123	115	143	232	370	138	59.7%
Other	2	4	32	30	26	(4)	(14.8%)
Total revenue	**3,004**	**5,934**	**6,699**	**6,171**	**6,523**	**352**	**5.7%**

Source: Company's information

It's worth mentioning that geographical analysis of revenue does not apply due to the nature of the Company's operations. This is attributable to mobility of the customer within the kingdom, so the customer's information might be registered in some region while he initiates calls from different regions dependent on his/her existence. Furthermore, revenue generated by international calls couldn't be linked to any region since they occur overseas.

- **Dividend policy**

The item (45) of the Company's By-Laws states that after deducting all general expenses and other costs, the Company's annual net profits shall be allocated as follows:

(a) Ten percent (10%) 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 (1/2) of the Company's capital;

(b) The Ordinary General Assembly may, upon recommendation of the Board of Directors, set aside no more than twenty percent (20%) of the annual net profits to form other reserves to be allocated for the purpose or purposes decided by the Ordinary General Assembly;

(c) Out of the balance of the profits, if any, there shall be paid to the Shareholders an initial payment of not less than five percent (5%) of the paid-up capital;

(d) Out of the balance, a percentage of (5%) shall be paid as remuneration to the members of the Board of Directors; and

(e) The balance shall be distributed to the shareholders as an additional share of the profit.

It is the long-term aim of the Company to make regular dividend payments to shareholders alongside retaining and investing capital to maximize shareholder value. However, the Company does not expect to pay annual dividends to Shareholders in the near term, where the Company will consider its 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.

- **External auditor's report containing reservation**

Emphasis of a matter by external auditor: “We draw attention to Note 1 to the accompanying financial statements; the Company has incurred a net loss for the year ended 31 December 2013 and has an accumulated deficit as of that date. The Company’s management believes that the Company will achieve its future profitable targets, which are based on the realization of its future business plan, and it will be successful in meeting its obligations in the normal course of operations”.

Disclosures

In this Board of Directors Report we have made general prospective statements. These statements are subject to risks and uncertainties. General prospective statements include the information concerning our possible or assumed future results of operations. General prospective statements also include those preceded or followed by the word “anticipates”, “believes”, “estimates”, “hopes” or similar expressions.

- **Risk factors**

Shareholders and prospective shareholders should carefully consider all the information contained in this report, 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 materially affect its operations.

Competition risk: We face significant competition in our industry. Our ability to compete effectively will depend on how successfully we anticipate and respond to various competitive factors, including new services that may be introduced by our competitors, changes in consumer preferences, demographic trends and pricing pressures. Consequently, the competition may put pressure on the price of the services we provide.

Technological developments in the telecommunications industry: Our industry is witnessing rapid changes as new technologies are developed that offer consumers an array of choices for their communications needs. In order to grow and remain competitive, we will need to adapt to future changes in technology, to enhance our existing offerings and introduce new offerings to address our customers’ changing demands. If we are unable to meet future demand for new technologies on a timely basis or at a competitive cost, we could lose customers to our competitors. In general, the development of new services in our industry requires us to anticipate and respond to the varied and continually changing demands of our customers. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restrictions on our introduction of new services. If these services fail to gain acceptance in the market place, or if the costs associated with implementation and the introduction of these services materially increase, our ability to attract and retain customers could be adversely affected.

The reliance on key suppliers and vendors to provide equipment to operate the business: Zain relies on various key suppliers and vendors to provide it with the equipment that we need to operate our business. If these suppliers or vendors fail to provide equipment or services to us on a timely basis, it could have an adverse impact on our ability to implement our business strategy and, in addition, we might be unable to satisfy the obligations contained in our operating licence regarding the roll-out and coverage of our mobile network. Our failure to maintain good relationships with our distributors or with our business partners could have a material adverse effect on our business, financial position, prospects and results of our operations.

Customer credit risks: Whilst the our business plan envisages a subscriber base that will consist of a majority of pre-paid accounts, we, like most mobile operators, will be exposed to bad debt risk from post-paid accounts. Subscribers who were blacklisted by other operators could attempt to subscribe to our services. Although there is a general database of customers considered to be a credit risk that is maintained by SIMAH, the Saudi credit bureau, reliance on this database is unlikely to eliminate all customer credit risk for us. The failure to assess the credit quality of initial or ongoing subscribers, or 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 our business, financial position, prospects and results of operations.

Telecommunications regulations: Our business is subject to regulation by the government of the KSA. The regulatory framework within which we operate is continuing to evolve in the face of liberalization of the sector and competition. This evolving framework may constrain our ability to implement our business strategies and limit our flexibility to respond to changing market conditions and to meet our 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 our operations. Under the Telecommunications Regulations, the Communications and Information Technology Commissions in KSA ("**CITC**")[1] has broad powers that include amending, suspending, revoking or not renewing our operating licence or imposing penalties against us. The CITC also has the power to regulate content broadcasting activities. Any such action that the CITC takes against us, or which affects us, or the CITC's imposition of penalties, could materially adversely affect our business and financial position, prospects and results of operations.

Unexpected business interruption or breach of security measures: We will be able to provide services only insofar as we can protect our infrastructure and networks from damage or interruptions in operations due to capacity restrictions, adverse weather conditions, war, earthquakes, fires, power loss, hardware and software defects, computer viruses, telecommunications failures, transmission cable cuts, human error, unauthorized access or similar events.

Our business activities could be interrupted or materially impacted in the event of a partial or complete breakdown of any of our information technology or communications systems. Any disturbance of the system, accident or breach of security measures causing interruption in our

[1] Definitions used in the Risk Factors may already be defined elsewhere in the BoD report.

operations could affect our ability to provide services to our customers and could have a material effect on our revenues and operating income. Such disturbances could also have a material effect in terms of our image and reputation of Zain and reduce the confidence of our customers, which could lead, in particular, to a loss of such customers. In addition, we could be required to bear additional costs in order to repair the damages caused by such disturbances. To the extent that any such disruption or security breach results in a loss of or damage to customers' data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result. Such failures, breakdown, interruptions, disruptions or costs could have a material adverse effect on our business, financial position and results of operations.

Foreign exchange and interest rates: We have non-Saudi Riyal denominated liabilities and enter into non-Saudi Riyal denominated transactions with suppliers and vendors. For so long as our consolidated financial statements are denominated in Saudi Riyals, we will be exposed to translation and transaction foreign exchange risks. A significant portion of our debt financing is based on floating interest rates, which expose us to fluctuations in interest rates. Whilst we plan to implement a hedging strategy, there can be no assurance that this hedging strategy will be successful. There remains a risk that foreign exchange and interest rate fluctuations will materially adversely affect our business, financial position and results of operations.

Economic risks: The contribution of the oil sector to the KSA's gross domestic product continues to be substantial despite the KSA Government's successful and continuous diversification policies. Fluctuations in oil prices, in particular material declines in such prices, could have a direct adverse impact on the KSA's economy and the economic activity in the KSA. Such impact may adversely affect companies operating in the KSA, including us.

Dependence upon the KSA mobile telecommunications market: The development of our business will depend on the future level of demand for mobile telecommunications in the KSA. Factors influencing demand include general economic conditions, the development of the 2G and 3G markets, the number of subscribers and their usage trends, the emergence of new technologies, intensifying competition and emergence of new competitors 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 costs of attracting new customers, the competitiveness of our tariffs and the price of handsets. Given the multitude of factors, many of which are outside our 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 slows in the future, mobile penetration levels in the KSA may be affected, and in turn, our subscriber and revenue projections could be negatively affected. Any developments in the KSA telecommunications sector that negatively impact Zain's business could materially adversely affect our business and financial position, prospects and results of operations.

- **Subsidiaries**

Zain KSA does not hold any interest in any subsidiaries or associate companies.

- **Compliance with Corporate Governance Regulations in the KSA**

Zain KSA has established its Corporate Governance Framework with a view to providing its Board, management and stakeholders with a structure along with clear policies and guidelines to ensure that the Company's objectives are realized, its stakeholder expectations are managed and the requirements of the Corporate Governance Regulations issued by the CMA are met. This Framework, together with the Company's Articles of Association, Company's By-Laws and the Charters of the Board Committees listed in this document and Companies Act, provide the authority and practices for governance of Zain KSA.

Zain KSA has adhered to implementing the corporate governance regulations which are issued by the Capital Market Authority. The implementation of these regulations was adhered to for all but a few exceptions; these are detailed below:

- Articles that were not implemented in 2013:
  - Paragraph (B) of Article 6: as the Company's By-Laws states that it should uses the normal voting method.

- **Internal Audit**

The Internal Audit Plan for Zain Saudi Arabia has been developed using a "risk–based" approach and in accordance with professional auditing standards, as laid down by the Institute of Internal Auditors and as set out in the Zain Saudi Arabia's Internal Audit Manual. Zain Group Internal Audit has worked with Zain Saudi Arabia management to identify and assess key risk areas for internal audit planning purposes.

As part of our internal audit work, we performed a study and evaluation of Zain Saudi Arabia's system of internal controls to the extent we considered necessary to evaluate the systems and processes. Internal audit study and evaluation was limited to the areas under scope of audit review. Internal Audit exercised professional judgment and industry knowledge in objectively reviewing management input.

- The key areas of audit for the year 2013, with summary comments, are as follows: Cell Site Management Process – Controls over site rent and other operational payments need to be enhanced to minimize the incidence of unauthorized payments
- Legal and Regulatory Process – Processes to ensure compliance with CITC regulations need to be made more robust to reduce exposure to CITC penalties.
- Oracle Segregation of Duties – User access rights should be reviewed to ensure that users have access to only those functions which form a part of their job responsibilities.
- Procure to Pay – Controls over vendor management, including selection and performance evaluation and purchase order management need to be improved to enhance the quality of goods and services procured and minimize exposure caused by process inadequacies.
- Security and Controls over LAN, intranet and Windows Servers – The process of independent periodic review of logs relating to administrator activities needs to be strengthened.
- Security and controls over Network Elements – Policies and procedures with regard to security risk assessment and audit log management need to be designed and implemented to safeguard critical network elements.
- Security and Controls over Voucher Management System – Recommendations were made to strengthen processes with regard to segregation of duties, user account management and password controls among others to enhance security over the voucher management system.

According to the Zain Saudi Arabia management, action plans relating to many audit findings from the above process reviews have been implemented.

- **Major Shareholders**

Over the course of the reporting period, Zain KSA has received no notifications (other than from the Company's directors, senior executives, their spouses, and minor children detailed separately below) pursuant to Article 30 of the Listing Rules. However, in this period the following shareholders held at least 5% of the Company's share capital.

Shareholder	No. of Shares on Dec. 31, 2012	No. of Shares on Dec. 31, 2013	Ownership % on Dec. 31, 2013
Mobile Telecommunication Company K.S.C.	400,125,067	400,125,067	37.05%
Faden Trading & Contracting Establishment	64,495,867	64,495,867	5.97%
Saudi Plastic Factory	63,143,367	63,143,367	5.85%

- **Board of Directors**

The Company is managed, and its operations are overseen, by the Board of Directors which currently consists of nine members. Each member of the Board is appointed for a term of three years starting from 20th March 2013; the date of the Ordinary General Meeting approved them as the second board members since Company's inception.

- **Shareholdings by Members of the Board of Directors, their Wives and Minor Children in Zain KSA**

Board member	Membership type	No. of shares held on 20th March 2013	No. of shares held on 31st December 2013
Fahd bin Ibrahim Al Dughaither	Chairman/ non-executive	1,000	Unchanged
Abdulaziz bin Yaqub Al Nafisi	Non-Executive	-*	-*
Ossama Michael Matta	Non-Executive	-*	-*
Scott Marc Gegenheimer	Non-Executive	-*	-*
Thamer Ahmed Obeidat	Non-Executive	-*	-*
Farhan bin Naif Al Jarbaa	Non-Executive	1,189	Unchanged
Raied bin Ali Al Saif	Independent	106	1,006
Georges P. Schorderet	Independent	70,000	46,000
Abdullah bin Mohammed Ba Sudan	Independent	5,000	Unchanged

* Membership guarantee shares have been reserved within portfolios of Mobile Telecommunications Company K.S.C (Zain Group), Itisalat Plus Company, Communications & Information Consultancy Group and Al Nahar Economic Consultancy Company.

- **Shareholdings by Executive Management and their Wives and Minor Children in Zain KSA**

There are no shareholdings by any of the executive management and their wives and minor children in Zain KSA as of the dates of 1st January 2013 and 31st December 2013.

- **Committees of the Board of Directors**

After it has been appointed on 20th March 2013, the Board of Directors prepared the rules for selection of the members of the Committees, their terms and procedures consequently. These will be submitted at the coming Ordinary General Meeting for their subsequent approval of the rules for selecting the members of the Committee, the term of the membership, the Committee's terms of reference and its procedures.

(1) Executive Committee

Members: Fahd bin Ibrahim Al Dughaither (**Chairperson**), Abdulaziz bin Yaqub Al Nafisi, Scott Marc Gegenheimer.

Duties and responsibilities of the Executive Committee include recommending objectives and strategy for the Company in the development of its business, having regard to the interests of its shareholders, customers, employees and other stakeholders; agreeing policy guidelines for business divisions based on the strategy approved by the Board; monitoring the successful execution of Company's business plan (as approved by the Board) and monitoring the business division objectives and budgets to ensure that they fall within the Company's targets (as approved by the Board). In addition, the Executive Committee also reviews the organization structure of the Company and makes recommendations for change, ensures the control, co-ordination and monitoring within the Company of risk and internal controls, ensures the Company's compliance with relevant legislation and regulations, and safeguards the integrity of management information and financial reporting systems. The Committee is also responsible for identifying and executing new business opportunities outside the current core activities, including geographic diversification, examining all trade investments, divestments and major capital expenditure proposals and the recommendation to the Board of those which are material either by nature or cost, optimizing the allocation and adequacy of the Company's resources and reviewing and ensuring the implementation of the Company's policies. The committee has met three times in 2013.

(2) Audit Committee

Members: Abdullah bin Mohammed Ba Sudan (**Chairperson**), Georges P. Schorderet, Ossama Michael Matta and Farhan bin Naif Al Jarbaa.

Duties and responsibilities of the Audit Committee include 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; reviewing the internal audit system and preparing a written report with its opinion and recommendations on the same; reviewing the internal audit reports and setting corrective actions to the same; submitting recommendations to the Board of Directors in respect of the appointment or renewal of the external auditors (who will be independent) and determining their fees; and following up on the performance of accountants and approving their fees. In addition, the Audit Committee also reviews the audit plan with the external auditor and gives remarks on the same; reviews the remarks of the external auditor on the financial statements and follows up on the actions taken in respect of the same; reviews the interim and annual financial statements before submission of the same to the Board of Directors and gives their opinion and recommendations on the same; and reviews the accounting policies used by the Company and gives opinions and recommendations on the same. The committee has met three in year 2013.

(3) Nomination and Remuneration Committee

Members: Scott Marc Gegenheimer (**Chairperson**), Thamer Ahmed Obeidat and Raied bin Ali Al Saif.

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the Board of Directors; and establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company. The committee met one time during year 2013.

- **Compensation and Remuneration during year 2013**

SAR'000	Executive members of the Board of Directors	Non-executive members of the Board of Directors	Top five executives (including CEO, CFO, CCO & CTO)
Salary and allowances	-	-	9,499
Bonus	-	-	2,791
Incentives	-	-	-
Other	-	-	-

* This amount represents a one basic salary bonus granted to every employee and wasn't subject to performance results.

- **BoD Memberships in Other Saudi Companies**

Director	Company
Raied bin Ali Al Saif	ANB Invest Co.
Abdullah bin Mohammed Ba Sudan	United Mining Investment Co., Maceen Capital Co. and Al Yamamah Real Estate Financing & Investment Co.

- ### Convertible Debt Instruments, Options, Warrants, or Similar Rights

The Company has redeemable warrants and similar rights included in its Murabaha Financing Agreement the ("MFA"). Financial covenants imposed by the lending banks are:

- Assignment of certain contracts and receivables;
- Pledge of insurance contracts 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
- EBITDA and leverage level.

Aside from that, the Company has no other convertible debt instruments, options, warrants or similar products in issue from the date of incorporation until the date of this report.

- ### Redeemable Debt Instruments

No redeemable debt instruments have been redeemed or purchased or cancelled by Zain from the date of incorporation until the date of this report.

- ## Attendance Record of Board of Directors Meetings

The table below details the dates and attendance record for the Board of Directors' six meetings held during 2013. Please note that the mark (✓) denotes that the director attended the meeting; while the mark (×) means the director did not attend.

Director	20-Mar	27-Mar	15-Apr	15-Jul	01-Sep	25-Nov	Attendance
Fahd bin Ibrahim Al Dughaither	✓	✓	✓	✓	✓	✓	6
Abdulaziz bin Yaqub Al Nafisi	✓	✓	✓	×	✓	✓	5
Ossama Michael Matta	✓	✓	✓	×	✓	✓	5
Scott Marc Gegenheimer	✓	✓	✓	×	✓	✓	5
Thamer Ahmed Obeidat	✓	✓	✓	✓	×	✓	5
Farhan bin Naif Al Jarbaa	✓	✓	✓	✓	✓	✓	6
Raied bin Ali Al Saif	✓	✓	✓	✓	✓	✓	6
Georges P. Schorderet	✓	✓	✓	✓	×	✓	5
Abdullah bin Mohammed Ba Sudan	✓	✓	×	✓	×	×	3
Total Present	9	9	8	6	6	8	

- ## BoD Interests in Contracts with Zain

None of the Board of Directors members has any interests in the contracts that have been concluded by Zain KSA since it was established.

- ## Waiving of Emolument and Compensation

No arrangements or agreements under which a director or a senior executive of Zain has waived any emolument or compensation have been made during 2013.

- ## Waiving of Dividend Payment

There has been no arrangement or agreement under which any Zain KSA shareholders waive their dividends payments.

- **Outstanding Statutory Payments**

By the end of the fiscal year 2013, the outstanding statutory payments stood at SAR 545,851,973 Payable to:

1. CITC:
    a. License fee: SAR 15,712,804.
    b. Revenue sharing with the government: SAR 255,462,106.
2. Ministry of Finance:
    a. Ministry of Finance Loan: SAR 274,677,063.

Other than that, there are no outstanding statutory payments payable to any other governmental bodies.

- **Punishments, Penalties or Preventive Restrictions**

The Communications & Information Technology Commission (CITC) has issued (80) administrative decisions against the Company in the FY 2013 with total fines amounted to SR 296,018,000. The reasons behind issuing these decisions by CITC against the Company have varied – according to CITC – between activating prepaid SIMs without its related full institutional documents & others.

The Legal Department of Zain KSA has, as per law, immediately challenged against these decisions before the Board of Grievance. The Board of Grievance has issued to date two preliminary verdicts in favor of Zain by virtue of which two of CITC's decisions have been abolished with total value amounted to ten million. The rest decisions are still pending before the Board of Grievance & the Legal Department is exercising every effort to gain irrevocable & enforceable verdicts pertaining thereof.

- **Employees' End-of-Service Benefits**

The value of the employees' end-of-service benefits, provided by Zain, amounted to SAR 38.8 million as at December 31, 2013.

- **Statement by the Board of Directors**

The board hereby certifies that:

- Proper books of accounts have been maintained;
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the Company's ability to continue as a going concern.

Board of Directors

Mobile Telecommunications Company
Saudi Arabia (Zain)

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

INDEX	PAGE
Auditors' report	1 – 2
Balance sheet	3
Statement of operations	4
Statement of cash flows	5 – 6
Statement of changes in shareholders' equity	7
Notes to the financial statements	8 – 34

Deloitte.

Deloitte & Touche
Bakr Abulkhair & Co.
Public Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia
Tel: +966 (0) 1 282 8400
Fax: +966 (0) 1 293 0880
www.deloitte.com
License No. 96
Head Office: Riyadh

AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at December 31, 2013, and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 27 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements 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 generally accepted auditing standards in the Kingdom of 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 misstatement. 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 standards used and significant estimates made by 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, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of these financial statements.

Emphasis of a matter

We draw attention to Note 1 to the accompanying financial statements, the Company has incurred a net loss for the year ended 31 December 2013 and has an accumulated deficit as of that date. The Company's management believes that the Company will achieve its future profitable targets, which are based on the realization of its future business plan, and it will be successful in meeting its obligations in the normal course of operations.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

Rabi Al Thani 17, 1435
February 17, 2014

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

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Notes	2013 SR'000	2012 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**1,293,086**	2,384,898
Accounts receivable, net	4	**1,220,855**	1,318,931
Inventories, net	5	**140,940**	50,300
Prepaid expenses and other assets	6	**659,852**	625,738
Total current assets		**3,314,733**	4,379,867
Non-current assets			
Property and equipment, net	7	**4,292,616**	4,284,994
Intangible assets, net	8	**18,351,126**	19,274,353
Other non-current assets		**283,473**	77,015
Total non-current assets		**22,927,215**	23,636,362
TOTAL ASSETS		**26,241,948**	28,016,229
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowing	9	**200,005**	11,420,039
Notes payable	10	**32,331**	199,897
Accounts payable	11	**496,370**	688,044
Due to related parties	12	**41,607**	46,743
Deferred revenue		**406,909**	385,181
Accrued expenses and other liabilities	13	**2,648,869**	2,660,614
Total current liabilities		**3,826,091**	15,400,518
Non-current liabilities			
Notes payable	10	**2,542**	34,872
Long-term borrowing	9	**11,387,035**	714,480
Advances from shareholders	14	**3,034,239**	2,562,810
Due to related parties	12	**740,809**	693,570
Other non-current liabilities		**412,043**	132,217
Derivative financial instruments	15	**41,727**	-
Provision for employees' end-of-service benefits		**38,790**	25,898
Total non-current liabilities		**15,657,185**	4,163,847
TOTAL LIABILITIES		**19,483,276**	19,564,365
SHAREHOLDERS' EQUITY			
Share capital	16	**10,801,000**	10,801,000
Hedging reserve	15	**(41,727)**	-
Accumulated deficit		**(4,000,601)**	(2,349,136)
Total shareholders' equity		**6,758,672**	8,451,864
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**26,241,948**	28,016,229
Contingencies and Commitments	23,24		

Fahad Al Dheghaither - Chairman **Hassan Kabbani - CEO** **Wissam Farhat - CFO**

The accompanying notes 1 to 27 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 31 DECEMBER 2013

	Notes	2013 SR'000	2012 SR'000
Revenue	17	**6,522,587**	6,170,665
Cost of revenue	18	**(3,387,732)**	(3,310,744)
Gross profit		**3,134,855**	2,859,921
Operating expenses			
Distribution and marketing expenses	19	**(2,028,005)**	(1,686,727)
General and administrative expenses	20	**(216,455)**	(294,415)
Depreciation and amortization expenses	7, 8	**(1,839,713)**	(1,810,387)
Total operating expenses		**(4,084,173)**	(3,791,529)
Operating loss		**(949,318)**	(931,608)
Other income / (expenses)			
Finance charges	9,10,13,15	**(722,777)**	(823,390)
Commission income		**20,630**	5,586
Net loss for the year		**(1,651,465)**	(1,749,412)
Loss per share (in Saudi Riyals):	21		
• From operating loss		**(0.88)**	(0.71)
• From non-operating loss		**(0.65)**	(0.63)
• From net loss		**(1.53)**	(1.34)

Fahad Al Dheghaither - Chairman **Hassan Kabbani - CEO** **Wissam Farhat - CFO**

The accompanying notes 1 to 27 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 31 DECEMBER 2013

	Notes	2013 SR'000	2012 SR'000
OPERATING ACTIVITIES			
Net loss for the year		**(1,651,465)**	(1,749,412)
Adjustments to reconcile loss for the year to net cash used in operating activities:			
Provision for doubtful receivables and other assets	4,6	**45,469**	34,981
Depreciation and amortization	7,8	**1,839,713**	1,810,387
(Write-off) / Provision for slow moving inventory items	5	**-**	(3,000)
Other provisions		**5,394**	55,510
Finance charges		**722,777**	823,390
Provision for employees' end-of-service benefits, net		**12,892**	2,697
Operating income before changes in working capital		**974,780**	974,553
Changes in working capital:			
Accounts receivable		**50,404**	(355,877)
Inventories		**(90,640)**	(3,683)
Prepaid expenses and other current and non-current assets		**(238,369)**	(26,235)
Accounts payable		**(312,403)**	(1,254,461)
Due to related parties		**42,103**	192,989
Deferred revenue		**21,728**	(38,469)
Accrued expenses and other liabilities		**307,491**	(109,704)
Cash flows from (used in) operating activities		**755,094**	(620,887)
Financial charges paid		**(526,079)**	(528,777)
Net cash generated from (used in) operating activities		**229,015**	(1,149,664)
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(739,006)**	(558,779)
Purchase of intangible assets	8	**(64,373)**	(3,010)
Net cash used in investing activities		**(803,379)**	(561,789)
FINANCING ACTIVITIES			
Notes payable	10	**(199,896)**	(125,623)
Short and long-term borrowings, net	9	**(547,479)**	86,337
Advances from shareholders		**229,927**	39,125
Rights issue costs		**-**	(137,570)
Increase in share capital through rights issue		**-**	3,453,809
Net cash (used in) generated from financing activities		**(517,448)**	3,316,078
Net change in cash and cash equivalents		**(1,091,812)**	1,604,625
Cash and cash equivalents, beginning of the year		**2,384,898**	780,273
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3	**1,293,086**	2,384,898

Fahad Al Dheghaither - Chairman **Hassan Kabbani - CEO** **Wissam Farhat - CFO**

The accompanying notes 1 to 27 form an integral part of these financial statements

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

Non-cash transactions:	2013 SR'000	2012 SR'000
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	**41,727**	-
Adjustment to property and equipment with corresponding effect to notes payable	-	118,475
Adjustment to property and equipment with corresponding effect to accounts payable	**120,729**	377,879
Adjustment to advances from shareholders with corresponding effect to financial charges	**241,502**	183,472
Adjustment to advances from shareholders with corresponding effect to share capital	-	2,546,191
Adjustment to accumulated deficit with corresponding effect to share capital	-	9,199,000
Adjustment to notes payable with corresponding effect to financial charges	-	39,958
Adjustment to notes payable with corresponding effect to advances from shareholders'	-	867,854

Fahad Al Dheghaither - Chairman **Hassan Kabbani - CEO** **Wissam Farhat - CFO**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total equity SR'000
Balance as at 1 January 2012		14,000,000	(45,781)	(9,661,154)	4,293,065
Decrease of share capital (Capital Reduction)	1	(9,199,000)	-	9,199,000	-
Increase of share capital (Subsequent Capital Increase)	1	6,000,000	-	-	6,000,000
Rights issue costs	1	-	-	(137,570)	(137,570)
Net loss for the year		-	-	(1,749,412)	(1,749,412)
Derivative financial instrument		-	45,781	-	45,781
Balance as at 31 December 2012		10,801,000	-	(2,349,136)	8,451,864
Net loss for the year		-	-	**(1,651,465)**	**(1,651,465)**
Derivative financial instrument	15	-	**(41,727)**	-	**(41,727)**
Balance as at 31 December 2013		**10,801,000**	**(41,727)**	**(4,000,601)**	**6,758,672**

Fahad Al Dheghaither - Chairman

Hassan Kabbani - CEO

Wissam Farhat -CFO

The accompanying notes 1 to 27 form an integral part of these financial statements

1. ORGANIZATION AND ACTIVITIES

Mobile Telecommunications Company Saudi Arabia (the "Company" or "Zain KSA"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages and maintains mobile telephone services.

The Company is a "Saudi Joint Stock Company" established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I 1428H (corresponding to 11 June 2007) and No. 357 dated 28 Dhu Al-Hijjah 1428H (corresponding to 7 January 2008), Royal Decree No. 48/M dated 26 Jumada I 1428H (corresponding to 12 June 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4 Rabi Awal 1429H (corresponding to 12 March 2008) to operate as the 3rd GSM public mobile cellular and 3G public mobile cellular license in the Kingdom of Saudi Arabia for twenty five (25) years.

The Company incurred a net loss for the year ended 31 December 2013 and has an accumulated deficit as of that date. The Company's management believes that the Company will achieve its future profitable targets, which are based on the realization of its future business plan, and it will be successful in meeting its obligations in the normal course of operations

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

- Approval on the Board of Directors' resolution to decrease the Company's capital from SR 14 billion to SR 4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit till 30 September 2011.
- Approval on the Board of Directors' resolution to increase the Company's capital through executing partial capitalization of the "Advances from Founding Shareholders" and rights issue transactions for a total amount of SR 6 billion that represents the following:
    - An amount of approximately SR 2.5 billion which will be used to partially capitalize the "Advances from Founding Shareholders"; and
    - Cash injection amounting to approximately SR 3.5 billion will be subscribed by the Company's shareholders that are registered in the Company's register as at the date of the Extraordinary General Assembly mentioned above.
- Approval on the modifications of clauses 7 and 8 of the by-laws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications sought were as follows:
    - Clause 7 after modification: The Company's capital is SR 10.8 billion post rights issue. The number of shares is 1.08 billion at a par value of SR 10 per share.
    - Clause 8 after modification: The shareholders subscribed in 1.08 billion shares at a par value of SR 10 per share for an amount of SR 10.8 billion.

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

1. ORGANISATION AND ACTIVITIES (Continued)

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

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

The cost of above-mentioned transactions amounting to SR 137.57 million has been recorded directly in the statement of changes in shareholders' equity.

Capital Reduction

The Company reduced its share capital from SR 14 billion to SR 4.8 billion and accordingly the total number of shares was reduced from 1.4 billion shares to 480.1 million shares by cancellation of 9.919 million shares (65.7% reduction of share capital). The purpose of this reduction was to absorb the accumulated deficit of the Company as at 30 September 2011. The capital reduction was completed on 4 July 2012.

Partial Capitalisation of the "Advances from Shareholders"

The shareholders who provided the Company previously with interest bearing advances along with Abu Dhabi Investment House (ADIH) (Refer Notes 14 and 16) capitalised partially the "Advances from Shareholders" which amounted to approximately SR 2.5 billion. The accumulated accrued interest due to this particular interest bearing debt was not subject to this partial capitalisation transaction.

After this capitalisation transaction the share capital increased from SR 4.8 billion to SR 7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

Rights Issue

After the partial capitalization mentioned above, a cash injection transaction was executed through the rights issue transaction which amounted to SR 3.5 billion. This amount was subscribed by the Company's shareholders that were registered in Zain KSA register as at the date of the Extraordinary General Assembly that was held on 4 July 2012. After this transaction the share capital increased from SR 7.3 billion to SR 10.8 billion and accordingly the number of shares increased from 734.7 million shares to 1.08 billion shares. Mobile Telecommunications Company K.S.C. injected SR 1.3 billion whereas the remaining amount of SR 2.2 billion was injected by the public shareholding.

Accordingly; the ownership percentage of Mobile Telecommunications Company K.S.C. increased from 25% to 37.045%.

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

- Settlement of the related rights issue costs;
- Partial settlement amounted to SR 750 million related to the Syndicated Murabaha Facility; and
- Financing capital expenditure projects required to increase the coverage and capacity of the Company.

1. ORGANISATION AND ACTIVITIES (Continued)

Refinancing Arrangements

On 31 July 2013 the Company has signed an amended and restated “Murhabaha Financing Agreement” which also includes some of the Existing Murabaha Facility Investors. As per the term of the new agreement the Company has settled portion of the existing facility amounting to SR 369 million from its internal cash resources to reduce the outstanding principle from SR 9 billion to SR 8.63 billion (Refer to Note 9).

With the signing of the new agreement, the Company has successfully extended the maturity date of its existing Murabaha facility for 5 years ending 30 June 2018 which was due on 31 July 2013 (Refer to Note 9).

On 5 June 2013 the Company has also signed a new long-term borrowing facility amounting to SR 2.25 billion with three years bullet maturity to refinance the existing facility obtained from local commercial banks which was due on 3 April 2013 (Refer to Note 9).

Agreement with the Ministry of Finance, Saudi Arabia

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

Strategic Cooperation

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

The 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 on 17 February 2014.

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 promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

Critical accounting estimates and judgments
The preparation of financial statements in conformity with generally accepted accounting standards 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 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 70% (2012: 69%) of the Company's total assets makes the judgments surrounding the estimated useful lives critical to the Company's financial position and performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 16.3% (2012: 15.3%) of the Company’s total assets. 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 the 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.

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 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.

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 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, 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 short-term 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 “distribution and marketing expenses”. When an account receivable is uncollectible, it is written-off against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited against “distribution and marketing expenses” in the statement of operations.

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.

Inventories sold to distributors on which significant risk and reward remains with the Company are recorded as inventory on consignments.

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:

	Years
Leasehold improvements	Shorter of lease term or useful life
Telecommunications equipment	2- 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 Gregorian 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 regulatory useful life from the commencement of service of the network.

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

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortized over their estimated useful lives, being 2 to 5 years. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company and that are expected to generate economic benefits exceeding one year are recognized as intangible assets.

Costs associated with maintaining 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 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital leases
The Company accounts for property and equipment acquired under capital leases by recording the assets and the related liabilities. These amounts are determined on the basis of the present value of minimum lease payments. Financial charges are allocated to the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Depreciation on assets under capital leases is charged to the interim statement of operations applying the straight-line method at the rates applicable to the related assets.

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

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

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.

Employees’ end-of-service benefits
Employees’ end-of-service 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues (Continued)
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.

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.

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.

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

3. CASH AND CASH EQUIVALENTS

	2013	2012
	SR'000	SR'000
Cash on hand	**153**	186
Cash at banks	**140,733**	67,533
Time deposits	**1,152,200**	2,317,179
	1,293,086	2,384,898

The Company invests part of surplus cash in time deposits with local commercial banks. The annual commission rates on this deposit during 2013 were 1.19 % (2012: 0.39 %). The total commission earned by the Company during 2013 was SR 20.63 million (2012: SR 5.6 million).

4. ACCOUNTS RECEIVABLE, NET

	2013	2012
	SR'000	SR'000
Billed receivables (Notes 4.1 and 4.2)	**1,550,848**	1,587,182
Unbilled receivables	**88,481**	105,069
Other	**3,344**	826
	1,642,673	1,693,077
Less: provision for doubtful receivables	**(421,818)**	(374,146)
	1,220,855	1,318,931

Movement in provision for doubtful receivables is as follows:

	2013	2012
	SR'000	SR'000
Balance as at 1 January	**374,146**	341,368
Additions	**47,672**	32,778
Balance as at 31 December	**421,818**	374,146

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, 2013 and 2012, the net amounts are included in accounts receivable and accounts payable are as follows:

	2013	2012
	SR'000	SR'000
Accounts receivables, net	**738,903**	818,429
Accounts payables, net	**677,409**	968,193

4.2 Billed receivable includes amount due from related parties amounting to SR 69.90 million (2012: SR 32.4 million) for providing telecommunication services to related parties.

5. INVENTORIES, NET

	2013 **SR'000**	2012 SR'000
Handsets and accessories	**120,973**	23,359
Sim cards	**11,348**	16,579
Prepaid recharge cards	**8,271**	9,535
Other	**348**	827
	140,940	50,300

Movement in provision for slow moving inventory items is as follows:

	2013 **SR'000**	2012 SR'000
Balance as at 1 January	**-**	3,000
Additions	**-**	-
Write-off	**-**	(3,000)
Balance as at 31 December	**-**	-

6. PREPAID EXPENSES AND OTHER ASSETS

	2013 **SR'000**	2012 SR'000
Advances to suppliers and refundable deposits	**364,738**	322,210
Advances for transmission lines and fiber links	**145,454**	160,029
Prepaid rent	**126,198**	93,500
Prepaid software license fee	**13,224**	5,020
Prepaid advertisement	**2,362**	8,035
Prepaid insurance	**465**	385
Other	**7,411**	38,762
	659,852	627,941
Less: Provision for other assets	**-**	(2,203)
	659,852	**625,738**

Movement in provision for other assets is as follows:

	2013 **SR'000**	2012 SR'000
Balance as at 1 January,	**(2,203)**	-
Additions	**-**	(2,203)
Write-off	**2,203**	-
Balance as at 31 December,	**-**	(2,203)

7. PROPERTY AND EQUIPMENT, NET

	January 1, 2013	Additions	Disposals/ Transfers	December 31, 2013
Cost				
Leasehold improvements	215,130	7,967	454	**223,551**
Telecommunications equipment	5,720,158	336,788	442,222	**6,499,168**
IT systems and servers	331,809	11,697	38,083	**381,589**
Furniture, fixtures and office equipment	79,832	1,367	-	**81,199**
Vehicles and other transportation equipment	3,770	-	-	**3,770**
Capital work in progress (a)	531,442	501,916	(525,338)	**508,020**
Transfer from CWIP to intangible assets	-	-	44,579	**44,579**
	6,882,141	859,735	-	**7,741,876**
Accumulated depreciation				
Leasehold improvements	136,650	34,901	-	**171,551**
Telecommunications equipment	2,131,302	728,621	-	**2,859,923**
IT systems and servers	264,503	74,245	-	**338,748**
Furniture, fixtures and office equipment	61,507	13,782	-	**75,289**
Vehicles and other transportation equipment	3,185	564	-	**3,749**
	2,597,147	852,113	-	**3,449,260**
Carrying Amount	4,284,994			**4,292,616**

(a) The Company is in the process of expanding its network. Capital work in progress at December 31, 2013 and 2012 principally represents costs incurred on several network expansions.

7. PROPERTY AND EQUIPMENT, NET (Continued)

	January 1, 2012	Additions	Disposals/ Transfers	December 31 2012
Cost				
Leasehold improvements	194,109	7,351	13,670	215,130
Telecommunications equipment	4,815,013	565,918	339,227	5,720,158
IT systems and servers	317,823	9,404	4,582	331,809
Furniture, fixtures and office equipment	75,463	4,369	-	79,832
Vehicles and other transportation equipment	3,770	-	-	3,770
Capital work in progress	420,830	468,091	(357,479)	531,442
	5,827,008	1,055,133	-	6,882,141
Accumulated depreciation				
Leasehold improvements	97,257	39,393	-	136,650
Telecommunications equipment	1,440,204	691,098	-	2,131,302
IT systems and servers	185,067	79,436	-	264,503
Furniture, fixtures and office equipment	43,235	18,272	-	61,507
Vehicles and other transportation equipment	2,432	753	-	3,185
	1,768,195	828,952	-	2,597,147
Carrying Amount	4,058,813			4,284,994

8. INTANGIBLE ASSETS, NET

	January 1, 2013	Transfer from CWIP	Additions	December 31, 2013
Cost				
License fee*	23,359,180	-	-	**23,359,180**
Computer software licenses	150,181	44,579	919	**195,679**
Rights of use	-	-	18,875	**18,875**
	23,509,361	44,579	19,794	**23,573,734**
Accumulated amortization				
License fee*	4,133,378	-	949,455	**5,082,833**
Computer software licenses	101,630	-	36,992	**138,622**
Rights of use	-	-	1,153	**1,153**
	4,235,008	-	987,600	**5,222,608**
Carrying Amount	19,274,353			**18,351,126**

	January 1, 2012	Additions	December 31, 2012
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	147,171	3,010	150,181
	23,506,351	3,010	23,509,361
Accumulated amortization			
License fee*	3,181,323	952,055	4,133,378
Computer software licenses	72,250	29,380	101,630
	3,253,573	981,435	4,235,008
Carrying Amount	20,252,778		19,274,353

* 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 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 were capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia.

9. SHORT AND LONG TERM BORROWING

	2013 SR'000	2012 SR'000
SHORT TERM		
Syndicate Murabaha facility - current Portion (a)	**-**	9,000,000
Long term facility from local commercial bank (b)	**-**	2,250,000
Export credit facility - current Portion (c)	**200,005**	170,039
	200,005	11,420,039
LONG TERM		
Syndicate Murabaha facility – non-current portion (a)	**8,630,769**	-
Long term facility from local commercial bank (b)	**2,250,000**	-
Export credit facility – non-current portion (c)	**506,266**	714,480
	11,387,035	714,480

(a) Syndicated Murabaha Facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SR portion totaling SR 7.09 billion and a USD portion totaling USD 710 million (equivalent to SR 2.66 billion).

Financing charges as specified under the Murabaha Facility are payable in quarterly installments over the life of the loan. As per the terms of the Murabaha Financing Agreement the Company exercised its two (2) options to extend the initial maturity date (12 August 2011) for six (6) months each, totaling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. Subsequently, the Company has successfully obtained several approvals to extend the facility until 31 July 2013. The Company has also partially settled an amount of SR 750 million out of the cash proceeds from the rights issue transaction.

On 31 July 2013, the Company has signed an amended and restated "Murhabaha financing Agreement" with a consortium of banks which also includes existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ending 30 June 2018. The new facility has been restructured as an amortising facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SR 8.6 billion, SR portion totaling SR 6.3 billion and USD portion totaling USD 0.6 billion (SR 2.3 billion) as at 31 December 2013.

Accordingly, the outstanding balance as at 31 December 2013 has been classified as non-current liability, (refer to Note 1).

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

9. SHORT AND LONG TERM BORROWING (Continued)

Financial covenants imposed by the financing banks are:

a. Assignment of certain contracts and receivables;
b. Pledge of insurance contracts and operating accounts;
c. Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
d. No further financial indebtedness, pari passu, insurance on all assets; and
e. EBITDA and leverage level.

(b) This facility consists of a SAR portion totaling SAR 1,875 million and a USD portion totaling USD 100 million (equivalent SAR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility and initially was due for repayment on 3 April 2013.

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

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

(c) On 20 June 2012 an Export Credit Agency Facility Agreement having two tranches (A and B) totaling to USD 325 million was signed between the Company and some international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

At 31 December 2013, the Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B has been cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). As at 31 December 2013 four instalments were repaid.

10. NOTES PAYABLE

	2013	2012
	SR'000	SR'000
Current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**32,331**	199,897
	32,331	199,897
Non-current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**2,542**	34,872
	2,542	34,872

11. ACCOUNTS PAYABLE

	2013	2012
	SR'000	SR'000
Trade payables	**483,405**	669,897
Staff	**-**	11,534
Other	**12,965**	6,613
	496,370	688,044

12. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Company include Mobile Telecommunications Company K.S.C, a majority shareholder and its related entities (including subsidiaries and associates), other founding shareholders who own shares and voting interests in the Company, members of the board of directors and senior management.

Related Party Transactions

Significant transactions with related parties included in the financial statements are as follows:

	2013	2012
	SR'000	SR'000
Revenue	**71,169**	94,800
Cost of revenue	**21,713**	14,940
Management fees (Note 19)	**47,240**	172,919
Financial charges	**154,205**	149,260

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Payments were also made on behalf of the Company by Mobile Telecommunications Company K.S.C, a majority shareholder and its related entities.

Management fee is charged to the Company by Mobile Telecommunications Company K.S.C, a majority shareholder as per the basis specified in the underlying agreement.

Also see Note 14 for the advances from shareholders.

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

(i) Due from related parties – current

	2013 SR'000	2012 SR'000
Zain Bahrain	**4,769**	21,674
Others	**2,543**	3,548
	7,312	25,222
Less: Provision for due from related parties	**-**	(2,203)
	7,312	23,019

(ii) Due to related parties – current

	2013 SR'000	2012 SR'000
Zain Sudan	**37,607**	37,541
Mobile Telecommunications Company K.S.C–current account	**3,629**	8,629
Others	**371**	573
	41,607	46,743
Due to related parties, net	**34,295**	23,724

(iii) Due to related parties – non current

	2013 SR'000	2012 SR'000
Mobile Telecommunications Company K.S.C – management fee	**740,809**	693,570

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2013 SR'000	2012 SR'000
Trade	**1,210,006**	1,395,259
Government fee (Note 18)	**480,875**	587,731
Accrued expenses	**551,721**	331,624
Employees	**41,008**	43,917
Financial charges	**16,889**	40,775
Others	**348,370**	261,308
	2,648,869	2,660,614

14. ADVANCES FROM SHAREHOLDERS

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. These advances carry finance cost that approximate the prevailing market rates.

As discussed in Note 1, the advances from shareholders amounted to approximately SR 2.5 billion are capitalized as part of the Company's restructuring. The accumulated accrued interest due to advances from shareholders was not subject to this capitalization activity. After this capitalization transaction, the share capital increased from SR 4.8 billion to SR 7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

The following is a breakdown of the remaining advances from shareholders and related accrued financial charges as at 31 December

	2013 SR'000	2012 SR'000
Mobile Telecommunications Company K.S.C.	**2,264,450**	1,946,890
Abu Dhabi Investment House (ADIH)	**8,413**	8,413
	2,272,863	1,955,303
Accrued financial charges	**761,376**	607,507
	3,034,239	2,562,810

The advances from shareholders as at 31 December 2013 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

14. ADVANCES FROM FOUNDING SHAREHOLDERS (Continued)

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

		Fair Value	
	Contract notional amount SR'000	**2013 SR'000**	2012 SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	**41,727**	-

16. SHARE CAPITAL

The share capital of the Company as of 31 December 2013 and 2012 (post capital restructuring) (Refer to note 1) comprised of 1.08 billion shares stated at SR10 per share owned as follows:

	Post-Capital Restructuring 2013		**Pre-Capital Restructuring 2012**	
Shareholders	**Number of shares**	**Share Capital SR'000**	**Number of shares**	**Share Capital SR'000**
Mobile Telecommunications Company K.S.C.	400,125,067	4,001,251	350,000,000	3,500,000
Saudi Plastic Factory	63,143,367	631,434	96,250,000	962,500
Faden Trading & Contracting Est.	64,495,867	644,958	96,250,000	962,500
Rakisa Holding Company (refer to Note 14)	4,715,270	47,153	13,750,000	137,500
Abu Dhabi Investment House (refer to Note 14)	23,145,004	231,450	30,000,000	300,000
Almarai Company	22,961,224	229,612	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	22,961,224	229,612	35,000,000	350,000
Al Jeraisy Development Company Limited	11,480,612	114,806	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	6,001,253	60,013	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	5,740,305	57,403	8,750,000	87,500
Total founding shareholders	624,769,193	6,247,692	700,000,000	7,000,000
Public shareholding	455,330,807	4,553,308	700,000,000	7,000,000
	1,080,100,000	**10,801,000**	**1,400,000,000**	**14,000,000**

A founding shareholder, Rakisa Holding Company transferred 30 million shares amounting to SR 300 million as of 15 May 2012 to Abu Dhabi Investment House. The consent of the transfer has been obtained from the Murabaha Facility investors, CITC and CMA (refer to Note 14).

17. REVENUE

	2013 SR'000	2012 SR'000
Usage charges	**6,126,977**	5,908,727
Subscription	**369,714**	231,558
Other	**25,896**	30,380
	6,522,587	6,170,665

18. COST OF REVENUE

	2013	2012
	SR'000	SR'000
Access charges	**1,883,711**	1,973,746
Government charges	**691,521**	633,836
Leased lines	**329,714**	310,967
Other	**482,786**	392,195
	3,387,732	3,310,744

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

19. DISTRIBUTION AND MARKETING EXPENSES

	2013	2012
	SR'000	SR'000
Repairs and maintenance	**537,086**	288,197
Employees' salaries and related charges	**395,667**	317,999
Dealers' commission	**299,459**	214,109
Rent expenses	**286,220**	236,444
Advertising	**270,013**	313,120
Consulting	**60,094**	28,738
Bad debts expense (Note 4)	**47,672**	32,778
Management fees (Note 12)	**47,240**	172,919
Utilities	**41,467**	21,565
Customer promotions	**-**	4,233
Other	**43,087**	56,625
	2,028,005	1,686,727

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
	SR'000	SR'000
Employees' salaries and related charges	**103,245**	92,943
Legal and professional charges	**16,077**	19,457
Consulting services	**18,247**	36,241
Repairs and maintenance	**47,980**	33,030
Withholding tax expense	**6,543**	32,342
System support and maintenance	**1,007**	1,215
Other	**23,356**	79,187
	216,455	294,415

21. LOSS PER SHARE

Losses per share are computed by dividing losses for the year by the weighted average number of shares outstanding i.e. 1.08 billion shares for the period ended December 31, 2013 (2012: 1.31 billion shares)

22. 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:

	2013 SR'000	2012 SR'000
Shareholders' equity at beginning of year	**8,451,864**	4,293,065
Provisions at beginning of year	**481,684**	344,368
Long-term borrowings and shareholders' advances	**14,149,850**	3,312,162
Other non – current liabilities	**1,120,358**	-
Adjusted net loss for the year (see below)	**(1,587,710)**	(1,714,734)
Property and equipment	**(4,292,616)**	(4,284,994)
Intangible assets	**(18,351,126)**	(19,274,353)
Approximate negative zakat base of the Company	**(27,696)**	(17,324,486)

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

Calculation of adjusted net loss

	2013 SR'000	2012 SR'000
Net loss for the year	**(1,651,465)**	(1,749,412)
- Provision for employees' end-of service-benefits, net	**12,892**	2,697
- Provision for doubtful and other receivables and for slow moving inventory items	**50,863**	31,981
Adjusted net loss for the year	**(1,587,710)**	(1,714,734)

Status of assessments

No zakat provision for the period has been made in these financial statements as the Company's zakat base is negative and the Company has incurred losses. The Company has finalized its assessments up to 2008. The Company has also filed its zakat returns for the years 2009, 2010, 2011 and 2012 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

23. OPERATING LEASES COMMITMENTS

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

	2013 **SR'000**	2012 SR'000
Within 12 months	**228,644**	189,484
Within 2 to 5 years	**914,575**	757,935
Over 5 years	**1,143,219**	947,419
	2,286,438	1,894,838

24. CONTINGENCIES AND COMMITMENTS

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. The capital commitments are comprised of the following:

	2013 **SR'000**	2012 SR'000
Within 12 months	**275,441**	669,438
Within 2 to 5 years	**-**	62,899
	275,441	732,337

Also see Note 23 for operating lease commitments.

Furthermore, the Company in the normal course of business is subject to and also pursuing lawsuits, penalties and other claims. Management believes that these matters are not expected to have a significant impact on the financial position or the results of operations of the Company.

25. 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 management believes that operating segment information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

26. 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. 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 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.

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 monitors the exchange rate fluctuations 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 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 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 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.

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 management believes that the Company is currently not exposed to significant price risk.

26. 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 significant 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 Company incurred net loss for the year ended December 31, 2013 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 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 foreseeable 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 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.

27. COMPARATIVE FIGURES

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