Board of Directors Report 2015

Table of Contents

Dear shareholders of Mobile Telecommunications Company Saudi Arabia (Zain KSA), we hereby present the annual board of directors' report about your Company's activities and operations during the past financial year of 2015:

Company's Establishment and Activities

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

The Company is a "Saudi Joint Stock Company" established pursuant to the 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.

Zain KSA Head Office is located in Zain KSA Building, King Fahad Road, P.O. Box 295814, Riyadh 11351, Kingdom of Saudi Arabia.

Zain KSA's License

Zain KSA officially received the third public mobile cellular operator license in the Kingdom of Saudi Arabia from the Communications and Information Technology Commission (CITC), having completed all required procedures for the launch of its activities in the Saudi market and the full payment of the license fees. The duration of the license is 25 years and permits Zain KSA to install, own and operate mobile cellular networks for the provision of public mobile cellular services using any technologies (such as 2G, 3G, 4G, 5G, etc., mobile cellular technology standards). The scope of the services includes voice, data, VAS, and other supplementary services and features. The license also requires the Company to comply with specific roll-out and coverage obligations, including coverage of at least 93% of the population within five years of service launch. In addition to the license fee, the Company is required to pay certain annual fees during the term of the license, calculated in accordance with a specific formula as a percentage of net revenues.

Zain KSA's Strategy – "Winning Through Caring"

The core of our strategy is to become the customer-centric Saudi telecom operator, providing reliable services through a caring approach. Our objective is to grow profitably and increase our value market share to make us a sustainable operation. The Company has adopted a strategy called: "**Winning Through Caring**", which has five strategic pillars:

1- Best Customer Experience for Mobile Video

Saudi Arabia is often cited as the highest consumer per capita of mobile video content globally. This fact when coupled with the country's youthful population, has led to an ever growing demand for mobile video services. Hence, the first pillar of the "**Winning Through Caring**" strategy is to focus our network investment to provide the best possible experience for the specific services most demanded by consumers. The Company is investing 4.5 billion Saudi Riyals into Project RELOAD in order to deliver upon this strategic objective. The Saudi market continues to exhibit a huge growth in demand for Data products, fueled by a young and digitally-connected population, strong adoption of e-government services, and popularity of videos and HD content on social media. Thus, we are positioning Zain KSA as the mobile-video operator-of-choice.

2- Superior Customer Service & Distribution Network

The distribution footprint is under expansion as a part of a program that brings Zain KSA closer to where our targeted customers are; especially in malls, airports, and megastores. Bringing Zain KSA closer to consumers is a core part of our "**Winning Through Caring**" strategy. Our Shop concept has been revamped to reflect a smarter customer experience, and we have implemented a program to increase like-for-like sales in each of our stores. Hence, our strategy is to have more stores, each of which are more productive.

3- Compelling and Smart Products & Services

We will continue to offer voice and data mobility products and services to individual and business consumers, which are both innovative and value-for-money. Profitable growth in the business segment is assisted by having the right partnerships, such as with Microsoft, to help complement our portfolio of solutions, provide the right support per segment, and expand the distribution reach.

4- Number One Choice for Youth

We refreshed the execution of the Zain KSA brand to bring us closer to our targeted consumers (Saudi nationals and Saudi youth). We carefully design voice and data products that appeal to our target segments. We are positioned as a progressive, dynamic and modern Saudi brand. We use our Corporate Social Responsibility (CSR) initiatives to reinforce the youthful and caring attributes of our brand.

5- Becoming the Digital Operator of Choice

Consumers in Saudi Arabia are highly digitally-connected; in order to ensure that Zain KSA remains at the forefront of the ever developing digital economy, we have embarked on a digital transformation journey. This digital transformation will incrementally improve, on a day-to-day basis, processes and customer interaction points, making consumers lives' easier, simpler, and more enjoyable. Digitizing our core customers' journey will bring us the benefits of operational excellence and expand our digital footprint in the market. Our strategy would only be successful when it is executed from within, by having a "**Caring Culture**" among our employees, as part of a fulfilling work environment, emphasizing the need to be an agile and efficient operator. This transformation will create value for our shareholders and contribute to the economic and social development of the Kingdom.

Operational Overview

Zain KSA launched its commercial operations on 26th of August 2008, a year after it was awarded its mobile license. By the end of 2015 and after the seventh full year of operation, we have achieved better performance under challenging competition environment and given some regulatory controls applied in the labor market.
The following sections outline these operational achievements:

1- Commercial Overview

During 2015, Zain KSA built upon the positive momentum generated in 2014 to achieve its commercial success. In 2014, we created momentum through a refreshed brand, a renewed focus on data, a repositioning on postpaid and the expansion of the retail network. In 2015 our commercial strategy has built upon this positive momentum to support the turnaround of the Company along the following axes:

- **Winning Customers Through Caring**
  Zain KSA was the first Saudi operator to embrace the welcome changes to the regulatory environment, which occurred in April 2015. Following the changes, Zain KSA was the first to introduce a new tariff, called “Khateer” which targets Saudi nationals who make calls to all three networks. Although the regulatory changes dropped the mobile termination rate by 40%, from 25H to 15H, the “Khateer” package reduced our off-net calling rate by 45% by introducing a simple all-net price of 19H/minute. Hence Zain KSA passed on to consumers 100% of the decrease in interconnection prices. Thus demonstrating to consumers Zain KSA’s willingness to care.

- **Caring for Our Existing Customers**
  Zain KSA has been offering its customers promotions whereby they can make free calls on the Zain KSA network as a reward for their continuing loyalty and spend. Such campaigns are viral as the free minutes on Zain KSA’s network encourage our customers to recommend new customers, building Zain KSA’s own “club” of customers. We followed these promotions with the introduction of smart on-net bundles, designed to build upon the momentum of the original free on-net promotion. This initiative maintained a high on-net usage and, importantly, increased overall revenue per minute.

- **Diversification of our Customer Base**
  The regulatory changes and subsequent reduction in interconnection costs enabled Zain KSA to penetrate the mid and high-end market even further. The communication of youth and data-centric packages such as “Shabab” was reinforced, and the packages themselves were widely expanded, for example with the introduction of “Shabab Nitro”, a new high-end offer. Marketing of these packages was structured around a strong digital push to reach the channels that are used by Saudi digital-centric customers. Our renewed focus on the mid and high-end Saudi segments boosted our ARPU and significantly rebalanced the composition of our base, while maintaining our stronghold thanks to our very appealing on-net offers for our expatriated communities.

- **Accelerating Data Monetization to Become a Data-centric Operator**
  We have continued to capitalize on the success of our data products with additional features, like multi-SIM offers, shared data wallets, or new data bundles for voice user. In line with international trends and benchmarks, the market experienced multiple rises in the per unit price (per MB) of mobile data services. We experienced increasing demand for our mobile data services, even though prices increased. We observe that, post increasing prices, per unit data prices in Saudi Arabia remain very low by international benchmarks. In line with our "**Winning Through Caring**" strategy, we have specific targets and objectives to increase the monetization of data services further over the coming years.

- **Growing our Base of Business Customers**
  Zain KSA improved the productivity of its business sales (B2B) channel and grew the absolute size of the sales channels recruiting a larger direct sales force. We also introduced new indirect channel partners to sell our B2B offerings. The B2B product line was enhanced to cater for the small and medium businesses data needs.

2- Network Overview

- **Spectrum**
  In accordance with our technology neutral license, Zain KSA currently delivers the following services:
  - 2G (GSM) services in the 900MHz and 1800MHz spectrum bands; plus
  - 3G (UMTS) services in the 2100MHz and 900MHz spectrum bands; whereas
  - 4G (LTE) services in 1800MHZ and 2100MHz spectrum bands.

  During 2015, Zain KSA was allocated 5+5 MHz of additional spectrum, which will be used to both increase the capacity of our network in busy areas and increase the speed of the services that we offer. Zain KSA continues to enhance its Mobile Broad Band (MBB) services, we plan to offer higher speeds in line with market needs. Zain KSA is participating in applying for digital dividend 800/700 MHz spectrum from CITC which is currently occupied by analog television. Zain KSA is in the process of re-farming part of the 900MHZ band as to have an MBB layer in the lower band, which will enhance the indoor penetration and enhance the data layer capacity. Zain KSA also uses various frequency bands to provide backhaul and backbone transmission as needed by the network.

- **Network Technology**
  Zain KSA's network technology platform is based on the latest 2G, 3G, HSPA+, LTE, and LTE-advanced global standards. The network was designed to provide reliable services; it incorporates several levels of protection to keep the network running during various breakdown conditions. As a result, our network provided stable and reliable services during high traffic conditions, especially during Ramadan and Hajj season. Also, the designed capacity of the network has enabled it to accommodate the increasing numbers of subscribers, which has exceeded 12 million subscribers with 3.2 million data subscribers, and will be able to cater for higher capacity as we grow. The network is highly scalable and flexible to accommodate an increasing number of subscribers, we align the planned growth of our network with our marketing roadmap and the anticipated growth in our market share

for both voice and data services. Zain KSA was the first operator to launch Mobility LTE in Saudi Arabia and the Middle East.

- **Network Expansion and Coverage**
  In 2015, Zain KSA continued building its voice and Mobile Broad Band (MBB) services. 3G services now cover more than 272 cities and 14 highways; and LTE services now cover 94 cities. After the completion of Project Reload Phase 1, network coverage (by technology) reached the following levels:
  - 2G - 98% population coverage; (including national roaming via STC, 94% Zain KSA network).
  - 3G - 87% population coverage.
  - 4G/LTE - 79% population coverage.

  As achievements of Reload Phase 1, data traffic increased by more than 400% and voice by 60%.

  Zain KSA expanded its transmission backhaul network significantly to accommodate the growth in data traffic. Our fiber network footprint grew by 20% with a 300% increase in capacity, internet gateway network expanded by three times, and 100% modernization in network. Core network reliability and efficiency has been developed massively with one third reduction in the number of nodes and elimination of single points of failures.

  The Hajj season is important to Zain KSA, and is the subject of much planning and preparation. We have modernized many Hajj sites; with a 90% expansion of 2G, 50% expansion of 3G, and 400% expansion of LTE.

  Project Reload Phase 2 focuses on the expansion of the coverage and capacity of our 3G and 4G network. The targets for the next phases of Project Reload are:
  - 91% of population coverage for 3G.
  - 87% of population coverage for 4G/LTE.
  - 3G services will cover more than 377 cities and 4G/LTE services will cover 170 cities.

  Universal Service Fund (USF) is a CITC initiative to subsidize the provision of services to certain rural areas which would be uneconomic for operators to service without support. Zain KSA has won the bid for USF areas 12, 13 and 14 and awaits the formal award of these projects by CITC. These USF areas cover approximately 400 localities with more than 800,000 people.

  Zain KSA's enhancement of our network forms a key element of the "**Winning Through Caring**" strategy. The quality of a mobile operator's network, in terms of coverage, capacity, and speed, is a key decision criterion for consumers.

3- Information Technology (IT) Systems Overview

Zain KSA commenced a large comprehensive business led IT transformation in 2015 aiming to significantly augment the business capabilities across a wide array of operations, and introduce new capabilities.

The Company's IT systems are vital to achieving our goal of becoming the digital operator of choice, which is one of the five strategic pillars of the Company's "**Winning Through Caring**" strategy. During 2015, we enhanced many of our existing digital channels. Our digital transformation is ongoing and will require enhancements and updates to our IT capabilities, processes, and systems.

During 2015, we successfully introduced a new real-time charging and billing system and a new recharge voucher management system.

4- Regulatory Overview

During 2015, the Board of Directors and the Company's management proactively sought to strengthen its working relationship with the Communications and Information Technology Commission (CITC) across a wide range of issues.

In February 2015, the company welcomed the CITC decision No. 329/1436 regarding the reduction of Mobile Termination Rates (MTR) and Fixed Termination Rates (FTR) to all networks in the Kingdom of Saudi Arabia. This follows the Company's response in November 2014 to CITC's consultation regarding its proposal to decrease MTRs, the Company applauded CITC's suggestion that MTRs should be reduced to 8H/minute. Zain KSA believes that a reduction in MTRs will reduce the overall cost of mobile telephony for consumers. Zain KSA champions this cause and, as the third entrant in the Kingdom, Zain KSA aims to provide quality, value-for-money services to consumers. The Company notes that, contrary to international best practices where MTRs are typically reduced each year, MTRs in the Kingdom of Saudi Arabia had not been reduced since 2008. The Company believes that high MTRs have contributed to a situation where Zain KSA is prevented from growing its value market share because of the emergence of a 'Club Effect', whereby customers are discouraged from switching networks because of high off-net rates.

Therefore the Company welcomed CITC's decision to decrease MTRs from 25H to 15H/minute. This is a step in the right direction, however fundamentally we agree with CITC's original benchmarking published in their consultation paper that MTRs should be closer to 8H/minute, perhaps even as low as 5H/minute. We believe that MTRs should be immediately reduced to 8H/minute or below.

Zain KSA remains open to the amicable settlement of a number of historic lawsuits with CITC; including the following:

- A claim for damages as a result of CITC's inaction to enforce Mobile Number Portability (MNP).
- A claim for damages as a result of CITC's decisions in connection with the 'Zain One Network' product.
- A claim for damages from CITC for its inaction to enforce CITC's own decision to force STC to terminate international traffic delivered to STC from Zain KSA.
- Zain KSA has a number of other legal challenges concerning CITC fines and penalties issued against the Company.

It should be noted that Zain KSA is the plaintiff in these cases. It is uncertain whether Zain will win all of these cases or not.

It should be noted that during 2015, the Saudi Competition Council issued a decision fining Saudi Telecom Company (STC) for an amount of SAR 10 million in relation to anti-competitive behavior in the Saudi telecoms market. This decision was supported by a final judgment issued by the Board of Grievances making it final and unchallengeable.

5. Government Affairs Overview

The Board of Directors and executive management of the Company have been regularly meeting and working closely with the Government of the Kingdom of Saudi Arabia to improve the benefits that citizens and residents of the Kingdom gain from mobile telephony services, and to improve the overall health of the telecommunications sector and the value that it delivers to the Kingdom. The Company has expressed its concerns regarding what it considers as unfair competitive practices, and where appropriate, it has provided the evidence as demonstrated by G20 country benchmarks. The Company trusts that the great efforts expended in this regard will be of significant benefit to all shareholders and stakeholders including employees in the near future.

6- Outlook

The Board and the Management of the Company believes that the operational transformation, which has resulted in a sustained improvement in the Company's financial results, will continue. We believe that further improvements in the regulatory environment are required to ensure the Company's long term sustainability.

As planned in the Company's investment program to enhance our network (Project Reload), during 2015, in line with normal industry practice, the Company benefited from certain favorable terms (for example, complementary warranty for new equipment) that will not be available to the Company in subsequent years.

Important Events

- **Shareholder Extraordinary General Assembly Meeting Approving Company's Capital Decrease**

  The Company held its extraordinary general assembly meeting in the Media Center of Tadawul, King Fahd St, Taawuniya Towers (Northern Tower), Riyadh on the 25th of February 2015 corresponding to 6th of Jumada 1 1436 at 16:30. All resolutions of the meeting are as following:

  Resolution 1 – Approve of the Board of directors recommend to reduce the company's capital as following:

  1- Reduce the company's capital from SAR 10,801,000,000 to SAR 5,837,291,750.

  2- With a decrease by 45.96%.

3- The number of shares would also decrease from 1,080,100,000 shares to 583,729,175 shares.

4- Effective date for proposed reduction in capital is eligible to the shareholders who are registered in the shareholder's register in the Securities Depository Center (Tadawul) at the close of trading on the extraordinary general assembly day.

5- Reducing 1 share for every 2.18 shares owned.

6- The principal reason for the proposed capital reduction is to write-off all of the Company accumulated losses up to the 30th of September 2014 representing approximately 45.96% of the Capital, as part of instituting its turnaround plan and pursuant to a recommendation by the Executive Management of the Company and its External Advisers. The Capital reduction will be carried on by the cancellation of shares to write-off all of the accumulated losses.

7- The capital reduction will not have an effect on the Company obligations.

Other resolutions passed during the meeting:
Resolution 2 – Approve the amendment of article (7) of the Company bylaws to be as following: [Article 7: The Company capital is (SAR 5,837,291,750) divided into (583,729,175) ordinary equal shares with a nominal value of (SAR 10) per share].

Resolution 3 – Approve the amendment of article (8) of the Company bylaws to be as following: [Article 8: The shareholders have subscribed in (583,729,175) shares, the value of each share is (SAR 10), for a total value of (SAR 5,837,291,750)].

Resolution 4 – The ratification of the Board of Directors decision appointing Dr. Abdulaziz bin Salem Al Ruwais as Board Member in the Company replacing the resigned member Dr. Abdullah Mohammed Ba Sudan. And his membership ends with the end of the current board term.

- **Shareholder Ordinary General Assembly Meeting**

The company held its Ordinary General Assembly Meeting in the Media Center of Tadawul, King Fahd St., Taawuniya Towers (Northern Tower) in Riyadh on the 2nd of June 2015 corresponding to 15th of Sha’ban 1436 at 18:30. All resolutions of the meeting are as follows:

1- Approving the Board of Directors Report for the financial year ended on the 31st of December 2014.

2- Approving the financial statements and the Auditors report for the financial year ended on the 31st of December 2014.

3- Discharging the members of the Board of Directors for the financial year ended on the 31st of December 2014.

4- Approving the appointment of the External Auditors among the candidates of the Audit Committee to review the Company quarterly and annual financial statements for the financial year 2015 and determining their fees, to be Aldar Audit Bureau-Grant Thornton.

- **Receiving A Letter From The Department of Zakat and Income Tax Requesting Additional Payment for The Financial Years of 2009-2011**

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 2014 and paid Zakat and withholding tax according to the filed returns. On 18th Ramadan 1436 (corresponding to the 07th of July 2015), the Company received the Zakat and WHT assessments from DZIT for the years 2009 to 2011 whereby they asked to pay an additional amount of SR 619,852,491 of which SR 352,481,222 are related to Zakat differences and SR 267,371,269 as withholding tax subject to delay penalty payable from the due date up to the settlement date equals to 1% for every 30 days.

The Zakat and tax advisors believe that there is a valid argument to support the Company position on appealing such assessment; therefore, during the quarter ended 30th of September 2015 the Company filed an appeal within the allowed period of 60 days. The outcome of the appeal cannot be reliably determined at this stage; furthermore, the Company has taken adequate provision based on the advice of its Zakat and tax advisor.

- **Claim By An Operator**

On the 16th of November 2014, the Company received a request from Etihad Etisalat Company ("Mobily") to begin an arbitration proceeding related to a disputed and rejected claim of SR 2.2 billion and a claim for damages of SR 58.7 million raised by Mobily against the Company.

As a result of the above, the Company is a party in an arbitration proceeding against Mobily in relation to a disputed claim arising from the Services Agreement ("Agreement") entered into by both parties on the 6th of May 2008 and the related Amendment I, Addendum I, and an offer letter, which were implemented by both parties in normal course of operations till Mobily acted unilaterally to revoke these Amendment I, Addendum I, and offer letter. The Company considers that this unilateral revocation from Mobily is the basis of its claims and which, according to the Company's management, have no basis, are unfounded and illegitimate.

Based on external legal and technical advice, the Company believes that Mobily did not have the unilateral right to revoke Amendment I, Addendum I, and offer letter related to the Agreement, neither by way of terms in the contracts nor under Sharia Law and rejected Mobily's actions and any subsequent invoices, which were not in line with the terms of Amendment I, Addendum I, and offer letter initially implemented by both parties in normal course of operations.

The arbitration sessions, which are in progress, started effective on the 20th of December 2014, during which the procedures for conducting the arbitration were agreed and Mobily submitted its statement of claim. On the 7th of January 2015, Zain KSA submitted its first defense memorandum in the arbitration proceeding, in which it took the position that Mobily's statement of claim was not sufficiently particularized or detailed as required by law. On the 14th of February 2015, a hearing was convened before the arbitration panel at which Mobily requested time to submit a detailed statement of claim. The arbitration panel agreed to the request and asked Mobily to make its submission by no later than the 23rd of May 2015.

On the 23rd of May 2015, Mobily submitted the detailed statement of claim to the arbitration panel. On the 13th of July 2015, Zain KSA submitted its response to Mobily's submission of the 23rd of May 2015. On the 27th of August 2015, Mobily submitted its response to Zain KSA's 13th of July 2015 submission in which it revised down the amount it was demanding in the arbitration to SR 2,102,911,684. On the 6th of October 2015, Zain KSA submitted its response to Mobily's 27th of August 2015 submission in which it asserted counter claims against Mobily in the amount of SR 29,932,478.52.

On the 24th of October 2015, the panel held a hearing in which it requested specific information from Mobily. The panel requested that Zain KSA submits a response to Mobily's submission within 30 days of the date of receiving it.

Mobily submitted a memorandum, dated the 23rd of November 2015, accompanied by several binders of documents and supplemental report prepared by Mobily's appointed expert. In its memorandum, Mobily asserted its demand for dues from Zain KSA under the Agreement in the amount of SAR 2,102,512,041 (the "Demand"). According to Mobily, this demand is based on a calculation using the quantities of services rendered during the relevant period and the rates set forth in the Agreement only. The calculation, according to Mobily, ignores and does not take into account the discounted prices and waiver of certain commitments agreed upon by the parties in subsequent amendments to the Agreement, namely Amendment 1, Addendum 1, and the offer letter.

On the 23rd of December 2015, Zain KSA responded to Mobily's submission of 23rd of November 2015. Zain KSA's response included independent expert reports from internationally recognized telecommunications and accounting experts. The opinion of these experts is consistent with Zain KSA's established position.

The panel has indicated that it will appoint an independent expert to review the claims of each party and submit a report.

On the 26th of December 2015, the fifth session was held before the panel. The session was procedural. Based on the consent of both Zain KSA and Mobily, the panel has decided to extend the duration of the arbitration for 12 months, commencing from the 10th of December 2015.

On the 28th of June 2015, the Board of Directors of Mobily decided to increase the provision related to Zain KSA's account receivables by SR 800 million, to reach a total of SR 2 billion.

The Board of Directors and management believes that the ultimate outcome of the arbitration cannot be determined reliably at this stage, and the amounts stated in the Company's books as of the 31st of December 2015 are adequate, and there is no need for any additional provision.

Summary of Zain KSA's Financial Results

1- Balance Sheet Highlights as of 31st of December 2011, 2012, 2013, 2014, and 2015

The following table summarizes the financial position of Zain KSA as of 31st of December 2011, 2012, 2013, 2014, and 2015:

SAR Million	2011 Audited	2012 Audited	2013 Audited	2014 Audited	2015 Audited	Change 14/15	% Change 14/15
Current Assets	2,432	4,380	3,310	3,888	**4,096**	208	5.3%
Non-current Assets	24,312	23,636	22,927	21,977	**21,952**	(25)	-0.1%
Total Assets	**26,744**	**28,016**	**26,237**	**25,866**	**26,048**	**182**	**0.7%**
Current Liabilities	15,511	15,400	3,821	3,898	**6,498**	2,600	66.7%
Non-current Liabilities	6,940	4,164	15,657	16,504	**14,998**	(1,506)	-9.1%
Total Liabilities	**22,451**	**19,564**	**19,478**	**20,402**	**21,497**	**1,095**	**5.4%**
Shareholders' Equity	4,293	8,452	6,759	5,464	**4,552**	(912)	-16.7%
Total Liabilities and Shareholders' Equity	**26,744**	**28,016**	**26,237**	**25,866**	**26,048**	**182**	**0.7%**

Source: Audited financial statements for the years ended 2011, 2012, 2013, 2014 and 2015

As of 31st of December 2015, the Company had total assets amounted to SAR 26,048 million, of which SAR 16,377 million (63 % of total assets) relating to the carrying amount of the CITC license acquired in 2007. In addition; property and equipment amounted to SAR 5,007 million as of 31st of December 2015 represented 19 % of total assets.

At the same date, the Company's total liabilities amounted to SAR 21,497 million, of which 70 % amounting to SAR 16,388 million are related to the following:

- Murabaha Facility.
- Advances from Shareholders.
- Junior Debt – ANB.

- Governmental Loan.
- Vendor Financing.

2- Overview of the Company's Borrowings

As of 31st of December 2015, the outstanding balances of borrowing arrangements amounted to SAR 16,388 million. The following table summarizes those borrowing arrangements as of 31st of December 2015:

SAR Million	Term	Principal Amount	Repaid During 2015	Lender	Outstanding Balance	Maturity
Murabaha Facility	5 years	8,631	121	Consortium of 8 banks	8,509	30 Jun, 2018
Advances from Shareholders	Open	3,386	-	Founding Shareholders	3,967	Open
Junior Debt – ANB	3 years	2,250	-	Consortium of 4 banks	2,250	05 Jun, 2016
Government Loan	14 years	Up to 800 per Year	-	Ministry of Finance	1,356	01 Jun, 2027
Vendor Financing	5.5 years	1,219	200	Export Credit Agency	306	31 Jan, 2018
Total					**16,388**	

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

- **Syndicated Murabaha Financing**

  The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 8.63 billion was arranged by Banque Saudi Fransi in July 2014. On September 30st 2015, the amount of SR 121 Million was prepaid as per the financing document requirements. This Murabaha Facility consists of a SAR portion totaling SAR 6.26 billion and a USD portion totaling USD 599.91 million (equivalent to SAR 2.25 billion). The initial purpose of this agreement was to partially finance the acquisition of CITC license back in year 2007.

  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; and
  - EBITDA and leverage level.

- **Advances from Shareholders**

  The founding shareholders have and continue to provide advances to the Company since 2007. The outstanding balance as of 31st of December 2015 amounted to SAR 2.84 billion. Financing cost started to take place 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 CITC license;
  - Finance the working capital requirements;
  - Provide security required by syndicated Murabaha financing agreement; and
  - Pay for all dues on the ANB & Finnvera junior loans.

  The advances from shareholders as of 31st of December 2015 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

- **Junior Debt – ANB**

  On the 5th of April 2013, local commercial banks arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility for a total amount of SAR 2.25 Billion.

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

- **Governmental Loan**

  The Company has signed an agreement with the Ministry of Finance, Saudi Arabia, to defer payments of its dues to the government for the next seven years, estimated at an amount not exceeding SAR 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 of June 2012, an Export Credit Agency Facility Agreement having two tranches (A and B) totaling USD 325 million was signed between the Company and three international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

Financing charges as specified under this facility agreement are payable in semi-annual installments over the life of the loan. Repayment will take place over five (5.5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). The final maturity of this facility will be on the 31st of 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 2011, 2012, 2013, 2014 and 2015

The following table summarizes the statement of operation for the years ended on the 31st of December 2011, 2012, 2013, 2014 and 2015:

SAR Million	2011 Audited	2012 Audited	2013 Audited	2014 Audited	2015 Audited	Change 14/15	% Change 14/15
Revenues	6,362	6,107	6,455	6,170	6,741	571	9.3%
Cost of Revenues	(3,162)	(3,247)	(3,320)	(2,948)	(2,790)	158	-5.4%
Gross Profit	**3,200**	**2,860**	**3,135**	**3,223**	**3,951**	**728**	**22.6%**
Distribution and Marketing	(1,972)	(1,687)	(2,028)	(2,031)	(2,047)	(16)	0.8%
General and Administrative	(329)	(295)	(216)	(91)	(275)	(184)	202.2%
EBITDA	**899**	**879**	**891**	**1,101**	**1,629**	**528**	**48%**
Depreciation and Amortization	(1,710)	(1,810)	(1,840)	(1,633)	(1,770)	(137)	8.4%
Loss from Operations	**(811)**	**(932)**	**(949)**	**(534)**	**(141)**	**393**	**-73.6%**
Commission Income	-	6	21	9	7	(2)	-22.2%
Financial Charges	(1,114)	(823)	(723)	(745)	(838)	(93)	12.5%
Net loss for The Year	**(1,925)**	**(1,749)**	**(1,651)**	**(1,270)**	**(972)**	**298**	**-23.5%**

Source: Audited financial statements for the years ended 2011, 2012, 2013, 2014 and 2015

The Company maintained positive results with Net Losses declining by 23% (the highest since inception) mainly due to the Gross Profits growing by 23% reaching SAR 3,951 million (the highest since inception), reflecting an increase of SAR 728 million. An increasing demand for the Company's products and services resulted in revenues increasing by 9% reaching SAR 6,741 million (the highest since inception). Better cost management lead to an improvement in cost of revenue by 5% (the highest since inception), decreasing by SAR 157 million. Overall, the company achieved a gross margin of 59% (the highest since inception) compared to 52%.

EBITDA increased significantly by 48% reaching SAR 1,629 million (the highest since inception), compared to SAR 1,100 million in FY 2014. EBITDA margin increased to 24% (the highest since inception) compared to 18% in FY 2014. These improvements in EBITDA are a result of the transformation plan instigated by management, higher sales of our services, and cost optimization initiatives.

Operating losses reduced by 73% (the highest since inception), compared to FY 2014.

Distribution and Marketing Expenses grew by 1% reaching SAR 2,047 million compared to SAR 2,031 million in FY 2014 supporting the Company's growth in revenues. General and Administration Expenses grew by 201% reaching SAR 275 million compared to SAR 91 million in FY 2014, to support the general business growth and depreciation and amortization expenses grew by 8% reaching SAR 1,770 million compared to SAR 1,633 million in FY 2014 reflecting the growth in the Company's network infrastructure.

The Company overall subscriber base increased significantly by 28%, reaching 12.4 million subscribers at the end of FY 2015 compared to 9.7 million subscribers at the end of FY 2014. The Company experienced strong growth in its internet subscribers base, which increased by 76% compared to FY 2014.

The following Table Presents Revenue Breakdown for Years 2011, 2012, 2013, 2014 and 2015:

SAR Million	2011	2012	2013	2014	2015	Change 14/15	% Change 14/15
Usage Charges	6,181	5,676	5,751	5,566	6,161	595	10.7%
Subscription	143	232	370	395	437	42	10.6%
Other	38	199	334	209	143	(66)	-31.6%
Total Revenue	6,362	6,107	6,455	6,170	6,741	571	9.3%

Source: Company's Information

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 customer within the Kingdom; so the customer's information might be registered in some region while he initiates calls from different regions dependent on his/her existence. Furthermore, revenue generated by international calls couldn't be linked to any region since they occur overseas.

- **IFRS Conversion Plan**
  Mobile Telecommunications Company Saudi Arabia is required to comply with IFRS from the 1st of January 2017. In preparation for this, Zain KSA management will be engaged with an international accounting firm to assist in the conversion as per the below plan:
  - A Gap Analysis Report describing the differences between SOCPA, Zain KSA accounting policies and practices, and the requirement of IFRS.
  - Review the internal work and calculations underlying the accounting entries to be processed to convert the 2015 balance sheet and 2016 financial statements from SOCPA to IFRS.
  - Provide training to Zain KSA staff focusing on the IFRS.

4- Dividend Policy

The item (45) of the Company's by-Laws states that after deducting all general expenses and other costs, the Company's annual net profits shall be allocated as 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 to one-half (1/2) of the Company's capital.
b) The Ordinary General Assembly may, upon recommendation of the Board of Directors, set aside no more than twenty percent (20%) of the annual net profits to form other reserves to be allocated for the purpose or purposes decided by the Ordinary General Assembly.
c) Out of the balance of the profits, if any, there shall be paid to the Shareholders 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 a 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 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 subjected to certain requirements of the Companies Regulations and the by-Laws.

5- External Auditor's Report Containing Reservation

Emphasis of a matter by external auditor:

1- As disclosed in Note 1.2 and 9.1 to the accompanying financial statements, the Company has incurred losses for the period from 01 January 2015 to 31 December 2015 amounting to SR 971.95 million and has accumulated deficit amounting to SR 1,278.41 million as of 31 December 2015. Further, the management of the Company is still in negotiation with banks to reset new covenant based on new business plan approved by the Company's Board of Directors on 20 January 2015;
2- As disclosed in Note 23.2 to the accompanying financial statements which outlines that as of 31 December 2015, the Company is a party to an arbitration proceedings with Etihad Etisalat Company ("Mobily") in relation to claims raised by Mobily against the Company in the amount of SR 2.2 billion plus penalties that were rejected in their majority by the Company; thus resulting in a dispute arising from the Service Agreement entered into by the Company and Mobily on 06 May 2008. The arbitration sessions which are in progress, started effective 20 December 2014, and the ultimate outcome from the arbitration and resulting effect, if any, on the Company's financial statements cannot be reliably determined at this stage; and
3- As disclosed in Note 22 to the accompanying financial statements which outlines that the Company received a letter from DZIT requesting additional payment of SR 619,852,491 of which SR 352,481,222 are related to Zakat and SR 267,371,269 to withholding tax, and delay penalty, for the financial years 2009, 2010 and 2011. The Company has filed an appeal and the outcome of the appeal cannot reliably be determined at this stage.

6- Basis of Preparation of the Financial Statements

The Company's financial statements for the year ended on the 31st of December 2015 have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

Disclosures

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

1- Risk Factors

Shareholders and prospective shareholders should carefully consider all the information contained in this report, particularly the risk factors described below. The risk factors are not exhaustive, and there could be other risks currently unknown to, or considered immaterial by the Company, that may materially affect its operations.

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

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

- **The Reliance on Key Suppliers and Vendors to Provide Equipment to Operate the Business**
  Zain KSA relies on various key suppliers and vendors to provide us with the equipment that we need to operate our business. If these suppliers or vendors fail to provide equipment or

services to us on a timely basis, it could have an adverse impact on our ability to implement our business strategy and, in addition, we might be unable to satisfy the obligations contained in our operating license regarding the roll-out and coverage of our mobile network. Our failure to maintain good relationships with our distributors or with our business partners could have a material adverse effect on our business, financial position, prospects, and results of our operations.

- **Customer Credit Risks:**
  Whilst our business plan envisages a subscriber base that will consist of a majority of pre-paid accounts, we, like most mobile operators, will be exposed to bad debt risk from post-paid accounts. Subscribers who were blacklisted by other operators could attempt to subscribe to our services. Although there is a general database of customers considered to be a credit risk that is maintained by SIMAH, the Saudi credit bureau, reliance on this database is unlikely to eliminate all customer credit risk for us. The failure to assess the credit quality of initial or current subscribers and the expected economic difficulties in 2016, are expected to adversely affect consumers' credit-worthiness, introduce higher risk of bad debt, and make collection more difficult in general, resulting in unanticipated levels of customer defaults, which could have a material adverse effect on our business, financial position, prospects, and results of operations.

- **Telecommunications Regulations**
  Our business is subject to regulations by the government of the Kingdom of Saudi Arabia. The regulatory framework within which we operate is continuing to evolve in the face of liberalization of the sector and competition. This evolving framework may constrain the company's ability to implement its business strategies and limit its flexibility to respond to changing market conditions and to meet its business objectives and plans, as currently envisaged. There can be no assurance that the applicable laws of the Kingdom of Saudi Arabia or the regulatory framework will not change further or be interpreted in a manner that could materially and adversely affect the company operations. Under the Telecommunications Regulations, the Communications and Information Technology Commissions in KSA (CITC) has broad powers that include amending, suspending, revoking, or not renewing any operating license or imposing penalties against any violator. The General Commission for Audiovisual Media has the power to regulate content broadcasting activities. Any such action that they take against the company, or which affects the company, or the CITC's imposition of penalties, could materially adversely affect the company business and financial position, prospects and results of operations.

- **Unexpected Business Interruption or Breach of Security Measures**
  We will be able to provide services only insofar as we can protect our infrastructure and networks from damage or interruptions in operations due to capacity restrictions, adverse weather conditions, war, earthquakes, fires, power loss, hardware & software defects, computer viruses, telecommunications failures, transmission cable cuts, human error, unauthorized access or similar events.

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

- **Fair Value**
  Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm’s length transaction. As the Company's financial instruments are compiled under the historical cost convention, except for derivative financial instruments at fair value, differences can arise between the book values and fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

- **Economic Risks**
  With the slump in oil prices, a process that may continue throughout 2016, consumers may become more value-focused and reduce their spending. As a result, prices may become more competitive in the market.
  Based on the market liquidity situation, LIBOR and SIBOR rates increased in 2015 and forecasted to continue increasing in 2016, which might have an impact on financing costs.

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

- **Dependence Upon the KSA Mobile Telecommunications Market**
  The development of our business will depend on the future level of demand for mobile telecommunications in KSA. Factors influencing demand include general economic conditions, the development of the 2G, 3G and 4G markets, the number of subscribers and their usage trends, the emergence of new technologies, intensifying competition, and emergence of new competitors and future improvements in the quality and development and availability of fixed-line and mobile telephone services in KSA. The introduction of mandatory Biometric verification of our customer base may have an adverse effect on the Company’s financial performance. Other factors that may affect the business are costs of attracting new customers, the competitiveness of our tariffs, and the price of handsets. Given

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

2- Subsidiaries

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

3- Compliance with Corporate Governance Regulations in the KSA

Zain KSA has established its Corporate Governance Framework with a view to providing its Board, management, and stakeholders with a structure along with clear policies and guidelines to ensure that the Company's objectives are realized, its stakeholder expectations are managed, and the requirements of the Corporate Governance Regulations issued by the Capital Market Authority CMA are met. This Framework, together with the Company's Articles of Association, Company's By-Laws, and the Charters of the Board Committees listed in this document and Companies Act, provide the authority and practices for governance of Zain KSA.
Zain KSA has adhered to implementing the corporate governance regulations which are issued by the CMA. The implementation of these regulations was adhered to all but a few exceptions; they are detailed below:

- Articles that were not implemented in 2015:
  - Paragraph (B) of Article 6: as the Company's By-Laws state, it should use the normal voting method.
  - Paragraph (E) of article 12: The independent members of the Board of Directors were less than two members, or one-third of the members, whichever is more.

    The following table displays the independent members of the board over different period of times in 2015.

Time Period	Members
1st of January 2015 – 21st of March 2015	1- Mr. Georges Schorderet [1] 2- Mr. Raied bin Ali Al Saif 3- HE Dr. Abdulaziz Al-Ruwais
22nd of March 2015 – 20th of October 2015	1- Mr. Raied bin Ali Al Saif 2- HE Dr. Abdulaziz Al-Ruwais
21st of October 2015 – 13th of December 2015	1- Mr. Raied bin Ali Al Saif 2- HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer [2] 3- HE Dr. Abdulaziz Al-Ruwais [3]
14th of December 2015 – 31st of December 2015	1- HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer 2- Mr. Raied bin Ali Al Saif

1- Mr. Georges Schorderet resigned on the 22nd of March, 2015
2- HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer was appointed on the board on the 21st of October 2015.
3- HE Dr. Abdulaziz Al-Ruwais resigned on the 13th of December, 2015 due to him taking the position of Governor of CITC in Kingdom of Saudi Arabia.

- Paragraph (A) of article 14: The audit committee members were less than three over different periods of time. The following table displays the details of the audit committee members.

Time Period	Members	Committee Chairman
1st of January 2015 – 19th of January 2015	1- Mr. Georges Schorderet 2- Ossama Michael Matta	Mr. Georges Schorderet
20th of January 2015 – 22nd of March 2015	1- Mr. Georges Schorderet [1] 2- Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al-Ruwais [2]	Mr. Georges Schorderet
23rd of March 2015 – 30th of May 2015	1- Mr. Ossama Michael Matta 2- HE Dr. Abdulaziz Al-Ruwais	
31st of May 2015 – 4th of October 2015	1- Mr. Raied bin Ali Al Saif [3] 2- Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al-Ruwais	
5th of October 2015 – 13th of December 2015	1- Mr. Raied bin Ali Al Saif [4] 2- Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al-Ruwais [5]	Mr. Raied bin Ali Al Saif was appointed as head of committee on the 5th of October 2015
14th of December 2015 – 31st of December 2015	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta	Mr. Raied bin Ali Al Saif

1- Mr. Georges P. Schorderet resigned on the 22nd of March 2015 due to him taking the position of CEO of Almarai Company.
2- HE Dr. Abdulaziz Al-Ruwais was appointed in the audit committee on the 20th of January 2015.
3- Mr. Raied bin Ali Al Saif was appointed in the audit committee on the 31st of May 2015.
4- Mr. Raied bin Ali Al Saif was appointed as the head of the audit committee on the 5th of October 2015.
5- HE Dr. Abdulaziz Al-Ruwais resigned on the 13th of December, 2015 due to him taking the position of Governor of CITC in Kingdom of Saudi Arabia.

- Paragraph (D) of Article (6): It is a regulatory prerequisite for investors with legal status who act on behalf of others.

4- Internal Audit

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

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

The key areas of audit for the year 2015, included review of:

- **Network Operations**
  As part of the project, we covered the adequacy of controls over cell site rental process, fuel management process, compliance with vendor contracts and payment processing of maintenance vendors.
- **Security and Controls Over Prepaid Billing Applications**
  Assessed comprehensiveness of security policies, logical controls at application and database level, change management, and backup and disaster recovery plan.
- **Facilities Management Process**
  Assessed adequacy of selection of vendors for development of shops, annual maintenance contracts for buildings, monitoring process of utility consumption and payment processing.
- **Fixed Assets and Capex**
  Assessed the end-to-end process of capex management covering controls related to capitalization, depreciations, swap of dismantled assets, process of physical verifications, and contracts with capex vendors.
- **Inventory Management Process**
  Evaluated controls in relation to forecasting, order placement, valuation as per IAS, physical verification and application controls over the inventory module in ERP.
- **Procure to Pay**
  As part of the project, we covered the effectiveness of controls in selection of vendors for IT reload and other operational procurement, compliance with Group Framework and organization's Authority Matrix.

According to the Zain KSA's management, action plans relating to many audit findings from the above process reviews are in the process of being implemented.

5- Major Shareholders

Over the course of the reporting period, Zain KSA has received no notifications (other than from the Company's directors, senior executives, their spouses, and minor children detailed separately below) pursuant to Article 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 31st of December 2014	No. of Shares on 31st of December 2015	Ownership % on 31st of December 2015
Mobile Telecommunication Company K.S.C.	400,125,067	216,243,575	37.05%
Faden Trading & Contracting Establishment	64,495,867	34,856,143	5.97%
Saudi Plastic Factory	63,143,367	34,125,198	5.85%

6- 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 20th of March 2013; the date of the Ordinary General Meeting approved them as the second board members since the Company's inception (except HE Dr. Abdulaziz Salem Al Ruwais who has been appointed as a board member on the 15th of December 2014, HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer has been appointed as a board member and chairman of board on the 21st of October 2015, and Mr. Bader bin Nasser Alkharafi has been appointed as a board member and vice chairman of board on the 21st of October 2015), these appointments came after the resignation of former Board of Directors members. The Board had 3 meetings in 2015 and passed 9 ordinary resolutions.

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

Board Member	Membership Type	No. of Shares Held on 1st of January 2015	No. of Shares Held on 31st of December 2015
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer [1]	Chairman/ Independent	0	1,000
Bader bin Nasser Alkharafi [2]	Vice Chairman/ Non-Executive	0	1,540
Eng. Farhan bin Naif Al Jarbaa [3]	Chairman/ Non-Executive	1,189	0
Abdulaziz bin Yaqub Al Nafisi	Non-Executive	-*	-*
Ossama Michael Matta	Non-Executive	-*	-*
Scott Marc Gegenheimer	Non-Executive	-*	-*
Thamer Ahmed Obeidat	Non-Executive	-*	-*
Fahd bin Ibrahim Al Dughaither	Non-Executive	1,000	Unchanged
Raied bin Ali Al Saif	Independent	1,006	543
Georges P. Schorderet [4]	Independent	46,000	0
HE Dr.Abdulaziz Salem Al Ruwais [5]	Independent	19,561	0

* 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.

1) HH Prince. Naif Bin Sultan has been appointed as a Board member on the 21st of October 2015.
2) Mr. Bader bin Nasser Al Kharafi has been appointed on the 21st of October 2015.
3) Mr. Raied bin Ali Al Saif was appointed in the audit committee on the 31st of May 2015.
4) Mr. Georges P. Schorderet resigned on the 22nd of March 2015 due to him taking the position of CEO of Almarai Company.
5) Resigned on the 13th of December 2015 due to him taking the position of Governor of CITC in Kingdom of Saudi Arabia.

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

  There are no shareholdings by any of the executive management and their wives and minor children in Zain KSA as of the dates of the 1st of January 2015 and the 31st of December 2015.

7- Committees of the Board of Directors

After it was appointed on the 20th of March 2013, the Board of Directors prepared the rules for selection of the members of the Committees, their terms, and procedures. They were approved on the 22nd of April 2014 during the Ordinary General Meeting.

(1) Executive Committee

Duties and responsibilities of the Executive Committee include recommending 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 to policy guidelines for business divisions based on the strategy approved by the Board; monitoring the successful execution of the Company's business plan (as approved by the Board); and monitoring the business division objectives and budgets to ensure that they fall within the Company's targets (as approved by the Board). In addition, the Executive Committee also reviews the organization structure of the Company, makes recommendations for change, ensures the control, co-ordination and monitoring within the Company of risk and internal controls, ensures the Company's compliance with relevant legislations and regulations, and safeguards the integrity of management information and financial reporting systems. The Committee is also responsible for identifying and executing new business opportunities outside the current core activities, including geographic diversification, examining all trade investments, divestments and major capital expenditure proposals, recommending to the Board those which are material either by nature or cost, optimizing the allocation and adequacy of the Company's resources, and reviewing and ensuring the implementation of the Company's policies. The committee didn't have any meetings in 2015.

The following table shows the executive committee details:

Time Period	Members	Committee Chairman
1st of January 2015 – 21st of October 2015	1- Eng. Farhan bin Naif Al Faisal Al Jarbaa [1] 2- Mr. Abdulaziz bin Yaqub Al Nafisi 3- Mr. Scott Marc Gegenheimer 4- Mr. Fahd bin Ibrahim Al Dughaither	Eng. Farhan bin Naif Al Faisal Al Jarbaa [1]
22nd of October – 31st of December 2015	1- Mr. Abdulaziz bin Yaqub Al Nafisi 2- Mr. Scott Marc Gegenheimer 3- Mr. Fahd bin Ibrahim Al Dughaither	

1- Eng. Farhan bin Naif Al Faisal Al Jarbaa resigned on the 21st of October 2015.

(2) Audit Committee

Duties and responsibilities of the Audit Committee include supervising the Company's internal audit division in order to verify its efficiency in performing the functions assigned to it by the Board of Directors; reviewing the internal audit system and preparing a written report with its opinion and recommendations on the same; submitting recommendations to the Board of

Directors in respect of the appointment or renewal of the external auditors (who will be independent) and determining their fees. In addition, the Audit Committee also reviews the audit plan with the external auditor and gives remarks on the same; reviews the remarks of the external auditor on the financial statements, follows up on the actions taken in respect of the same; reviews the interim and annual financial statements before submission of the same to the Board of Directors, gives their opinion and recommendations on the same, and reviews the accounting policies used by the Company and gives opinions and recommendations on the same. The committee has met four times in 2015 and passed on 6 ordinary resolutions.

The following table shows the audit committee details:

Time Period	Members	Committee Chairman
1st of January 2015 – 19th of January 2015	1- Mr. Georges P. Schorderet 2- Mr. Ossama Michael Matta	Mr. Georges P. Schorderet
20th of January 2015 – 22nd of March 2015	1- Mr. Georges P. Schorderet [1] 2- Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al Ruwais [2]	Mr. Georges P. Schorderet
23rd of March 2015 – 30th of May 2015	1- Mr. Ossama Michael Matta 2- HE Dr. Abdulaziz Al Ruwais	
31st of May 2015 – 4th of October 2015	1- Mr. Raied bin Ali Al Saif [3] 2-Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al Ruwais	
5th of October 2015 – 13th of December 2015	1- Mr. Raied bin Ali Al Saif [4] 2- Mr. Ossama Michael Matta 3- HE Dr. Abdulaziz Al Ruwais [5]	Mr. Raied bin Ali Al Saif was appointed on the 5th of October 2015
14th of December 2015 – 31st of December 2015	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta	Mr. Raied bin Ali Al Saif

1- Mr. Georges P. Schorderet resigned on the 22nd of March 2015 due to him taking the position of CEO of Almarai Company.
2- HE Dr. Abdulaziz Al Ruwais was appointed in the committee on the 20th of January 2015.
3- Mr. Raied bin Ali Al Saif was appointed in the committee on the 31st of May 2015.
4- Mr. Raied bin Ali Al Saif was appointed as head of committee on the 5th of October 2015.
5- HE Dr. Abdulaziz Al-Ruwais resigned on the 13th of December, 2015 due to him taking the position of Governor of CITC in Kingdom of Saudi Arabia.

3) Nomination and Remuneration Committee

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the Board of Directors; and establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company. The committee has met once during year 2015.

The following table shows the Nomination and Remuneration committee details:

Time Period	Members	Committee Chairman
1st of January 2015 – 31st of December 2015	1- Mr. Scott Marc Gegenheimerr. 2- Mr. and Raied bin Ali Al Saif. 3- Mr. Thamer Ahmed Obeidat	Mr. Scott Marc Gegenheimer

8- Compensation and Remuneration During Year 2015

SAR'000	Executive Members of The Board of Directors	Non-Executive Members of The Board of Directors	Top Five Executives (Including CEO and CFO)
Salary and Allowances	-	-	9,648
Bonus	-	-	3,828
Incentives	-	-	-
Other	-	-	-

9- Board of Directors Memberships in Other Saudi Companies

Director	Company
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	1- Al Marai 2- Yamama Saudi Cement 3- Farabi Petrochemicals Company 4- Zohoor Alreef Trading Company 5- Tarabot Investment & Development Company
Mr. Raied bin Ali Al Saif	1- ANB Invest Company - Chairman 2- Joussour Holding Company - Vice Chairman
HE Dr. Abdulaziz Salem Al Ruwais	Riyadh Valley Company

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

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

- Assignment of certain contracts and receivables;
- Pledge of insurance contracts and operating accounts;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers, and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and
- EBITDA and leverage level.
- Aside from that, the Company has no other convertible debt instruments, options, warrants, or similar products in issue from the date of incorporation until the date of this report.

11- 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.

12- Attendance Record of Board of Directors Meetings

The table below details the dates and attendance records for the Board of Directors' three meetings that were held during 2015. Please note that the mark (✓) denotes that the director attended the meeting, while the mark (✗) means the director did not attend:

Director	20th of January 2015	20th of June 2015	6th of December 2015	Attendance
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer [1]	N/A	N/A	✓	1
Bader bin Nasser Alkharafi	N/A	N/A	✓	1
Eng. Farhan bin Naif Al Jarbaa [2]	✓	✓	N/A	2
Abdulaziz bin Yaqub Al Nafisi	✓	✓	✓	3
Ossama Michael Matta	✗	✗	✓	1
Scott Marc Gegenheimer	✓	✓	✓	3
Thamer Ahmed Obeidat	✗	✓	✗	1
Fahd bin Ibrahim Al Dughaither	✓	✗	✓	2
Raied bin Ali Al Saif	✗	✓	✓	2
Georges P. Schorderet [3]	✓	N/A	N/A	1
HE Dr.Abdulaziz Al Ruwais [4]	✓	✓	✗	2
Total Presence	6	6	7	

1- HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer was appointed as a member of board on the 21st of October 2015.
2- Eng. Farhan bin Naif Al Jarbaa resigned on the 21st of October 2015
3- Mr. Georges P. Schorderet resigned on the 22nd of March 2015 due to him taking the position of CEO of Almarai Company.
4- HE.Dr. Abdulaziz Al-Ruwais resigned on the 13th of December, 2015 due to him taking the position of Governor of CITC in Kingdom of Saudi Arabia.

13- Board of Directors Interests in Contracts with Zain KSA

The following transactions took place during 2015, and reflect direct or indirect interests of Zain KSA Board of Directors members, and require approval from the General Assembly:

Zain KSA signed a contract for telecommunication services with Almarai Company in 2015 by the prevailing market commercial terms for an amount of SAR 13 Thousand. HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, the Chairman of Zain KSA is a Board member in Almarai Company.

Zain KSA signed a contract for telecommunication services with Mobile Systems International Company (MSI) in 2015 to provide the Indoor Building Solutions for the waqf buildings of King Saud University (KSU) for an amount of SAR 15 Million; this followed the fact that MSI is the exclusive approved contractor of KSU for the Indoor Building Solutions. Zain KSA's former Chairman in 2015 Eng. Farhan Al Jarba is the Chairman of MSI.

14- Transactions with Related Parties

As stated in note 12 of the Full Year Financial Statements 2015:

- **RELATED PARTY TRANSACTIONS AND BALANCES**

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

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

	2015 SR'000	2014 SR'000
Revenue	**118,603**	75,735
Cost of revenue	**84,381**	29,362
Management fees expenses	**48,779**	45,026
Finance charges	**198,555**	175,516

  Mobile Telecommunications Company K.S.C, a majority shareholder has provided several interest bearing loans to the Company; additionally certain payments were also made by Mobile Telecommunications Company K.S.C on behalf of the Company. Interest was charged per agreed rates to the Company.

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

  (Also refer to Note 14)

- **Related Party Balances**

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

  (i) Due from a related party – current

	2015 SR'000	2014 SR'000
Zain Bahrain	**551**	-

  (ii) Due to related parties – current

	2015 SR'000	2014 SR'000
Mobile Telecommunications Company K.S.C–current account	**2,971**	3,631
Others	**(62)**	-
	2,909	3,631
Due to related parties, net	**2,909**	3,631

(iii) Due to related parties – non current

	2015 SR'000	2014 SR'000
Mobile Telecommunications Company K.S.C – management fee	**834,612**	785,833

15- Waiving of Compensation

There have been no arrangements or agreements under which a BoD member or a senior executive of Zain KSA has waived any compensation have been made during 2015.

16- Waiving of Dividend Payment

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

17- Outstanding Statutory Payments

By the end of 2015, the outstanding statutory payments stood at SAR 1,475,652,875 payable to:

1. **CITC:**
   a. License fee: SAR 7,485,302
   b. Revenue sharing with the government: SAR 112,279,542
2. **Ministry of Finance:**
   Ministry of Finance Loan: SAR 1,355,888,031

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

18- Fines and Penalties

The Communication & Information Technology Commission ("CITC") has issued miscellaneous fine-incurring administrative decisions against the Company. The reasons behind the issuance of such decisions, as claimed by CITC, relates to the Company's incompliance with CITC's decisions number (215) & (325) and other decisions. Zain KSA has challenged these decisions before the Administrative Court ("Board of Grievances") as per the regulations. During 2015, the Administrative Court has looked into a number of (265) administrative lawsuits filed against CITC. The Court has issued final Judgments in favor of Zain KSA which overturned CITC's decisions in (86) cases with a total amount of SAR (133,507,000). Furthermore, the Court has issued final Judgments against Zain KSA which dismissed (28) cases filed against CITC. Finally, (151) cases remain under consideration by the Administrative Court, to date.

During 2015, the CMA imposed a number of penalties on the Company due to:

– The Company's violation to Paragraph (A) of Article (46) of the Listing Rules as the Company failed to notify the public about the resignation of the Board of Director's member Dr. Abdullah Ba Sudan which took place on the 5th of June 2015, while the Company made the announcement after the closure of Market on the 8th of June 2015. The penalty amounted to SAR 100,000.

- The Company's violation to Paragraph (A) of Article (41) and Paragraph (A) of Article (46) of the Listing Rules as the Company failed to notify the public about the signature of an agreement for the development and expansion of Zain KSA network for a total amount of SAR4.5 Billion on the 25th of June 2014; the Company made the announcement after the closure of the Market on the 25th of June 2014. The penalty amounted to SAR 80,000.

19- Employees' End-of-Service Benefits

The value of the employees' end-of-service benefits, provided by Zain KSA, amounted to SAR 66 million as at 31st of December 2015.

20- 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)