

zain

Board of Directors Report 2017

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Dear shareholders of Mobile Telecommunications Company Saudi Arabia (Zain Saudi),

We hereby present the annual Board of Directors' report for your Company's activities and operations during the past financial year ending 31st December 2017.

Company's Establishment and Activities

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

The Company is a "Saudi Joint Stock Company" established pursuant to Royal Decree No. 48/M dated 26th of Jumada I 1428H (corresponding to 12th of June 2007), Ministerial Resolutions No. 176 dated 25th of Jumada I 1428H (corresponding to 11th of June 2007), No. 357 dated 28th of Dhu Al Hijjah 1428H (corresponding to 7th of January 2008), and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4th of Rabi Al-Awwal 1429H (corresponding to 12th of March 2008), to operate as the third public mobile cellular operator having received the first technology neutral license in the Kingdom of Saudi Arabia for a period of twenty five (25) years, that has been extended for an additional 15 years, through the High Order that also granted the Company a unified license to provide all telecommunications services.

Zain Saudi Head Office is located in Riyadh, Ash Shuhada, Granada Business Park, Building A3, with the address for postal communications at P.O. Box 295814 – Riyadh 11351 – KSA.

Zain Saudi's License

Mobile Telecommunications Company Saudi Arabia (Zain Saudi) is the third mobile operator entrant in Saudi Arabia, having commenced commercial operations in August 2008, following an Initial Public Offering in February 2008. In September 2011 Zain Saudi was the first operator in the Middle East to commercially launch a 4G/LTE network.

Today, Zain Saudi serves more than 8.3 million customers and has extended its network coverage to 96% of the population via around 8,500 cell sites. Through its state-of-the-art network, the ever-evolving operator is attracting thousands of new voice and data customers daily.

Through constant development of the telecommunications infrastructure and proactive marketing initiatives, Zain Saudi is committed to offer the most innovative customer experience. The company is committed to employing high caliber people as well as nurturing the finest Saudi talent, with a current workforce comprising of around 1,500 energetic and inspired majority-Saudi talent. On the 1st of October 2016, a High order was issued to extend Zain's license by 15 additional years (to 2047).

The CITC has on 20th February 2017 in line with the high order issued Zain Saudi a Unified License to provide all telecommunication services. That will enable the Company to offer all telecommunication services including fixed services.

The core of our strategy is to transform into a leading information-communications company in Saudi Arabia that allows our customers to benefit in a hyper-connected evolving society.

Our goals include growing profitably and leading the ongoing evolution of a digitally connected future for -individuals, businesses, and machines - and deliver value to all key stakeholders.

Our strategy is built on three key pillars:

1 Strengthen the core business

Deliver sustainable value and growth from mobile operations

The Saudi Arabian population is often cited as one of the highest in youthful density which has led to an ever-growing demand for wireless digital connectivity services. The Saudi market continues to exhibit a huge growth in demand for data products and applications, not only fueled by a young and digitally-connected population but also driven by the strong adoption of e-government services and popularity of video-streaming and HD content on social media. Our investments in network expansion, 4.5G LTE-Advance and additional spectrum acquisition are aimed at positioning Zain Saudi as the mobile data operator-of-choice and the first brand choice for students from high school to university.

2 Customer centric focus

Deliver consistent and better customer experience

In the ever evolving world of “better and different” customer expectations, Zain Saudi has positioned itself as a progressive, dynamic and modern Saudi brand delivering consistent experiences to customers across different segments.

Consistent customer care, innovation, pre and post sales advice, product reliability, fast resolution of customer issues, wide variety of pricing plans, friendliness, a caring

attitude from our employees and flexibility are some areas of differentiation of Zain Saudi brand aimed at customer centricity.

Zain Saudi physical and digital distribution footprint is also under expansion as part of a program that brings Zain Saudi closer to where our targeted customers are whether in malls, airports, megastores or in their lounge rooms or favorite coffee store. Our new shop concept has been revamped to reflect a wider customer experience for plans and latest handsets and devices and, to have more stores closer to dense population centers. Our distribution network is also vital for our success in implementing new regulations on biometric registration of our customers.

3 Deliver growth from new Opportunities

Identify new services

As Vision 2030 is the driving force for diversification of the Saudi economy, digitization will be the key enabler across all industries. Superfast broadband access coupled with digital applications will continue to redefine the way we live and work in Saudi Arabia. Complementing our wireless portfolio we plan to embark on delivering FTTH based broadband connectivity to consumers. Also through partnerships, we plan to deliver solutions to business clients based on superfast connectivity and integrated applications. Our aspirations and plans also include monetization of Big Data capabilities and launch of new content based services in partnership with Zain Group.

Key enablers underpinning the realization of our strategy include:

Network Evolution

Deliver seamless, end to end user experience across our network technologies and build the network architecture for 2020 and beyond

As our network today handles 4,300 TBs per day of customers data traffic, relevance and leadership in the data market is dependent on continuing to leverage the latest 4.5G LTE-Advance technologies and preparing the network for 5G evolution. We will continue to invest in advanced wireless technologies, fiber to the premises and hybrid fiber-wireless connectivity. Also our new investments in spectrum 2x10Mhz at

1800MHz band and 2x10 MHz at 800MHz band in the last 12 months and investments via the Universal Service Fund program will ensure that Zain Saudi network technologies and platforms deliver unrivaled quality of services in the cities and towns we choose to compete.

Digitization

Automate systems and process to deliver consistent & better experience and simplify our ways of working

We plan to seriously enhance our digital capabilities to interface with the digital citizens of Saudi Arabia and serve more than 30% of customers electronically, and participate in governmental and economic digitization efforts and projects, thus contributing to the Saudi Knowledge Based Economy and Vision 2030.

Consumers in Saudi Arabia are highly digitally-connected; in order to ensure that Zain Saudi remains at the forefront of the ever developing digital economy, we have embarked on a digital transformation journey. This digital transformation will incrementally improve, availability of offerings to consumers, internal and external processes and customer interaction points, making consumers dealings with us easier, simpler, and more enjoyable. Digitizing our customers' journey will bring us the benefits of operational excellence and expand our digital footprint in the market.

In addition, it will help optimize our operational costs, with the aim of becoming one of the most efficient operators in the market.

Culture and Capabilities

Create a high performance, customer focused operating culture and develop our talent

We plan to excel in the market by promoting a caring culture among our employees, as part of a fulfilling work environment, emphasizing the need to be an agile and efficient operator. We wish to attract and retain talented Saudis with entrepreneurial attitude to ignite our growth and success. Performance, competitive spirit, challenger attitude, curiosity, women empowerment, innovation and success through teamwork will allow us to deliver better service to our customers and, develop the right insights and act quicker to translate initiatives into market success.

Operational Overview

The telecommunication industry in general and in the Kingdom specifically witnessed a challenging year in 2017, with several regulatory changes challenging operators' commercial flexibility, in addition to various economic reforms that negatively impacted customers' spending behaviors. Despite these challenges, when it comes to financial performance 2017 was one of the strongest years since Zain Saudi's launch, reflected in the operating and net profits. The year also witnessed several achievements on the operational front.

The following sections outline some of these operational achievements:

1- Commercial Overview

Zain Saudi commercial strategy has proven resilient amid challenging market conditions. Focusing on the market's appetite for data and repositioning the company towards the postpaid segment, enabled Zain Saudi to overcome the tough market conditions witnessed in 2017, especially on the regulatory front, with regulations such as a two-SIM cap for prepaid customers, unblocking VoIP, and various customer protection rules that proved unfavorable to the industry in general.

Zain Saudi commercial strategy contributed to increasing 2017 revenues by 6% compared to 2016 through the following methodologies:

- ***Positioning Zain Saudi as the 'Smart Choice'***

Zain Saudi key strategy for launching commercial propositions and initiatives in 2017 revolved around introducing innovative products and promotions to the market with a segmented approach to customers.

For instance, we launched a voice promotion which offered existing MBB customer better value on voice services to increase share of wallet and reduce churn. We also increased the appeal of our Youth offerings by introducing a new entry point voice and data packages with various add-ons.

Our primary enabler to our marketing efforts was a communication strategy that focused on promoting Zain Saudi as the ‘Smart Choice’ to customer. Zain Saudi Q4 promotions was our latest campaign which presented many innovative promotions to the customers in a unique and catchy approach.

- ***Pursuing our transformation into a data-centric operator***

Zain Saudi successfully continued its data service monetization strategy throughout 2017. With data usage ever growing in the kingdom, it was imperative to design our data propositions to ensure relevance to our customers and leverage our reputation for being the best data network in the Kingdom. Such promotions were social media bundles, with a suite of price points and benefits offered to customers based on their usage patterns and behavior.

In 2017, Zain Saudi maintained its leadership in the postpaid MBB market by offering smart value routers, MiFi devices and game consoles in return for a long-term commitment to the unlimited plan. Also, Zain Saudi expanded its postpaid MBB portfolio by launching capped plans, to cater for customers with limited data needs.

With an ever-growing data demand across our customer base, potential clutter was averted by unifying the packages offered for both the Voice and MBB platforms regarding price and value, creating a clean portfolio easier for customers to understand.

The focus on our data monetization strategy yielded a strong data revenue increase of more than 30% YoY.

- ***Transforming regulatory challenges into opportunities***

2017 witnessed ongoing regulatory reform from the Communications and Information Technology Commission (CITC) which adversely impacted revenue growth and customer acquisition.

Such regulatory reform included;

- The two-SIM cap for prepaid customers, which limited the opportunity for our prepaid base expansion and more importantly resulted into sizeable churn volumes from existing customers in possession of more than two SIMs. We introduced new offers to minimise prepaid churn and also launched innovative post paid offers with a new entry plan at just 29 SAR to better cater for these customers.
 - Unblocking VoIP, which had a sizeable impact on international revenues. However, the opportunity came from the potential increase in the customer's data usage. Hence, VoIP bundles were introduced, allowing customers to freely use VoIP without consuming their data plans for a reasonable fee.
- ***Commit to our strategy to become the go-to operator for postpaid customers***

In 2016, we set our sights on a long-term strategy to enhance and grow our postpaid base. Moreover, with the two SIM-cap rule introduced for prepaid customers early on in 2017, it became even more crucial for us to transform Zain Saudi image from a prepaid operator to the go-to carrier for postpaid and high-value customers.

In 2017, we launched the 749 plan specially designed for high-value customers, offering value that exceeds the local industry benchmarks with focus on providing customers a worry-free experience. We also expanded the entire postpaid portfolio to include eight price points in total starting from 29 SAR. Also, we introduced the device based offers. Moreover, the 'iPhone for life' program was launched to cater for the ever-increasing demand for iPhones amongst this segment, offering participating customers with the new iPhone upon launch in return of a reasonable monthly fee in addition to a 24-month commitment on a selected postpaid package.

As a result, we closed 2017 with more than one million postpaid subscribers; doubling 2016's closing figures. We yielded over one billion SAR; a 40% increase compared to 2016.

2- Technology Overview

The Technology team completed the projects and initiatives which started in 2016 and continued to build deploying structured Technology/Operation strategies and programs fully in line with corporate strategies, industry trends and market environment.

- ***Network expansions and coverage***

Zain Saudi continued its efforts to complete the third phase of the Project Reload and Reload reconciliation projects, with major contribution to coverage, data speeds and customer experience enhancement: 3G services now covers 526 cities (21% increase compared to 2016), 36 highways are now covered (20% increase compared to 2016), LTE services now cover 353 cities (78% increase compared to 2016), LTE-A services now cover 125 cities (47% compared to 2016).

Upon the completion of Project Reload, network coverage (by technology) reached the following levels:

- 2G - 96% population coverage
- 3G - 95% population coverage
- 4G/LTE - 89% population coverage

In 2017 Zain Saudi also delivered a project called Saudi Arabian Railway (SAR), which provided voice and Mobile Broadband (MBB) services for strategic railways connecting Riyadh, Majma'a, Qassim, Hail, Al-Jawf and Al-Qurayyat cities covering distance of approximately 1,300 kilometers.

Zain Saudi was awarded the Universal Service Fund (USF) Broadband Project 1 by CITC. This was the first project of its kind in the Kingdom of Saudi Arabia. As part of the Digital Transformation program, it was one of several initiatives launched by CITC in line with KSA Vision 2030. The project was successfully delivered by Zain Saudi ahead of schedule, resulting in over 25,000 residential homes now having access to high-speed internet services via a wireless network. It is estimated that over 147,000 residents are benefiting from these services. The project also served to increase the population coverage in the designated area, comprising of 129 residential and commercial communities in 13 different Provinces.

During 2017 Zain Saudi was also awarded the USF 12, 13 & 14 Basic and Broadband Projects. These projects together will provide basic voice and data mobile services to more than 2,600 local areas and broadband data services to more than 100,000 homes across the Kingdom. CITC split the delivery of these projects in three milestones (12th of January, 12th of April and 12th of July 2018). Zain Saudi submitted the first milestone for Broadband projects in December 2017 (ahead of time) and ready to submit the basic USF projects on time as per CITC requirements.

The successful plan, execution and delivery of USF projects is strengthening the position and relationship of Zain Saudi with the regulator and enhancing its footprint and quality of service in the Kingdom.

Continuing with Network expansion requirements, Zain Saudi has refreshed the objectives for project Ignite (formerly known as project Beyond Reload) for which implementation started in 2017 and is expected to be completed in 2018.

Zain Saudi has also increased its efforts in further improving the international roaming coverage to over 209 countries around the world with 69 countries covered by LTE roaming. These efforts also extended to inbound roaming partners where Zain Saudi secured international roaming service in KSA for 213 countries with 64 countries enjoying LTE data roaming in the Zain Saudi network.

- ***Information Technology system***

A complete transformation program for the Business Support System Capability of Zain Saudi was launched, and will continue until the first quarter of 2018. The aim of this program is to replace the legacy business processes and technology platforms with modern ones, at a time when differentiation for customers will come from business agility, which is precisely what these modern systems will allow. In order to be aligned with Zain Saudi customer care values, this transformation is redefining business processes towards customer centricity, and is building solutions that will bridge the gap between customer needs and technology capabilities.

This IT transformation program focuses on 3 main objectives:

- ❖ Introduce new revenue streams.
- ❖ Enhance customer experience.
- ❖ Enhance operational efficiency.

The program is planned to be delivered in phases, with Single Charging Solution (for all customers and all services, with real-time balance management), Mobile application for B2C customers and real-time campaign solution were already completed in 2017. Upon program completion, planned by Q1 2018, Zain Saudi will be the lead Operator in this field in Saudi Arabia and one of the leaders in the region.

- *Spectrum*

Spectrum is one of the most valuable asset for mobile network operators. As customers' demand for high speed data services in the Kingdom rises rapidly, additional spectrum enables telecom operators to improve network capacity and deliver faster and more reliable data services, thus enriching the customer experience.

Zain Saudi Technology team initiated a continuous program to keep the Spectrum strategy up to date, in line with Market requirements, target Quality of Service, cost efficiencies and Industry standards.

Zain announced in June 2017 that it secured 2x10MHz additional bandwidth in 1800 MHz band. This spectrum acquisition followed the conclusion of a spectrum auction conducted by the CITC. Following this acquisition, Zain Saudi's total 1800 MHz spectrum now comprises 2x20MHz. This additional spectrum was deployed in majority areas of the Kingdom during 2017. The actual results show around 51% average improvement in data speeds and 25% improvement in capacity utilization, with data traffic increased by 32%. Customer experience using main applications such as YouTube and Snapchat was remarkably enhanced. Zain Saudi was ranked No. 1 in KSA by Ookla (data speed application) in mobile data services in October and November 2017, above its main two competitors.

Zain Saudi was also the first operator to launch LTE services in 900 MHz band in the cities of Jeddah and Riyadh.

Zain Technology/Operations team initiated the preparation of a new Spectrum Auction initially scheduled by CITC for December 2017 (700 MHz, 800 MHz and 1800 MHz) bands. However, the Spectrum Auction was postponed until further notice.

- *Technology strategies and future plans*

The Zain Saudi virtualization program strategy “Agile” was successfully conceptualized. The main targets of this strategy are cost efficiencies, architecture simplification, operational benefits and business agility. The program was kicked-off in 2017 with an agreed Target architecture and detail blueprint design. Materialization of this program will start in 2018 with initial RFPs for Infrastructure, IT modernization and Network Functions Virtualization.

In line with the Agile program, Zain Saudi Technology team, initiated a revamp of its Core/VAS/BSS architecture evolution strategies. Zain Saudi also works closely with Zain Group to define the API management layer architecture and initiate the Exposure layer strategy that will enhance the interconnection with external platforms. The evolution of Zain Saudi architecture will also facilitate the adoption of new technologies such as (5G) in the future.

The Technology team also led the preparation of Business cases aiming to optimize National Roaming costs by increasing the coverage of Zain Saudi network in areas that are currently not covered.

In addition to completing various tracks, the trials of the Self-Organized Networks (SON) were completed, and the SON deployment plan was initiated in 2017 (to be completed in 2018) with clear targets focused on business efficiencies derived from processes automation.

- *Quality of Service*

Timely and efficient execution of Optimization activities allowed the improvement of Network KPIs, elevating Zain Saudi’s data quality to becoming one of the leading data operators in KSA. This is in addition to implementing over 120 features and functionalities in the network. Special quality improvement projects were also executed for major cities (Jeddah and Riyadh) and during Ramadan and Hajj seasons. Latest independent Benchmarking reports show Zain Saudi as the Operator with the best voice quality in 17 major cities and the best data quality in 20 major cities in KSA.

3- Regulatory Overview

The year witnessed numerous regulatory events, as the CITC announced new regulations including the following:

1. In accordance with the High Order that was issued in 2016, the CITC issued Zain Saudi a unified telecommunications license, allowing Zain Saudi to provide all telecommunications services.
2. The announcement of reducing the Mobile Termination Rates (MTR) from 10 to 5.5 Halalas, while reducing Fixed Termination Rates from 5 to 2.1 Halalas effective 31/12/2017.
3. CITC held their first ever spectrum auction, where Zain Saudi acquired additional 10 MHz spectrum in the 1800 MHz band at a total cost of SAR 844 million. This acquisition will raise the level of service quality rendered by the Company.
4. Introduced an amendment to regulations that required operators to amend the complaint handling mechanism. The CITC has hence modified the document detailing terms of Communications and Information Technology service provision as well as the rights and obligations of users and service providers.
5. Removal of the block on Voice over Internet Protocol (VoIP) services.
6. Reactivation of the CITC's previous decision that all operators must obtain the CITC's approval on all promotional offers or permanent packages before they are launched.

As in previous years, a number of lawsuits against the CITC at the Administrative Court ("Board of Grievances") are ongoing to ensure the implementation of CITC decisions on Zain Saudi are fair and reasonable within the laws and regulations of the Kingdom. The final outcome of all such litigation cases cannot be predicted at this time.

4- Human Resource & Social Responsibility

Zain Saudi positive financial results achieved during 2017 reflect the volume of competences and professional abilities of Zain Saudi's employees.

The success of Zain Saudi in 2017 has not only been characterized by operational and financial performance excellence, but it also goes beyond through maximizing participation in social responsibility programs. Zain Saudi is one of the most contributing Saudi companies to social responsibility programs, representing actual reflection of its vision followed since inception. The most important social responsibility programs contributed by Zain Saudi during 2017 include the following:

- ***Sponsorship of Custodian of the Two Holy Mosques Guests 2017 Program***

Zain Saudi sponsored the Custodian of the Two Holy Mosques Guests program, which consists of 2400 pilgrims from different nationalities and this sponsorship is for the 8th year consecutively. Zain Saudi provided services to pilgrims during Hajj season by providing 2,400 SIM cards and 2400 recharge cards, in addition to providing free internet coverage (4G network) for the Media Center of the Ministry of Islamic Affairs, Endowments, Da`wah, and Guidance.

- ***Launching awareness campaigns during the Hajj season***

During the Hajj season in August 2017, Zain Saudi launched an awareness campaign through social media channels, by posting awareness messages about Hajj rituals and health tips through Zain Saudi's official Twitter and Instagram accounts.

- ***Launching an initiative (Useful tips that every entrepreneur should know)***

Because Zain Saudi is always seeking to support the youth, the company launched a specialized initiative aimed at promoting entrepreneurship through dissemination of specialized knowledge content through social media networks.

- ***Launch of the "Visiting sick children" initiative***

As a part of its social responsibility, a team from Zain Saudi, led by Chief HR & Communications Officer, visited 3 hospitals in Riyadh, Jeddah and Dammam during the International Day of Happiness, and during the visit gifts were given to children.

- ***King Saud University students visit Zain Saudi – during the World Telecommunications Day***

Zain Saudi welcomed 20 students from King Saud University in a field visit to its Data Center. A visual presentation of the latest available technologies was provided to motivate students to innovate.

- ***Ramadan Iftar invitation for charities***

Zain Saudi has invited the Disabled Children Association and the Physical Disability Association for Adults (Harakia) to the Ramadan Iftar in order to support the work of charities and discuss prospects for cooperation.

- ***Interaction with (the World Health Day)***

In cooperation with Fitness Time, Zain Saudi provided its employees with a healthy internal campaign, which included a medical examination of body health (measurement of body fat and muscle).

- ***Organizing a blood donation campaign***

Zain Saudi is always seeking to create a sustainable and healthy workplace, the company organized a blood donation campaign to encourage male and female employees to constantly participate in such campaigns. These campaigns are held in Riyadh, Jeddah and Dammam.

- ***Sandstorm Awareness***

Zain Saudi launched awareness tips that aim at raising awareness of the safety measures to be taken during sandstorms. This is done through Zain Saudi account on Twitter social networking, through participation in #Madar hashtag:

- ***Participation in the Earth Hour***

Zain Saudi participated in a specialized campaign on the importance of conserving electricity in the Kingdom and protecting the environment. The company switched off the lights at its headquarters for 60 minutes during the Earth Hour.

- ***During the month of "Ramadan" ... Cooperation between Zain Saudi and the Ministry of Health***

Zain Saudi cooperated with the Ministry of Health in several aspects of awareness during the holy month of Ramadan. Zain Saudi spread health awareness through launching a campaign that targets various health aspects related to fasting. The campaign included awareness messages on social media channels to warn against unhealthy habits during Ramadan, and how to replace such bad habits with healthy ones, especially when it comes to proper diet and diabetes.

- ***Supporting 20 charities during Ramadan***

As a part of its social responsibility, Zain Saudi contributed to support 20 different charities during the month of Ramadan. This was achieved by activating the donation code and encouraging subscribers to social media channels to donate by sending an SMS.

- ***Supporting the World Environment Day***

Zain Saudi supported the Ministry of Environment campaign, in conjunction with the World Environment Day by sending an SMS to Zain Saudi's customers in order to increase the level of environmental awareness in the community.

- ***Participation in the influenza prevention campaign***

Zain Saudi organized for its employees an anti-flu campaign in Riyadh, in cooperation with King Saud Medical City.

Changes in organizational structure:

A HR Transformation Project was also successfully completed in August 2017. The scope of the project covered all divisions in terms of restructuring, and introducing new Job titles, job descriptions, job families, new grade and salary structure.

Key changes included:

- Creation of an Operations Division encompassing Engineering, Information Security, Innovation, Technical Operations, Wholesale, Fixed Services, Digital Transformation and Regulatory and Government Affairs, and
- An integrated Business Division to cater for the needs of small, medium, corporate and Government accounts.

5- Outlook

Amid the challenging macroeconomic environment of Saudi Arabia, increased competitive pressures, OTT disruption and decelerating growth of traditional telecom products, Zain Saudi will continue to focus on monetizing its digital services, offering best value to our targeted segments, and increase data quality-of-service for our customers.

The way forward for Zain Saudi is to continue to attract more customers across all segments – individuals, business and government – and as a result grow in revenues and enhance our profitability.

New partnerships for the provision of convergent solutions based on superfast wireless and fiber technologies will be explored to allow for the delivery of new services without extensive build of fixed network infrastructure.

Whilst the fundamental priority of the Company remains to grow its customer base and revenue share of the market, operational efficiencies will also be vigorously pursued to improve productivity and reduce operational expenditures.

Ongoing regulatory changes, tariff regulations and changes to government fees imposed on the Company and industry will continue to impact the financial performance of the Company in the future.

Important Events

- ***The results of shareholder Ordinary General Assembly Meeting (First Meeting)***

The Company held its Ordinary General Meeting (OGM) on Thursday 21 Dec, 2017 at 19:30 in the Media Center of Tadawul, King Fahd Road, Taawuniya Towers (Northern Tower), Riyadh. After the required quorum was formed recording an attendance percentage of (41.44%) of total company capital, the OGM reviewed the agenda items and based on the voting results, the OGM approved the following:

1. The updated nomination and remuneration committee charter.
2. The remuneration policies for Board and committee members and executive management.
3. The updated policies, standards and procedures for membership in Zain Saudi Board

- ***Receiving a letter from the General Authority of Zakat and Tax requesting additional payment for the financial years of 2009 – 2011***

The letter is requesting additional payment of SAR 619M, of which SAR 352M are related to Zakat and SAR 267M to withholding Tax (WHT), for the financial years 2009, 2010 and 2011.

Zain Saudi appealed this claim for additional payments on 27/08/2015, and was able to have the amount of SAR 352M related to Zakat revoked entirely. In addition, SAR 219M of the withholding tax claim was also revoked.

Zain Saudi will continue with its appeal of the remaining WHT amount of SAR 48M.

To appeal before the High Appeal Committee (HAC), Zain Saudi completed the required conditions in the Articles of the Saudi Tax Law, by paying the invoices issued by GAZT amounting to SAR 48M on 16/11/2017 related to WHT.

Zain Saudi has also issued a bank guarantee for the amount of SAR 43M related to the penalty generated from the delay in paying the WHT.

Based on the above, Zain Saudi received the reassessment letter for the paid amount and presented its objections before the HAC on the preliminary Appeal Committee opinion on 19/11/2017.

There is no financial impact as the company has sufficient provisions to cover these amounts.

- ***Board of Directors recommendation to reduce the Company's capital and a subsequent capital increase through a rights issue***

In order to strengthen the Company's financial position, Zain Saudi announced that on 24 October 2017 its Board of Directors resolved to propose the following measures, subject to regulatory and extraordinary general assembly approvals:

1. Capital Reduction

The Company's capital will be reduced from SAR 5,837,291,750 to SAR 3,616,110,783, representing a capital decrease of around 38%. The purpose of the capital reduction is to write off the accumulated losses of SAR 2,221,180,967.

The capital reduction will be effected by cancelling 222,118,097 shares with 38 shares being cancelled for every 100 share owned. As a result, the number of shares on issue will be reduced from 583,729,175 shares to 361,611,078 shares. The capital reduction will become effective at the end of the following trading day after the extraordinary general meeting being convened to approve the capital reduction.

The percentage of ownership of each shareholder in the Company will not change as a result of the capital reduction and the capital reduction will not have any effect on the existing obligations or operations of the Company.

2. Rights Issue

Following the capital reduction, the Company plans to increase its capital from SAR 3,616,110,783 to SAR 9,616,110,783 by way of a rights issue with a total value of SAR 6,000,000,000.

The rights issue will be offered to those shareholders who are registered in the shareholders register at the close of trading on the day of the extraordinary general assembly being convened to approve the rights issue.

The proposed capital reduction and subsequent rights issue are subject to obtaining prior approvals from the relevant authorities including the Capital Market Authority and the relevant extraordinary general assembly meetings.

The Company anticipates that the capital reduction and rights issue will result in the injection of additional fresh cash which will be used to reduce the Company's debt on the balance sheet and therefore result in significant interest savings. The capital restructuring is expected to improve the financial performance, profitability and leverage ratios of the Company.

The Company appointed SFC on 25 May, 2017, to assist in exploring various options to continue to strengthen its financial position. The Board has on the 24 October 2017 extended the scope of work pursuant to which SFC is to act as financial advisor and appointed Baker & McKenzie as legal advisor to manage the capital reduction and rights issue applications.

- ***Exploring the sale of its towers***

Discussions continue with the interested consortium. Approvals from CITC and other Authorities have been requested for the towers project. There are no material developments at this stage.

- ***The Company acquisition of additional spectrum***

The Company acquired on 07/06/2017 it secured 2x10MHz of 1800MHz spectrum at a total cost of SAR 844 million.

This amount will be paid in annual payments. The first payment of 30% amounting to SAR 253 million was paid in 2017, and the remaining as annual payments of 7% over a 10 year period.

This spectrum acquisition followed the conclusion of a spectrum auction conducted by the Communications and Information Technology Commission (CITC) announced on 06/06/2017. Following this acquisition, Zain Saudi's total 1800MHz spectrum now comprises 2x20MHz. Zain Saudi also holds spectrum at additional frequencies including 900MHz and 2100MHz.

It is anticipated that the acquired new spectrum will increase Zain Saudi LTE network capacity by 50% allowing Zain Saudi customers to experience an average increase of 80% in downloading and improving network congestion, without the need for major changes in existing infrastructure. Quality of service and experience of customers will improve without the need to change any settings on their wireless phones, tablets and routers.

The Company expects that this will have a positive impact on the Company's overall performance

- ***Accumulated deficit reached 38% of its Share Capital***

In relation to the new CMA regulations regarding the announcement of accumulated losses greater than 20%, that took effect for all listed companies on 22 April 2017.

The Company was able to reduce its accumulated deficit by 0.78% from SAR 2,274 million in December 2016, to SAR 2,229 million as of Q1 2017 representing 38% of its Share Capital of SAR 5,837 million. The accumulated deficit is mainly due to difficult market conditions in the telecommunications sector, large debt servicing burden and high amortization expenses due to the high license fee paid during the launch of the company. Remedial steps to be taken, include the following:

Streamline and optimize costs through initiatives mainly directed towards non-revenue related costs; Improve revenue and gross profit by offering higher value products and services; negotiations with the Government that have so far resulted in the reduction on Mobile Termination Rates (MTR); issuance of a High Order during the fourth quarter of 2016 part of which included extension of the company's license, that resulted in a decrease in the amortization expenses of around SAR 108 million in every quarter.

- *The results of shareholder extraordinary general assembly meeting (First Meeting)*

The company held an Extraordinary General Assembly Meeting on April 13, 2017 at 20:30 in the Media Center of Tadawul, King Fahd Road, Taawuniya Towers (Northern Tower), Riyadh after completing the quorum and all resolutions of the meeting are as follows:

1. Approved the Board of Directors report for the financial year ended December 31, 2016.
2. Approved the financial statements for the financial year ended December 31, 2016.
3. Approved the Auditors report for the financial year ended December 31, 2016.
4. Approved to release the Board of Directors members from their liability for the 2016 financial year.
5. Approved the appointment of the External Auditor to review the Company quarterly and annual financial statements for the financial year 2017 and determining their fees, to be Aldar audit bureau-Grant Thornton.
6. Approved the amendment of Company bylaws in compliance with the Companies Law issued under the Royal Decree No. M/3 dated 28/1/1437H.
7. Approved the formation of the Audit Committee for the current term until the end of the current BOD term and approve the updated regulations for the selection of Committee members, its tasks, work controls and remuneration of its members. The candidates are:
 - Mr. Raied bin Ali Al Saif (Head of the Committee)
 - Mr. Ossama Michael Matta (Member)
 - Mr. Thamer Ahmad Obeidat (Member)
8. Approved the service contract between Zain Saudi and Almarai Company where HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, Chairman of Zain Saudi has a direct or indirect interest since he is also a member of the Board of Directors of

Almarai Company, and to authorize it for the coming year. The total value of the services provided during 2016 reached an amount of SAR 307 thousand, according to the prevailing market commercial terms.

- ***Issuance of a Unified License to provide all telecommunication services***

The CITC has in line with the high order dated the 01/10/2016, issued Zain Saudi a Unified License to provide all telecommunication services. That will enable the Company to offer all telecommunication services including fixed services.

The Company expects that this will have a positive impact on the Company's performance, however the exact impact cannot be determined at this time.

- ***Claim by an operator***

On Thursday, November 10 2016 the Arbitration Panel announced their award in relation to the disputed SAR 2.2 billion claim by Mobily against Zain Saudi, allegedly arising from the services agreement signed between the two parties on May 6, 2008.

The Panel rejected over 90% of Mobily's SAR 2.2 billion claim, allocating just SAR 219,464,509 to Mobily. The Company had announced that the judgment, when enforced, will not have a negative financial impact on the Company because the Company had previously taken sufficient provisions to cover the full amount awarded by the Arbitration Panel.

A representative of Zain Saudi on 20/02/2017 handed over to a representative of Mobily, a certified cheque for the amount of SAR 219,464,509 (two hundred and nineteen million four hundred and sixty four thousand five hundred and nine Saudi Riyals).

On the same date, the representative of Zain Saudi handed over to a representative of the expert appointed by the Arbitration Panel, a certified cheque for the amount of SAR 1,160,615.50 (one million one hundred and sixty thousand six hundred and fifteen Saudi Riyals and fifty Halala).

By paying the amounts mentioned above to Mobily and the expert appointed by the Arbitration Panel, Zain Saudi fulfilled all of its obligations pursuant to the judgment issued by the Arbitration Panel on 10/02/1438H corresponding to 10/11/2016.

Summary of Zain Saudi's Financial Results

Material difference in the operational results:

Operational profit reached SAR 903 million for the current year compared to operational loss of SAR 54 million in the previous year due to an increase of revenue by 5%, decrease in distribution and marketing expenses by 8% and a decrease in General and administration expenses by 12%.

1- Balance Sheet Highlights as of 31st of December 2013, 2014, 2015, 2016 and 2017

The following table summarizes the financial position of Zain Saudi as of 31st of December 2013, 2014, 2015, 2016 and 2017:

SAR Million	2013 Audited	2014 Audited	2015 Audited	2016 Audited (restated)*	2017 Audited	Change 16/17	% Change 16/17
Current Assets	3,310	3,888	4,096	3,356	3,756	400	12%
Non-current Assets	22,927	21,977	21,952	23,158	22,184	(974)	-4%
Total Assets	26,237	25,866	26,048	26,514	25,940	(574)	-2%
Current Liabilities	3,821	3,898	6,498	6,582	11,488	4,906	75%
Non-current Liabilities	15,657	16,504	14,998	16,374	10,888	(5,486)	-34%
Total Liabilities	19,478	20,402	21,497	22,956	22,376	(580)	-3%
Shareholders' Equity	6,759	5,464	4,552	3,559	3,564	5	0.1%
Total Liabilities and Shareholders' Equity	26,237	25,866	26,048	26,515	25,940	(575)	-2%

Source: Audited financial statements for the years ended 2013, 2014, 2015, 2016 and 2017

Note: All figures are in (Millions) Saudi Arabia, Riyals

Note: Numbers may not sum up due to the rounding

*Restated as per the new IFRS requirement

As of 31st of December 2017, the Company had total assets amounting to SAR 25,940 million, of which SAR 15,122 million (58% of total assets) relates to the carried amount of the CITC license acquired in 2007. In addition; property and equipment amounted to SAR 6,530 million, as of 31st of December 2017, which represented 25% of total assets.

At the same date, the Company's total liabilities amounted to SAR 22,376 million, of which 70% amounting to SAR 15,677 million are related to the following:

- Murabaha Facility.
- Advances from Shareholders.
- Junior Debt – ICBC.
- Governmental Loan.
- Vendor Financing.

2- Overview of the Company's Borrowings

As of 31st of December 2017, the outstanding principal balances of borrowing arrangements amounted to SAR 15,677 million. The following table summarizes those borrowing arrangements:

SAR Million	Term	Principal Amount	Repaid During 2017	Lender	Outstanding Principal Balance	Maturity
Murabaha Facility	5 years	8,631	1,726	Consortium of 8 banks	5,959	30 Jun, 2018
Advances from Shareholders	Open	3,989	-	Founding Shareholders	5,002	Open
Junior Debt – ICBC	3 years	2,250	-	Industrial & Commercial Bank of China	2,250	08 Aug, 2019
Government Loan	14 years	Up to 800 per Year	-	Ministry of Finance	2,431	01 Jun, 2027
Vendor Financing	5.5 years	1,219	70	Export Credit Agency	35	31 Jan, 2018
Total					15,677	

Source: Audited financial statements for the years ended 2017

Note: All figures are in (Millions) Saudi Arabia, Riyals

Note: Numbers may not sum up due to the rounding

It is worth mentioning that there are no treasury shares held by the Company, and there are no uses of such shares at the Company.

- ***Syndicated Murabaha Financing***

The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 8.63 billion was arranged by Banque Saudi Fransi in July 2013. This Murabaha Facility consists of a SAR portion totaling SAR 6.26 billion and a USD portion totaling USD 600 million (equivalent to SAR 2.25 billion). The initial purpose of this agreement was to partially finance the acquisition of the Company's mobile license issued by the CITC back in 2007.

On September 30, 2015 and March 31, 2016, the amounts of SR 121 Million and SR 392 Million were prepaid respectively as per the financing document requirements. On 31th December 2016, the company paid the amount of SR 432 Million as a settlement for 5% of the principal amount which represents the first repayment of the facility. On 22 June 2017, the Company paid the second instalment amounting SR 432 million as 5% of the principal. On 28 December 2017, the Company paid the third instalment amounting SR 1,295 million as 15% of the principal.

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

Financial and other covenants imposed by the financing banks are:

- Partial guarantee from Mobile Telecommunications Company K.S.C.
- Pledge of shares of founding and major shareholders.
- Pledge of the main fixed assets.
- 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.
- EBITDA and leverage level.

- ***Advances from Shareholders***

The founding shareholders have provided and they continue to provide advances to the Company since 2007. The outstanding balance as of 31st of December 2017 amounted to SAR 5 billion. Financing cost started to accrue in August 2009 following the refinancing of the Syndicated Murabaha Financing which took place at that time, while the loans carry financing costs as agreed with the Founding Shareholders.

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

- Partially finance the acquisition of the CITC license.
- Finance the working capital requirements.
- Provide security required by syndicated Murabaha financing agreement.
- Pay for all dues on the junior debt & Finnvera junior loans.

The advances from shareholders as of 31st of December 2017 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

- ***Junior Debt – ICBC***

On the 29th of August 2016, Industrial and Commercial Bank of China arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility (Arab National Bank facility) for a total amount of USD 600 Million.

This facility is fully 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.

The initial purpose of the previous financing from Arab National Bank 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 800 million per year to be paid over a seven-year period starting in 2021. This agreement is considered as a commercial loan, since it is bearing an interest that's lower than market prevailing levels.

- ***Vendor Financing***

On the 20th 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.
- To finance further new expansion plans provided by the same technical vendor.

Financing charges as specified under this facility agreement are payable in semi-annual installments over the life of the loan. Repayment is spread over five 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 was on the 31st January 2018. Principal and interest are payable from Mobile Telecommunications Company K.S.C. and cross charged back to the Company.

3- Statements of Operation Highlights for Years Ended on the 31st of December 2013, 2014, 2015, 2016 and 2017

The following table summarizes the statement of operation for the years ended on the 31st of December 2013, 2014, 2015, 2016 and 2017:

SAR Million	2013 Audited	2014 Audited	2015 Audited	2016 Audited (restated) *	2017 Audited	Change 16/17	% Change 16/17
Revenues	6,455	6,170	6,741	6,927	7,306	379	5%
Cost of Revenues	(3,320)	(2,948)	(2,790)	(2,526)	(2,393)	133	-5%
Gross Profit	3,135	3,223	3,951	4,401	4,913	512	12%
Distribution and Marketing	(2,028)	(2,031)	(2,047)	(2,366)	(2,185)	181	-8%
General and Administrative	(216)	(91)	(275)	(239)	(211)	28	-12%
EBITDA	891	1,101	1,629	1,796	2,517	721	40%
Depreciation and Amortization	(1,840)	(1,633)	(1,770)	(1,850)	(1,614)	236	-13%
Net profit / (loss) before net finance income and Zakat	(949)	(534)	(141)	(54)	903	958	-1774%
Finance & other Income	21	9	7	32	18	-13	-41%
Financial Charges	(723)	(745)	(838)	(956)	(910)	46	-5%
Net Profit/(Losses) for The Year	(1,651)	(1,270)	(972)	(979)	12	990	-101%

Source: Audited financial statements for the years ended 2013, 2014, 2015 2016 and 2017

Note: All figures are in (Millions) Saudi Arabia, Riyals

Note: Numbers may not sum up due to the rounding

*Restated as per the new IFRS requirement

- Revenue reached SAR 7,306 million for the current year compared to SAR 6,927 million in the previous year at an increase of 5%, where data revenue represents 52% (excluding value added services & SMS).
- Gross profit reached SAR 4,913 million for the current year compared to SAR 4,401 million in the previous year; an increase of 12%, with gross profit margin reaching 67% compared to 64% in the previous year.
- Distribution and marketing expenses reached SAR 2,185 million for the current year compared to SAR 2,366 million in the previous year; a decrease of 8%. General and administration expenses reached SAR 211 million for the current year compared to SAR 239 million in the previous year; a decrease of 12%.
- EBITDA reached SAR 2,517 million for the current year compared to SAR 1,795 million in the previous year; an increase of 40%, with EBITDA margin reaching 34% compared to 26% in the previous year, reflecting the improvement in revenue and the management efforts in optimizing the Company cost structure.
- Depreciation and amortization expenses reached SAR 1,614 million for the current year compared to SAR 1,850 million in the previous year; a decrease of 13%, mainly resulting from the license term extension upside.
- Operational profit reached SAR 903 million for the current year compared to operational loss of SAR 54 million in the previous year.
- Net profit after zakat and tax reached SAR 12 million for the current year compared to net loss after zakat and tax of SAR 979 million in the previous year.
- Total comprehensive income reached SAR 5 million for the current year compared to total comprehensive loss of SAR 975 million in the previous year.
- Profit per share reached SAR 0.02 for the current year compared to a loss per share of SAR 1.68 in the previous year.
- Total shareholders' equity (there is no minority interest) reached SAR 3,564 million for the current year compared to SAR 3,559 million in the previous year; a decrease of 0.4%.
- The accumulated deficit reached SAR 2,263 million for the current year representing

39% of the Company share capital of SAR 5,837 million, compared to SAR 2,274 million in the previous year representing 39% of the Company share capital.

- In line with the country wide decrease in subscriber numbers, Zain Saudi subscriber base decreased by 24%, reaching 8.3 million subscribers for the current year compared to 10.9 million subscribers in the previous year.

- During Q4 2017 the Company paid the third installment from the syndicated Murabaha Facility Agreement with a group of local and international banks in the amount of SAR 1,295 million which represents 15% from the loan amount SAR 8,631 million reducing the facility principal amount to SAR 5,960 million. This demonstrates the continuity of the Company's excellent performance and its ability to meet the financial obligations.

4- The following Table Presents Revenue Breakdown for Years 2013, 2014, 2015, 2016 and 2017:

SAR Million	2013	2014	2015	2016	2017	Change 16/17	% Change 16/17
Usage Charges	5,751	5,566	6,161	6,127	5,579	(548)	-9%
Subscription	370	395	437	778	1,710	932	120%
Other	334	209	143	21	16	(5)	-24%
Total Revenue	6,455	6,170	6,741	6,926	7,306	380	5%

Source: Audited financial statements for the years ended 2013, 2014, 2015 2016 and 2017

Note: All figures are in (Millions) Saudi Arabia, Riyals

Note: Numbers may not sum up due to the rounding

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

5- Dividend Policy

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 following:

- 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, shall be paid to the Shareholders as 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.
- e) The balance shall be distributed to the shareholders as an additional share of the profit.

It is worth mentioning that no dividends were distributed to the shareholders during the year 2017 and the Board of Directors did not propose any distribution percentage.

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.

6- External Auditor's Report Containing Reservation

There is no emphasis of a matter by the external auditor and the Board did not recommended replacing the external auditor during the year.

7- Basis of Preparation of the Financial Statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA). These financial statements are the first annual financial statements prepared in accordance with IFRS. The requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards have been applied in preparing these financial statements.

1- Risk Factors

During 2017, Zain Board approved the Enterprise Risk Management Framework and Policy in compliance with Corporate Governance Regulations issued by Saudi Arabian Capital Market Authority (CMA). The Board also updated and approved the Corporate Governance Framework to manage risk across Zain Saudi Arabia in line with leading practices.

Zain ERM framework provides reasonable (but cannot give absolute) assurance that all top risks have been identified and addressed, as there could be some risks which are unknown today and there could be some that were considered as less critical now, but may become more important later. Such key risks include but not limited to:

- ***Accumulated losses / capital Restructuring***

The Board and Executive Management continually address the accumulated losses primarily through intensifying sales activities and a cost optimization program. Zain also continues to explore with the Ministry of Finance, as per the High Order, available options that will minimize losses and improve cash flow. In addition, the Board approved a capital reduction and a rights issue which will directly address accumulated losses.

- ***Regulatory and Legal Changes***

In 2017 Zain and all other Saudi telecom operators faced a series of regulatory decisions including the “2 SIM cards” limit, changes to Fair Usage Policy levels, introduction of voice for OTT applications, revised mobile-termination rates and auction of spectrum. All such regulatory decisions have had significant, adverse impact on revenues, costs and capital expenditure.

- ***Difficulties to achieve profitable growth by maintaining market share***

Zain faces strong competition from established and bigger operators and, start-ups such as MVNOs. To attract new customers Zain has to make significant investments in capital expenditure and marketing and sales efforts. Aggressive

initiatives from competitors and lower prices may result in losses for Zain as it competes with better value to grow its customer base.

- ***Macro-Economic factors***

Evolving macro-economic factors, including introduction of VAT, increases in electricity and gasoline costs, rising security risks, unemployment, and new reforms affecting expats workers will collectively decrease the spend of wallet, increase operating costs, increase churn and slow demand for new services.

- ***Information security and cyber risks***

Cyber-attacks against critical infrastructure may result in the disruption of service, misuse / disclosure of sensitive, confidential information or data and affect business growth.

A successful cyber-attack or security violation on telecommunication network could result in an inability to deliver services to our customers, reputational damage, revenue loss and the risk of financial penalties. To mitigate these risks Zain continues to implement and enhance appropriate security controls/ measures to address critical identified issues. In addition, to increase data protection, Zain issued a data classification policy and is also re-assessing its data center strategy including the suitability of current locations to accommodate growth, physical locations and overall protection of such centers from external physical and cyber threats.

- ***Capital intensive business which requires ongoing investments in infrastructure***

Zain Saudi plans to continue to invest in maintaining and expanding its infrastructure in the future. Some of the future investment needs are likely to arise from acquisition of mobile spectrum, increased mobile data usage, requiring investments in additional capacity, network maintenance and network optimization technology, as well as increased fixed broadband speed requirements. Investment on positive ROI projects will improve the Company's financial performance.

- ***Credit risk management***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party

and short-term cash investments. Details of how credit risk relating to trade receivables is managed and disclosed in the financials. The amounts due from a related party are monitored and provisions are taken, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

- ***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. Zain Saudi has established an appropriate liquidity risk management framework for short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Moreover Zain fulfilled on time, all its obligations in 2017 to its lenders and is engaged on an on-going discussion for refinancing prior to 30 June 2018.

- ***Market risk***

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The risk is managed by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

- ***Foreign currency risk management***

Zain Saudi undertakes transactions denominated in foreign currencies which float against the Saudi Riyal and consequently, exposures to exchange rate fluctuations may arise. These amounts are not hedged as the exposures are not considered to be material to the Company.

- ***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. Management considers that the carrying value of the financial instruments reported in the statement of financial position approximates their fair value

In addition to the above, management is consistently working towards improving and investing in business continuity and disaster recovery framework, policy procedures and plans in compliance with the Regulatory Framework for Disaster Recovery Planning issued by CITC, in order to ensure the continuous provision of telecommunication services throughout Saudi Arabia.

We believe that events that occur outside Zain Saudi pose both risks and opportunities, to our business and to other companies. We focus our efforts on predicting and mitigating those risks while aiming to take advantage of any opportunities that may emerge from such risks.

2- Subsidiaries

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

3- Compliance with Corporate Governance Regulations in KSA

Board of Directors of Zain Saudi has established a Corporate Governance Framework in line with the requirements of Code of Corporate Governance, 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 Code of Corporate Governance Regulations issued by CMA are met.

During 2017, the CMA raised a number of matters that required further focus and attention by the Board of Directors relating to the period 2015-2016. The Board

promptly responded to such cases and governance has been strengthened to address all the relevant CMA compliance matters.

Zain Saudi has adhered to implementing the corporate governance regulations which are issued by the CMA. The Company has adhered to all of these regulations, with a few exceptions; they are detailed below:

Article Number	Reason for not adopting articles
Article 51 Paragraph (b)	The Board of Directors was not able to appoint an independent member to be the chairman of the Nomination and Remuneration Committee during the year 2017, and is working on appointing an independent chairman in 2018.

Article Number	Reason for not adopting these guiding articles
Article 38	The Board of Directors did not see the need to restrict the conditions of selecting its Board Secretary
Article 39	The Board of Directors did not see the necessity of training and qualifying the members of its Board due to their capabilities and expertise to manage the Company
Article 70&71&72	The Board of Directors did not see the need to establish a Risk Management Committee, set its responsibilities, set its process and the number of its meetings during the year
Article 87	The Board of Directors did not see the need to develop a policy to ensure a balance between the objectives of social responsibility and the objectives of the society during the year, with the social responsibility under the supervision of the executive management

Article 88	The Board of Directors did not see the need to limit itself by developing programs for the Company's social responsibility initiatives
Article 95	The Board of Directors did not see the need to form a Corporate Governance Committee during the year.

4- Shareholders Register Requests

The Company's shareholders register was requested 11 times during the year 2017 and the reason for the requests is for the Company to analyze its shareholding structure, in addition to answer shareholders who call the company to inquire about their shareholding, especially after the capital restructuring. The following table shows the dates of the requests made by the Company and the date of the shareholder register:

Date of request	Date of shareholder register
05/01/2017	31/12/2016
05/02/2017	31/01/2017
19/04/2017	28/02/2017
19/04/2017	31/03/2017
30/05/2017	30/04/2017
16/07/2017	31/05/2017
16/07/2017	30/06/2017
29/08/2017	31/07/2017
25/09/2017	31/08/2017
09/10/2017	30/09/2017
02/11/2017	31/10/2017

5- Internal Audit

Zain Saudi internal Audit Department provides an independent and objective assurance services to add value, improve operations and achieve the company's objectives. The internal audit plan has been developed using a risk-based approach in accordance with the professional auditing standards as set out by the Institute of Internal Auditors and as described in the Internal Audit Charter at Zain.

The internal audit performed several audits in accordance with the annual audit plan approved by the Audit Committee with the aim of giving necessary assurance about the effectiveness and efficiency of internal control in the company. The approved annual audit plan, for example, included reviewing procurement and financial policies and procedures, and reviewing and evaluating the company's internal control. These audits did not show significant weaknesses in internal controls.

6- Major Shareholders

Over the course of the reporting period, Zain Saudi has received no notifications (other than from the Company's directors, senior executives, their spouses, and minor children detailed separately below) pursuant to Article 45 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 31 st of December 2016	No. of Shares on 31 st of December 2017	Ownership % on 31 st of December 2017
Mobile Telecommunication Company K.S.C.P.	216,243,575	216,243,575	37.05%
Faden Trading & Contracting Establishment	34,856,143	34,856,143	5.97%
Saudi Plastic Factory	34,125,198	34,125,198	5.85%

7- Board of Directors

The Company is managed and its operations are overseen by the Board of Directors, which currently consists of (9) nine members. Each member of the Board is appointed for a term of three years starting from the 26th of April 2016; the date of the Ordinary General Meeting approved them as the third board members since the Company's inception. HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer was appointed as a chairman of the board and Mr. Bader bin Nasser Alkharafi as a vice chairman of board on the 3rd of May 2016. The Board had 6 meetings in 2017 and passed 13 circular resolutions.

The Board of Directors formed a Nomination and Remuneration Committee, which is responsible for evaluating the performance of the board, its committees and members, without the need for third party evaluation.

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

Board Member	Membership Type	No. of Shares Held on 1st of January 2017	No. of Shares Held on 31st of December 2017
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	Chairman/ Independent	1,000	1,000
Bader bin Nasser Alkharafi	Vice Chairman/ Non-Executive	1,540	1,540
Abdulaziz bin Yaqub Al Nafisi	Non-Executive	_*	_*
Ossama Michael Matta	Non-Executive	_*	_*
Mark Scott Gegenheimer	Non-Executive	_*	_*
Thamer Ahmed Obeidat	Non-Executive	_*	_*
Raied bin Ali Al Saif	Independent	1,003	1,003
Saud Abdullah Al-Bawardi	Non-Executive	1,000	1,000
Hisham Mohammed Attar	Independent	1,000	1,000

* *Membership guarantees shares that 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.*

- ***Board of Directors Formation***

The board of directors' members are as follows:

HH Prince Naif Bin Sultan Bin Mohammed Bin Saud Al Kabeer (Chairman)

HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer is an experienced Saudi businessman and holds a seat on the boards of Almarai Company, Alyamamah Cement Company, Farabi Gulf Petrochemicals Company from 2002, Projects and Technical Contracting Establishment and Ashbal Al Arab Contracting Establishment. HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer attained a BSc in Business Administration (Marketing) from King Saud University in 1997.

Bader Bin Nasser Al-Kharafi (Vice Chairman)

Bader Nasser Al-Kharafi was appointed Vice-Chairman of Zain Group Board of Directors in February 2014, having earlier joined the board in April 2011. On March 12th 2017, Mr. Al-Kharafi became the Group CEO in addition to his existing role of Vice Chairman.

In April 2012, Mr. Al-Kharafi was appointed as Chairman of Touch, Lebanon. In September 2013, he was appointed as Managing Director of Al-Khatem Telecommunications Company, Zain's JSC in Iraq. In April 2014, he was appointed as Vice Chairman of the Sudanese Mobile Telephone Co., "Zain Sudan". In October 2015, he was appointed as Vice Chairman of the board of Zain Saudi Arabia.

Mr. Al-Kharafi holds office as Chairman, VP, MD and Board member in several businesses that form part of the Kharafi conglomerate, one of the largest privately owned, diversified groups based in Kuwait and operating across the GCC and MENA with more than 135 registered companies operating in more than 28 countries in various sectors.

Mr. Al-Kharafi is also the Chairman and Managing Director of Kuwait based Gulf Cables & Electrical Industries KSC and a Board member of Refreshment Trading Company (Coca-Cola). Additionally, he is a Board member of Gulf Bank Kuwait, one of the country's largest financial institutions, as well as a Board member of Foulath

Holding B.S.C. (Bahrain Steel BSCC). In 2010, Mr. Al-Kharafi was appointed Vice Chairman of Diamond International Motors Company (Mitsubishi), Egypt.

In early 2014, Mr. Al-Kharafi was appointed as a member of the Middle East Advisory Board of Coutts, the wealth division of the Royal Bank of Scotland Group. He is also the Vice Chairman of the Board of Injaz, Kuwait, a non-profit organization aimed at the development of youth in the region. In April 2014, He was appointed as a Board Member of the Kuwait – British Friendship Society. He is also a member of the Industrial Advisory Board for the Mechanical Engineering Department at Kuwait University.

Mr. Al-Kharafi attained his MBA from London Business School and holds a Bachelor's degree in Mechanical Engineering from Kuwait University.

Abdulaziz Bin Yaqub Al Nafisi (Member)

Mr. Al Nafisi represents Mobile Telecommunications Company K.S.C (Zain Group) which owns 37.05% of “Zain Saudi”, and is considered one of the leading companies in the field of mobile telecommunications in the Middle East and North Africa. With 8 countries, and more than 41 million customers Zain Group enjoys a distinguished geographical spread in the region, providing its services in the markets of Kuwait, Bahrain, Saudi Arabia, Jordan, Iraq, Lebanon, Sudan and South Sudan (in addition to Morocco as it owns 15.5% of Inwi telecom company). He holds a Bachelor's degree in Business Administration from the University of Tepper California, USA, and has a long experience in the fields of communications, finance, investments and real estate from 1978 until now.

Marc Scott Gegenheimer (Member)

Mr. Scott Gegenheimer represents Communications & Information Consultancy Group K.S.C (Closed) which was founded in 1984, the company is specializes in providing communications and computer systems studies and counseling services, and is 99% owned by Zain Group. The company's main objective is to develop information sharing networks and supervise their implementation, maintenance and operation, in

addition to utilizing financial surplus by investing in financial and real estate portfolios managed by specialized companies. The company's capital is KWD 250,000.

Mr. Gegenheimer was appointed CEO of Zain Group on December 2, 2012. On March 12, 2017, following the Ordinary Annual General Assembly, the newly elected Board decided to combine the role of Vice-Chairman and Group CEO and duly appointed Mr. Gegenheimer with the new role of Group CEO-Operations.

He holds a Bachelor's of Science degree in Finance and Management from Northern Illinois University and an MBA from DePaul University in Chicago.

Mr. Gegenheimer is a telecom veteran of over 25 years' experience, with a track record of impressive results, and a good portion of his time spent in Kuwait and other places in the region.

He is a native of the US and prior to joining Zain Group spent the last decade in various senior management and leadership positions at regional operators, including in Kuwait. He has spent time working for technology heavyweights including Cisco Systems and Motorola, and has also enjoyed a stint in the financial services industry in the US.

Ossama Michael Matta (Member)

Mr. Ossama Matta represents Itisalat Plus Company K.S.C (Closed) which was founded in 2001. The company is specialized in importing, exporting and installing mobile phones, in addition to phone lines businesses, and is 99% owned by Zain Group. The company's main objective is to utilize financial surplus by investing in financial and real estate portfolios managed by specialized companies. The company's capital is KWD 250,000.

Mr. Matta was appointed Chief Financial Officer of Zain Group effective June 10, 2010, six years after joining the company.

He plays a critical role in the Zain Group senior executive management team, determining the Group's strategy, and is responsible for all financial, investment and investor relations issues.

Mr. Matta joined Zain in 2004 as the CFO of the Lebanon operation 'mtc touch', and was thereafter promoted in 2007 to CFO of Zain Kuwait, Zain Group's mother operation and most profitable company.

In early 2008, Mr. Matta was again promoted to the role of Zain Group Middle East Finance Officer, overseeing the operations in Bahrain, Iraq, Jordan, Lebanon, Kuwait, Saudi Arabia and Sudan.

Mr. Matta is a results-oriented leader and an advocate of firm corporate governance and transparency. He has more than 15 years track record of solid financial and managerial experience in the Middle East. With a strong corporate finance background and expertise, Mr. Matta has solid relationships with investment and commercial banking communities across the region.

Mr. Matta attained an Executive MBA from the American University of Beirut, and is a Certified Public Accountant.

Thamer Ahmad Obeidat (Member)

Mr. Thamer Obeidat represents Al Nahar Economic Consultancy Company Ltd which is based in Kuwait, and was founded in 2006 to provide management and economic consulting services for private and public sectors institutions to deal with some of the greatest challenges they face such as organizational restructuring and Financial and operational re-organization.

Mr. Obeidat has been practicing law since 1988 in New York, USA and Amman, Jordan. He has been active in advising clients in the telecom sector for the past 25 years and has represented major telecom operators, equipment vendors and other sector participants in diverse roles. He holds a Master's degree in Law from Harvard Law School in the United States of America and was an associate lawyer with White & Case LLP from 1988 till 1991 in the New York office. He later became an associate lawyer at the Law and Arbitration Center in Amman from 1992 till 1997 and a partner and managing partner at Obeidat & Freihat from 1998 until now in Amman, Jordan.

Raied Bin Ali Al Saif (Member)

Mr. Raied Al Saif is a Saudi citizen and the director of investment department and business development at the private office of Prince Sultan bin Mohammed bin Saud Al-Kabeer Al Saud since 2008. His department is responsible for supervising the investments and providing consulting services for listed and private companies, as well as overseeing all business activities and joint ventures with local and foreign companies, in addition to developing real estate projects. Mr. Al-Saif attained the bachelor degree from King Saud University in accounting in 1996.

Saud AlBawardi (Member)

Mr. Saud Al-Bawardi, is an experienced Saudi executive having held several leadership positions, last of which as Deputy CEO and COO of Zain Saudi until 2015 and has over 16 years' experience in the telecommunications and banking sectors. Mr. Bawardi attained a BSc in Media from King Saud University in 1998, and an MBA in international Business from the Swiss Business School Zurich, Switzerland in 2017.

Hisham Attar (Member)

Hisham Attar joined The Public Investment Fund in 2016 as a Senior Vice President. At PIF, he's role is to oversee a diverse local public and private equity portfolio as part of the Saudi Equities team. Prior to PIF, Hisham was a Principal at Amwal Alkhaleej for 8 years, a private equity firm focusing on medium and large investments in the Middle East. His main role at Amwal was to source investment opportunities, and oversee the investment throughout the entire investment cycle. Hisham also enjoyed hands on portfolio management experience as he was seconded to Body Masters, an Amwal Portfolio company. At Body Masters, Hisham spent two years as acting then deputy CEO and helped turnaround the business and grow it to a 40+ gym chain across Saudi Arabia. Prior to Amwal, Hisham was a Senior Dealer at The National Commercial Bank where he was responsible for overseeing the banks proprietary investment portfolio.

Hisham is involved in several ventures in fields as diverse as medical clinics, vehicle tracking, sports services, and agriculture both locally and internationally.

Hisham serves as the Chairman of the Saudi Jordanian Investment Funds, a member of the Board of Directors of the Industrialization and Energy Services Company (TAQA), and a member of the Board of Directors of Saudi Industrial Investment Company (Dussur).

Hisham graduated from Brown University (Providence, Rhode Island USA) in 2004, with a bachelor's degree in Business Economics.

8- Board of Directors Memberships in Other Saudi and International Companies

Director	Company
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	Al Marai - Member Yamama Saudi Cement - Member Farabi Petrochemicals Company - Member Zohoor Alreef Trading Company - Member Tarabot Investment & Development Company - Member
Raied bin Ali Al Saif	ANB Invest Company – Chairman Joussour Holding Company - Vice Chairman
Saud Abdullah AlBawardi	National Gypsum Company – Member
Bader bin Nasser Alkharafi	Gulf Cable & Electrical Industries Co. KSCP - Member Mobile Telecommunications Company – Member Al-Khatem for telecommunication – Member
Hisham Attar	Saudi Industrial Investment Company (Dussur) – Member Industrialization and Energy Services Company (TAQA) – Member Saudi Jordanian Investment Funds – Member Al-Farabi Medical Company – Member Sports Academy for Distinguished Training Co. – Member Marketing and Trading Co. Ltd – Member

9- Attendance Record of Board of Directors Meetings

The table below details the dates and attendance records for the Board of Directors' six meetings that were held during 2017. Please note that the mark (✓) denotes that the director attended the meeting, while the mark (✗) means the director did not attend:

Members	9 th of Feb 2017	13 ^h of Apr 2017	21 st of May 2017	17 th of Jun 2017	24 st of Oct 2017	5 th of Dec 2017	Attendance
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	✓	✓	✓	✓	✓	✓	6
Bader bin Nasser Alkharafi	✓	✗	✓	✓	✓	✓	5
Abdulaziz bin Yaqub Al Nafisi	✓	✓	✓	✓	✓	✓	6
Ossama Michael Matta	✓	✓	✓	✓	✓	✓	6
Mark Scott Gegenheimer	✓	✓	✓	✓	✓	✓	6
Thamer Ahmad Obeidat	✓	✓	✓	✓	✓	✗	5
Raied bin Ali Al Saif	✓	✓	✓	✓	✓	✓	6
Saud Abdullah Albawardi	✓	✓	✓	✓	✓	✓	6
Hisham Mohammed Mahmoud Attar	✓	✓	✓	✓	✗	✗	4
Total Attendance	9	8	9	9	8	7	

10- Attendance Record of Board of Directors to the General Assembly's Meetings

The table below details the dates and attendance records for the Board of Directors' for the General Assembly Meetings that were held during 2017. Please note that the mark (✓) denotes that the director attended the meeting, while the mark (✗) means the director did not attend:

Members	13 th of Apr 2017 (EGM)	21 th of Dec 2017 (AGM)	Attendance
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	✓	✓	2
Bader bin Nasser Alkharafi	✓	✗	1
Abdulaziz bin Yaqub Al Nafisi	✗	✗	0
Ossama Michael Matta	✗	✗	0
Mark Scott Gegenheimer	✓	✗	1
Thamer Ahmad Obeidat	✗	✗	0
Raied bin Ali Al Saif	✓	✓	2
Saud Abdullah Albawardi	✓	✓	2
Hisham Mohammed Mahmoud Attar	✓	✓	2
Total Presence	6	4	

11- Board of Directors Interests in Contracts with Zain Saudi

The following transactions took place during 2017, and reflect direct or indirect interests of Zain KSA Board of Directors members, and require approval from the General Assembly:

In 2015, Zain Saudi Arabia signed a contract with Almarai Company for providing telecom services, according to the commercial conditions prevalent in the market. The

Ordinary General Assembly approved on 26/04/2017 the renewal of the contract for another year. The total value of the services provided in 2017 amounted to 973,260.76 Saudi Riyals. It is also worth noting that His Royal Highness, Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer, Chairman of Board of Directors at Zain KSA, is also a member of Almarai's Board of Directors.

12- Actions taken by the Board of Directors to inform its members - especially non-executives - of shareholders' proposals and comments about the Company and its performance

The Company has an investor relations department that meets all investors' requests, responds to their inquiries, and submit their comments and suggestions to the Board of Directors of the Company through several means, including telephone and email correspondence.

13- Committees of the Board of Directors and a brief description of its responsibilities:

(1) Audit Committee

The Committee's roles and responsibilities include its statutory duties as per the CMA Corporate Governance rules, the New Companies Laws and the responsibilities assigned to it by the Board.

The Committee reports that it has adopted appropriate formal terms of reference as approved by the Board, and is satisfied that it has discharged its responsibilities as per the CMA Corporate Governance and New Companies Law.

The Committee has carried out its functions through attendance at BAC meetings and discussions with Executive Management, Internal Audit and External Auditors.

The BAC meets at least four times per annum, with authority to convene additional meetings as circumstances require.

Invitees to the meetings of the Committee include the CEO, Chief Financial Officer (CFO), Internal Audit General Manager (IAGM), internal and external auditors, as well as other executives as may be required.

To execute its key functions and discharge its responsibilities, the Committee undertook the following during the period under review:

- Assist the Board in its evaluation of the adequacy and efficiency of the internal and financial control systems, accounting practices, information systems, and auditing processes applied within the Company.
- Review with the Company's management and internal and external auditors the Company's policies to reasonably assure the adequacy of accounting principles and financial practices applied.
- Review and analyze the interim (quarterly) and annual financial statements prior to presentation to the Board, and provide its opinion and recommendations thereon to ensure their integrity, fairness and transparency.
- Nominate and recommend for appointment and remuneration of external auditors, Aldar Audit Bureau.
- Monitor and oversee the performance and activities of Internal Audit including the annual performance appraisal and bonus based on performance and salary increment of the Head of IAD, in accordance with the policy of the Company.
- Review the effectiveness of the system for monitoring compliance with applicable laws and regulations including governance regulations, the results of management's investigation and any instances of non-compliance.
- Review with IAGM the results of the internal audit efforts on a yearly basis, or as deemed necessary, and peruse periodic and annual internal audit reports.
- Approve the internal audit charter as well as internal audit procedures.

The following table shows the audit committee's attendance:

Members	6 rd of Mar 2017	12 th of Apr 2017	28 st of Sep 2017	23 th of Oct 2017	Attendance
Raied bin Ali Al Saif (Chairman)	✓	✓	✓	✓	4
Ossama Michael Matta (Member)	✓	✗	✓	✓	3
Thamer Ahmad Obeidat (Member)	✓	✓	✓	✓	4
Total Attendance	3	2	3	3	

2) Nomination and Remuneration Committee (NRC)

The primary purpose of NRC is to assist the Board in compliance with the nomination and remuneration rules as mentioned in the Corporate Governance Regulations relating to:

- Nomination and appointments to membership of the Board members.
- Annual review of the requirement of suitable skills for membership of the Board and senior executives including annual performance of Board and Committees.
- Ensure annually the independence of the independent members and the absence of any conflict of interest.
- Draw clear policies regarding the indemnities and remunerations of the Board, Committees and senior executives.
- The role of NRC shall be to review and advice, but not to make any business decisions. The Committee shall adopt a constructive, supportive and advisory approach. The Committee shall make recommendations to the Board as it deems appropriate on any area within its responsibilities where action or improvement is desired.

The following table shows the Nomination and Remuneration Committee attendance:

Members	12 of Apr 2017	23 of Oct 2017	28 of Dec 2017	Attendance
Mark Scott Gegenheimer (Chairman)	✓	✓	✓	3
Raied bin Ali Al Saif (Member)	✓	✓	✓	3
Thamer Ahmad Obeidat (Member)	✓	✓	✓	3
Total Attendance	3	3	3	

(3) Executive Committee

The Board of Directors formed its Executive Committee on 5th of December 2017 and did not meet during 2017.

The Executive Committee shall have the right to exercise all authorities delegated by the Board of Directors. The exercise of such authorities by the Executive Committee shall not prejudice the authority reserved for the full Board neither shall it relieve the Board of its responsibilities.

The Committee shall report to and manage the communications with the Board of Directors with transparency. The Committee shall not have the right to amend any decisions or resolutions of the Board.

- Identifying and recommending the enforcement of the objectives and strategies 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 departments based on the strategy approved by the Board.
- Monitoring the successful execution of Company's business plan (as approved by the Board).
- Monitoring the departmental objectives and budgets to ensure that they fall within the Company's targets (as approved by the Board).
- Reviewing the organization structure of the Company and making recommendations for any changes.
- Ensuring the control and co-ordination including monitoring of risks within the Company.
- Ensuring the Company's compliance with relevant legislation and regulations, including the Corporate Governance Rules for the Company.
- Safeguarding the integrity of management information and financial reporting systems with management.
- 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 notifying any recommendations to the Board of those which are material either by nature or cost;
- Optimizing the allocation and adequacy of the Company's resources.
- Review, recommending and ensuring implementation of Zain Saudi 's Company's policies except certain and specific policies which are under the direct responsibility of other Board Committees such as accounting, finance, internal audit, and compensation and benefits policies of the company.

Members of the Executive Committee:

- 1) HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer (Chairman)
- 2) Mr. Bader bin Nasser Alkharafi (Vice Chairman)
- 3) Mr. Saud Abdullah AlBawardi (Member)
- 4) Mr. Ossama Michael Matta (Member)
- 5) Mr. Mark Scott Gegenheimer (Member)

14- Senior Executives

- ***Shareholdings by Senior Executives and their Wives and Minor Children in Zain Saudi***

There are no shareholdings by any of the executive management and their wives and minor children in Zain Saudi as of the dates of 1st January 2017 and 31st December 2017.

- ***The Senior Executives are as follow:***

Peter Kaliaropoulos (Chief Executive Officer)

Mr. Peter Kaliaropoulos joined Zain Saudi Arabia as a highly-accomplished telecom professional with over 30 years' experience in the international ICT sector. In senior executive roles he led teams to transform and grow a number of mobile and fully integrated operators operating across Asia-Pacific and Middle East regions.

In the last 12 years Peter led executive teams within Batelco Group, Ooredoo Kuwait and Zain across the Middle East. His previous experience includes leadership roles with Singtel (MD Optus Business, Aus), Telstra (MD Mobiles, Aus), Clear Communications (CEO, NZ), StarHub (COO, Singapore) and various other senior executive roles with BT Asia Pacific and Telstra USA. Peter has also contributed as a Director on the boards of a number of established telecommunications companies and ICT start-ups in Australia, USA, Singapore, India and the Middle East.

Peter Kaliaropoulos holds a Bachelor of Engineering (Electrical) from the University of NSW (Sydney, Australia) and a Master of Business Administration, from Macquarie University (Sydney).

Mehdi Khalfaoui (Chief Finance Officer)

Mr. Mehdi Khalfaoui joined Zain Saudi in February 2017 as Chief Finance Officer.

Mehdi has more than 10 years of ICT sector experience. He joined Zain Group in 2009 and played key roles in the financial transformation and growth for a number of companies operating across the MENA region. Working in Telecom industry has given Mehdi a well-rounded strategic finance experience with extensive international exposure in various areas, namely in Financial Management, Performance Monitoring, Budgeting and Planning, Treasury and Corporate Finance.

Mehdi holds a Master degree in Corporate Finance from INSEEC Business School, France.

Abdulmajid Alrashoudi (Chief Customer Service Officer)

Mr. Abdulmajid Alrashoudi joined Saudi Mobile Telecommunications Company "Zain" in February 2008, where he was part of the founding team of the company. He holds 17 years of experience in a variety of areas and industries, all centered on providing services. Mr. Alrashoudi, who carries a BA in Business Administration from KSU, started his career working for Alrashoudi Hajj and Omrah Company, before establishing Alrashoudi International Omrah Company in 2000.

A year later, he transferred to the banking sector by working for Alrajhi Bank, where he helped re-establish the phone banking services. And in 2007, he joined the world of real-estate by working for Aloula Real-Estate Development Company; one of the leading companies in its field. During that time, he was the General Director of Information and Customer Service, and he contributed with CEO in establishing Edar; a real estate marketing company.

As Chief Customer Service Officer in Zain, Mr. Abdulmajid Alrashoudi's position revolves around ensuring a high level of service, promoting the degree of customer satisfaction, and maintaining stable levels of reliability and quality.

Eng. Sultan Abdulaziz AlDeghaither (Chief Operations Officer)

Mr. Sultan AlDeghaither started his journey with Zain as radio planning & optimization Manger in 2009 where he participated in building the engineering department by insourcing the planning and optimization activities which improved the efficiency and minimized the cost to Zain, and participated in the first 4G/ LTE Network in 2011. Sultan led one of the biggest projects in Zain's history (project Reload). He holds a bachelor of science in Communication and Electronics Engineering from King Saud University.

Sherif Tahoun (Chief Sales & Distribution Officer)

Mr. Sherif Tahoun's professional career spans over twenty-five years working predominantly in delivering business growth and transformation across large organizations in high profile industries such as Telecoms, FMCG and Oil & Gas, and Investment Management. Prior to Zain, Sherif was engaged by Etisalat Egypt and worked for Vodafone Egypt, BP, and Procter & Gamble where he held various key roles in both Saudi Arabia and Egypt.

Eng. Tahoun holds a Bachelor's of Science degree in Civil Engineering from Cairo University.

Sultan AlShahrani (Chief HR & Communications Officer)

Mr. Sultan AlShahrani joined Zain Saudi Arabia in October 2015 after working for more than 16 years in the Telecommunications and Retail sectors. In his position as a Chief Human Resources Officer, Mr. AlShahrani is responsible for the development and implementation of Zain Saudi Arabia human resources strategy.

Sultan holds a Bachelor degree in Management Sciences from King Fahd University of Petroleum and Minerals, and attended several advanced training courses in the HR field. Prior to joining Zain Saudi Arabia, Sultan worked in Saudi Arabia and the Gulf for companies like STC Group, Kuwait Telecommunications Company (VIVA), Intigral - Dubai and Al Faisaliah Group.

Hatem Kotby (Chief Marketing Officer)

Mr. Hatem Kotby joined Zain Saudi in 2015. He has more than 18 years of Telecommunications experience, where he held key positions covering areas such as Business Segment, Mobile Data & VAS, Pricing & Customer Value Management and Consumer Marketing. Working in the Telecommunication industry has given Hatem a deep knowledge in Marketing Strategy, Proposition Development, Consumer Insights and Transformation programs.

Hatem holds a Bachelor degree in Accounting from Ain Shams University, Egypt.

Yahya Al Mansour (Chief Business Officer)

Mr. Yahya Al Mansour joined Zain Saudi in December 2017 with more than 17 years of B2B experience across different business leadership roles. His most recent role was Chief Sales Officer at Jawwy. He has also held various sales and marketing roles in STC, including GM SME Sales in Enterprise Business Unit, GM Marketing, Director Finance and Banking and Director Key Accounts Sales and Head of Government Sector Sales.

Yahya holds an MBA in Marketing from University of Central Florida, USA and a Bachelor degree in Business Administration from King Abdulaziz University. He also attended several leadership and executive training courses with Harvard, Stanford, Colombia and INSEAD.

Moataz Abuzaghla (Strategy & Business Development General Manager)

Mr. Moataz Abuzaghla joined Zain Saudi in 2015. He has more than 16 years of experience in telecommunications, working with various telecom companies in the Middle East. He has a deep knowledge in Trend Analysis & Reporting, Budgeting & Planning, Pricing, and Business & Corporate strategy. Moataz holds a Bachelor degree in Commerce, Accounting from University of Cairo.

Abdulaziz Attallah Altoaimi (Internal Audit General Manager)

Mr. Abdulaziz Altoaimi joined Zain Saudi in December 2017 with more than 17 years of experience in Internal Audit. His most recent role was Investment and Special Assignment Director in Internal Audit Sector at STC. He has also held Internal Audit and Inspection and Compliance roles in Capital Market Authority and Saudi Industrial Development Fund.

Abdulaziz holds an MBA in Business Administration from the University of Colorado State, USA, and a Bachelor degree in Accounting from King Saud University. He holds the certificate of Saudi Organization Certified Public Accountant, he also attended several audit and leadership training workshops in London, Geneva, Colorado, Dubai, Abu Dhabi and Kuwait.

Rayan Ibrahim AlKarawi (Investor Relations General Manager)

Mr. Rayan AlKarawi Joined Zain Saudi Arabia in 2014. He is an award-winning Investor Relations professional, with a career that spans more than 25 years, having held key positions covering areas such as financial markets, corporate finance and financial policies, apart from investor relations. The organizations he worked for include: the Saudi Arabian Monetary Authority, the Saudi Arabian Investment Bank and Dar Al-Arkan. Rayan holds a Bachelor's Degree in International Business from Schiller International University, London.

He is also one of the founding members of the Saudi Chapter of the Middle East Investor Relations Association (MEIRA).

15- Compensation and Remuneration during the Year 2017

- *Remuneration Policy*

- The Board of Directors of Zain Saudi has proposed these policy guidelines for the Company's remuneration¹ for members of the Board and management, including senior executives². This document shall be approved by the General Assembly of Zain Saudi.
- This Zain Saudi Remuneration policy reflects the interests of the shareholders and the Company, taking into consideration any specific matters, including the assignments and the responsibility undertaken. In addition, the remuneration policy helps promote long-term goals for safeguarding Zain Saudi's interests. The policy intends to achieve the following objectives:
 - Be consistent with Zain Saudi's strategy and objectives.
 - Provide policy for remuneration with the aim of encouraging the Board members and senior executives achieve the success of the Company and its long-term development.
 - Be consistent with the magnitude, nature and level of risks faced by Zain Saudi.
 - Take into consideration the practices of other regional and global telecom, Information & Communication Technology (ICT) and Tadawul All Share Index (TASI) companies, considering their size and operations in relevance to Zain Saudi, in respect of the determination of remuneration, and avoid the disadvantages of such comparisons in leading to unjustifiable increases in remuneration and compensation.
 - Regulating the offer of Company's shares to the Board members and the senior executives, whether newly issued or purchased by the Company.

¹ Amounts, allowances, dividends and the like, periodic or annual bonuses linked to performance, long or short term incentive plans and any other in-kind benefits except the actual reasonable expenses and fees incurred by the company to enable the Board member to perform his duties.

² Persons responsible for managing the daily operations of the Company, and proposing and executing strategic decisions, such as the Chief Executive Officer (CEO) and his/her delegates and the Chief Financial Officer (CFO).

- **Board members and its committee's remuneration**

Members of the Board of Directors of the company and its committees did not receive any remuneration during the year 2017.

- **Senior Executives Remuneration**

The table below shows the remuneration received by the 6 most senior executive of the Company including the Chief Executive Officer and Chief Financial Officer.

Senior Executives	Fixed remunerations				Variable remunerations						End-of service award	Total remunerations for Board executives, if any	Aggregate Amount
	Salaries	Allowances	In-kind benefits	Total	Periodic remunerations	Profits	Short-term incentive plans	Long-term incentive plans	Granted shares (insert the value)	Total			
Total	8,402,600	1,587,000	-	8,549,600	1,653,218	-	-	-	-	1,653,218	1,279,101.23	-	12,921,919

All amounts paid out are in compliance within the approved remunerations policy

16- Transactions with Related Parties

14. AMOUNTS DUE TO RELATED PARTIES

	2017	2016
Mobile Telecommunications Company K.S.C (notes below)	937,293	884,572
Mobile Telecommunications Company K.S.C (notes below)	4,836,833	4,403,680
Founding shareholders (notes below)	134,888	134,888
Infra Capital Investments (notes below)	31,098	30,578
Other related parties	3,013	2,995
	5,943,125	5,456,713

14-1 Mobile Telecommunications Company K.S.C

This amount relates to accrued management fees and is payable to the Company's largest shareholder. The amount is unsecured, interest free and does not have any fixed terms of repayment but is not repayable before the Syndicated Murabaha facility has been settled.

14-2 Founding shareholders

This amount relates to accrued finance charges and is payable to the Company's founding shareholders. The amount is unsecured, bears interest at market rates and does not have any fixed terms of repayment but is not repayable before the Syndicated Murabaha facility has been settled.

14-3 Mobile Telecommunications Company K.S.C and Infra Capital Investments

These amounts are payable to shareholders and bears interest at market rates. The amounts are unsecured and cannot be repaid before the Syndicated Murabaha facility has been settled. These amounts include accrued financial charges of SR 1,536 million (2016: SR 1,252 million).

RELATED PARTY INFORMATION

During the year, the Company entered into the following trading transactions with related parties:

	2017	2016
	SR'000	SR'000
Revenue from entities owned by a shareholder	116,768	113,688
Purchases from entities owned by a shareholder	87,458	76,719
Branding fees charged by a shareholder	52,722	49,960
Finance charges charged by a shareholder	281,027	257,423

The following balances were outstanding at the reporting date:

	2017	2016
	SR'000	SR'000
Amounts due to a shareholder	2,971	2,971
Amounts due to entity owned by a shareholder	42	23
Amounts due from a shareholder	673	570
Amounts due from entity owned by a shareholder	5,837	85

17- Description of any conversion or subscription rights under any convertible debt instruments, contractually based securities warrants or similar rights issued or granted by the company

The Board of Directors' recommendation to reduce the Company's capital and a subsequent capital increase through a rights issue:

On 25 May 2017 Mobile Telecommunications Company Saudi Arabia (Zain) announced that it had appointed Saudi Fransi Capital (SFC), as financial advisor, to assist the Company in exploring various possible options to continue to strengthen its financial position.

In order to strengthen the Company's financial position, Zain announced that on 24 October 2017 its Board of Directors resolved to propose the following measures, subject to regulatory and extraordinary general assembly approvals:

1. Capital Reduction

The Company's capital will be reduced from SAR 5,837,291,750 to SAR 3,616,110,783, representing a capital decrease of around 38%. The purpose of the capital reduction is to write off the accumulated losses of SAR 2,221,180,967.

The capital reduction will be effected by cancelling 222,118,097 shares with 38 shares being cancelled for every 100 share owned. As a result, the number of shares on issue will be reduced from 583,729,175 shares to 361,611,078 shares. The capital reduction will become effective at the end of the following trading day after the extraordinary general meeting being convened to approve the capital reduction.

The percentage of ownership of each shareholder in the Company will not change as a result of the capital reduction and the capital reduction will not have any effect on the existing obligations or operations of the Company.

2. Rights Issue

Following the capital reduction, the Company plans to increase its capital from SAR 3,616,110,783 to SAR 9,616,110,783 by way of a rights issue with a total value of SAR 6,000,000,000.

The rights issue will be offered to those shareholders who are registered in the shareholders register, at the close of trading on the day of the extraordinary general assembly being convened to approve the rights issue.

The proposed capital reduction and subsequent rights issue are subject to obtaining prior approvals from the relevant authorities including the Capital Market Authority and the relevant extraordinary general assembly meetings.

The Company anticipates that the capital reduction and rights issue will result in the injection of additional fresh cash which will be used to reduce the Company's debt on the balance sheet and therefore result in significant interest savings. The capital restructuring is expected to improve the financial performance, profitability and leverage ratios of the Company.

The Company appointed SFC on 25 May, 2017, to assist in exploring various options to continue to strengthen its financial position. The Board has on the 24 October 2017 extended the scope of work pursuant to which SFC is to act as financial advisor and appointed Baker & McKenzie as legal advisor to manage the capital reduction and rights issue applications.

18- 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.
- 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.

19- 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.

20- Waiving of Compensation

There have been no arrangements or agreements under which a BoD member of Zain Saudi has waived any compensations during 2017.

21- Waiving of Dividend Payment

There has been no arrangement or agreement under which any of Zain Saudi's shareholders waived his dividends payments.

22- Outstanding Statutory Payments

- ***Zakat and Taxes:***

The Company had finalized its zakat and tax status up to 2008 and obtained the related certificate. The Company had submitted its financial statements along with zakat and returns for the years 2009 to 2016 and paid zakat and withholding tax according to the filed returns.

On 18 Ramadan 1436 H (corresponding to 07 July 2015), the Company received the Zakat and withholding tax assessments from General Authority of Zakat and Tax (GAZT) for the years 2009 to 2011 whereby they asked the Company to pay an additional amount of SAR 619,852,491 of which SAR 352,481,222 are related to Zakat

differences and SAR 267,371,269 as withholding tax subject to delay penalty payable from the due date up to the settlement date equal to 1% for every 30 days.

Zain appealed this claim for additional payments on 27 August 2015, and was able to have the amount of SAR 352M related to Zakat revoked entirely. In addition, SAR 219M of the withholding tax claim was also revoked.

To appeal before the High Appeal Committee (HAC), Zain completed the required conditions in the Articles of the Saudi Tax Law, by paying the invoices issued by GAZT amounting SAR 48M on 16 November 2017 related to WHT, and issued a bank guarantee for the amount of SAR 43M related to the penalty generated from the delay in paying the WHT. Based on the above, Zain received the reassessment letter for the paid amount and presented its objections before the HAC on the preliminary Appeal Committee opinion on 19 November 2017.

- ***Others:***

By the end of 2017, the outstanding statutory payments stood at SAR 2,505 million payable to:

- 1. CITC:**

- a. Revenue sharing with the government: SAR 74 million

- 2. Ministry of Finance:**

- Ministry of Finance Loan: SAR 2,431 million

Other than that, there are no other outstanding statutory payments.

23- Fines and Penalties

During the year 2017, the CITC issued (214) fine-incurring administrative decisions against the Company. The reasons behind the issuance of such decisions, as claimed by CITC, relate to the Company's non-compliance with CITC's decisions number (215) and other decisions. The legal department in Zain Saudi challenged these decisions before the Administrative Court ("Board of Grievances") as per the regulations.

During 2017, the Administrative Court reviewed (256) administrative lawsuits filed by Zain Saudi during 2015, 2016 and 2017 against CITC. The Court issued preliminary Judgments in favor of Zain Saudi in a number of cases. Furthermore, the Court has issued final Judgments against Zain Saudi which dismissed (5) cases filed against CITC. Finally, (251) cases remain under consideration by the Administrative Court, to date.

During 2017, the CMA did not impose any penalty on the Company.

24- Employees' End-of-Service Benefits

The value of the employees' end-of-service benefits, provided by Zain Saudi, amounted to SAR 94 million as at 31st of December 2017.

The Company did not arrange for any investments or additional reserves for the benefit of the Company employees.

25- Statement by the Board of Directors

The board hereby certifies the following:

- Proper books of accounts have been maintained.
- The system of internal control is sound in design and has been effectively implemented.
- 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)