zain

Board of Directors

Report 2014

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

We hereby present to your good selves the annual Board of Directors' Report about your Company's activities and operations during the past financial year of 2014:

Company's Establishment and Activities

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

The Company is a "Saudi Joint Stock Company" established pursuant to Royal Decree No. 48/M dated 26 Jumada I 1428H (corresponding to 12 June 2007), Ministerial Resolutions No. 176 dated 25 Jumada I 1428H (corresponding to 11 June 2007), No. 357 dated 28 Dhu Al-Hijjah 1428H (corresponding to 7 January 2008) and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4 Rabi Awal 1429H (corresponding to 12 March 2008), to operate as the 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's 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") after completing all required procedures for the launch of its activities in the Saudi market and the full payment of the license fees. The terms of the license provide for a term of 25 years and permit Zain 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 its services includes voice, data, VAS and other supplementary services and features. The license also requires the Company to comply with specific roll-out and coverage obligations, including coverage of at least 93% of the population within five years of service launch. In addition to the license fee, the Company is required to pay certain annual fees during the term of the license, calculated in accordance with a specific formula or as a percentage of net revenues.

Zain KSA's Strategy

Zain KSA is the third entrant in the Saudi mobile telecommunications market. Our market strategy is to be known as the operator that cares for its customers. Our objective is to increase our value market share to make us a profitable and sustainable operation. This will be conducted through numerous strategic pillars, based around our "***Winning through Caring Strategy***":

1. Competitive Network

We have the best data network in a market where data is the future. We are eager to remain in the lead so we are investing capital to maintain our data advantage and strengthen our voice network.

2. More and Better Distribution

We will be close to our customers with an expanded capillary distribution network. We are increasing our distribution footprint dramatically to get closer to our customers – we are opening a number of new shops every month.

3. Better Customer Experience

Our customers say that we have the best customer service in KSA. We must use this foundation to establish Zain KSA as the leader in customer experience in the KSA mobile market – the "caring operator". We do all this in a spirit of superior customer service, making every customer touch point with us easy.

4. Competitive Products & Services

We will care for our customers by delivering more innovative and value-for-money products built off our excellent data network. We are going to launch new products to make us truly competitive across all our key segments.

5. Growth in Business Segment

The formula for success in the Business Segment market is fairly straightforward: the right solutions with the right support and distribution reach. Partnerships, such as Microsoft, help complement our portfolio of solutions.

In summary, success will be realized when customers perceive that Zain KSA is the Saudi mobile operator that really cares for its customers. The Company is working diligently towards this, and we invite you on this journey to write this success story together.

Operational Overview

Zain KSA launched its commercial operations on August 26, 2008, a year after it was awarded its mobile license. By the end of 2014 and after the sixth full year of operation, we had achieved a better performance within a challenging environment of intense competition and some regulatory controls over the labor market. The following sections will outline those achievements in operational aspects:

1. Commercial Overview

Commercially, Zain KSA has taken big strides in the execution of the commercial strategy and has, as a result, gained increasing momentum in the market during 2014. This commercial strategy has the following four pillars:

- One of the most important pillars of this strategy was the ***revamp of the brand*** to refresh it in the eyes and minds of our customers, and strengthen its association with Saudi Arabia. This refreshed look was put to the test in the National Day Campaign, which proved to be highly successful, and achieved its set goals. The refreshed brand was rolled-out to our Flagships and Fully Branded Outlets "FBOs", giving them a new and enhanced look and feel, especially with the introduction of a new shop layout based on customer experience designs.
- The second pillar of the commercial strategy was ***getting closer to our customers*** and this was done by:
    1. Strengthening and revamping Zain KSA's retail footprint including direct sales and distribution channel outlets (Flagships, FBOs, and Kiosks) as well as indirect (Points of Sale, Electronic Voucher Devices, etc.).
    2. Close monitoring of shops and partner outlets helped maintain the availability and visibility of our products, especially with the introduction of new MBB scratch cards.
    3. Enabled digital channels including the mobile app., and "Khadamaty" web portal.
    4. On the B2B side, Zain KSA signed with two new partners to further penetrate the SME segment and have the appropriate focus on bigger targets such as corporate clients, as well as offer more sophisticated, higher value products and services.
- A third pillar of commercial strategy was ***capitalizing on our advanced data network***. This was achieved by introducing hybrid products (bundling voice within Data SIMs). It was the first time in years that Zain KSA targets this segment. Also, data-centric plans were designed to target lucrative and growing segments such as the youth.
- The fourth pillar, and as part of Zain KSA's direction to ***diversify its base and acquire new segments***; new postpaid packages were launched to target the postpaid segment with worry-free packages, reposition Zain KSA on the wealthy mid and high-end market, and grow the value share. Another product that targets this segment is the new roaming passport and data roaming bundles in GCC countries.

To introduce disruptive moves to the market and change the status-quo and current state of market dynamics, Zain KSA took a bold step that is considered a pioneer in is field: free on-net calls for its prepaid and postpaid customers. The effect was an increase in the active users on Zain KSA's network.

Capabilities of the sales team were taken to new levels through the introduction of an enhanced sales toolkit, defining a strong new steering process and dedicating a Program Management Office to monitor and report strategic initiatives.

2. Network Overview

- ### Spectrum

According to the 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 900MHz spectrum bands.

Zain continues to enhance the offered Mobile Broad Band (MBB) services to higher speeds in line with market needs. Zain is participating in applying for digital dividend 800MHz spectrum from CITC which is currently occupied by analog television. The network also uses various frequency bands to provide backhaul and backbone transmission as needed by the network.

- ### Network Technology

Zain KSA's own primary 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, Zain KSA's network provided stable and reliable services during high traffic conditions in Ramadan as well as during Hajj season. Also, the network's designed capacity has enabled it to accommodate the increasing numbers of subscribers, and it will be able to cater for a higher capacity as Zain KSA's market share grows. The network is highly scalable and flexible, enabling it to accommodate increasing numbers of subscribers in line with the marketing roadmap and the anticipated growth in our market share for both voice and data services. Zain was the first operator to lunch Mobility LTE in Saudi Arabia and Middle East.

- ### Network Expansion and Coverage

In 2014, Zain KSA continued building its voice and Mobile Broad Band (MBB) services. Voice services now cover more than 618 cities and 130 highways by 6,252 cell sites as at 31st December, 2014. Network coverage by technology was as follows:

- 97% of population coverage for 2G (including national roaming via STC, 94% Zain network);
- 96% of population coverage for 3G (including national roaming via STC, 86% Zain network);
- 57% of population coverage for 4G/LTE.

Reflecting sustained growth in the demand for data services, on the 5th of June 2014, the Company announced a major enhancement in customer experience through Project RELOAD, which represents a significant expansion of its network. The Company signed several agreements with key international telecom suppliers amounting to SAR 4.5 billion to procure telecommunications network infrastructure equipment. Suppliers include Huawei, Nokia, Cisco, Alcatel-Lucent and NEC. These agreements are collectively considered a turnkey project to be delivered over a period of 3 years, providing Zain KSA with a state-of-the-art modern network to cope with the ever-growing demand for data communication.

Project RELOAD focuses on the expansion of coverage and capacity of the Company's 3G and 4G networks. The targets for Phase 1 of Project RELOAD are:

- 89% of population coverage for 3G;
- 77% of population coverage for 4G/LTE.

Through these agreements, Zain KSA intends to deploy the latest 4G/LTE and mobile broadband infrastructure including radio access, transmission, core network, IP backbone and Internet gateway equipment. The purchased assets will enhance and expand Zain KSA's current network in terms of coverage and capacity for voice and data services.

Zain KSA made this step in order to enhance the competitiveness of its network, providing Zain customers with a superior customer experience in a more cost effective way. Zain KSA will be able to capture more traffic, generate more revenues and optimize costs.

3. IT Overview

Zain KSA commenced a major, comprehensive, business-led IT transformation in 2014 that aims to significantly augment business capabilities across a wide array of operations and introduce new capabilities empowering novel business scenarios. The following main areas are being addressed:

- End-to-end digitization of all channels and touch points;
- Enhanced retention, cross-sell/up-sell capabilities;
- State-of-the-art Customer Relation Management.

• Launch of a new state of the art CBiO

In 2014, Zain KSA launched phase one of the state-of-the-art Charging and Billing in One "CBiO" with the support of the world-renowned "Ericsson Intelligent Network Real Time" rating platform and its multitude of extra product capabilities. This comes in addition to other CBiO components, significantly enhancing customer lifecycle management, customer experience and customer insight, as well as enhancing the level of customer focus.

The enhanced capability was especially pronounced during the Hajj season with the solid stability, response time and significant reduction of call rejection, in addition to the multitude of innovative offers.

All Zain KSA prepaid customers were migrated from the Legacy Prepaid system to the new CBiO in a seamless manner.

• Enrichment of existing CRM

Zain KSA also invested in enriching the current Customer Relationship Management "CRM" system capabilities with the launch of the following:

- Dealer relationship management;

- Sales Force automation;
- CRM analytics;
- Product catalogues; and
- Commissioning system.

Accordingly, the impact on customer insight, value segmentation, experience, stock movement and partner replenishment, as well as the B2B sales force, was quite prominent.

4. Regulatory Overview

During 2014, the Board of Directors and the management of the Company paid particular attention to improving the working relationship with CITC across a wide range of issues.

In November 2014, the Company responded to CITC's consultation to reduce Mobile Termination Rates (MTRs) in the Kingdom of Saudi Arabia. The Company applauds CITC's statement (in its consultation paper) that MTRs should be reduced to 8H. Zain believes that a reduction in MTRs will reduce the overall cost of mobile telephony for consumers. Zain champions this cause and, as the third entrant in the Kingdom, Zain aims to provide quality, value-for-money services to consumers. The Company noted that, contrary to international best practices where MTRs are typically reduced each year, MTRs in the Kingdom of Saudi Arabia have not been reduced since 2008. The Company believes that high MTRs have contributed to a situation where Zain 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. Furthermore, the Company believes that MTRs should be immediately reduced to 8H or below.

Zain is attempting to amicably settle a number of historic lawsuits with CITC; specifically 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.
- Zain has a number of other legal challenges concerning CITC fines and penalties issued against the Company.
- It should be noted that Zain is the plaintiff in these cases. It is uncertain whether Zain will win all or any of these cases.

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.

Capital Reduction

The Board of Directors of the Company invited shareholders owning 20 shares or more to attend an Extraordinary General Meeting (the "EGM") to be held at the Media Center of Tadawul in Riyadh city on Wednesday 25-02-2015, corresponding to 06-05-1436, mainly to consider approving the Board of Directors' recommendation to decrease the Company's capital from SAR 10,801,000,000 to SAR 5,837,291,750, a decrease by 45.96%, and where the number of shares will be decreased from 1,080,100,000 to 583,729,175. This implies reducing 1 share for every 2.18 shares owned.

The principal reason for the proposed capital reduction is to write off all of the Company's accumulated losses up to 30 September 2014 – representing approximately 45.96% of capital – as part of instituting its turnaround plan and pursuant to a recommendation by the executive management of the Company and its external advisors.

Capital reduction will be carried out by the cancellation of shares to write off accumulated losses. Capital reduction will not have an effect on the Company's obligations. The effective date for the proposed reduction in capital is eligible to the shareholders who are registered in the shareholders' register in the Securities Depository Center (Tadawul) at the close of trading on the Extraordinary General Assembly day.

Summary of Zain KSA's Financial Results

- **Balance Sheet Highlights as at 31 December 2010, 2011, 2012, 2013 and 2014**

The following table summarizes the financial position of Zain KSA as at December 31, 2010, 2011, 2012, 2013 and 2014:

SAR Million	2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited	Change 13/14	% Change 13/14
Current assets	2,602	2,432	4,380	3,315	3,888	573	17.3%
Non-current assets	25,453	24,312	23,636	22,927	21,977	(950)	-4.1%
Total assets	**28,055**	**26,744**	**28,016**	**26,242**	**25,865**	**(377)**	**-1.4%**
Current liabilities	7,454	15,511	15,400	3,826	3,897	71	1.9%
Non-current liabilities	14,472	6,940	4,164	15,657	16,504	847	5.4%
Total liabilities	**21,926**	**22,451**	**19,564**	**19,483**	**20,401**	**918**	**4.7%**
Shareholders' equity	6,129	4,293	8,452	6,759	5,464	(1,295)	-19.2%
Total liabilities and shareholders' equity	**28,055**	**26,744**	**28,016**	**26,242**	**25,865**	**(377)**	**-1.4%**

Source: Audited financial statements for the years ended 2010, 2011, 2012, 2013 and 2014

As at 31 December 2014, the Company had total assets amounting to SAR 25,865 million, SAR 17,327 million (67% of total assets) of which relate to the carrying amount of the CITC license acquired in 2007. In addition, property and equipment amounted to SAR 4,296 million as at 31 December 2014, representing 16.6% of total assets.

At the same date, the Company's total liabilities amounted to SAR 20,401 million, 72.3% of which, amounting to SAR 14,760 million, are related to the following:

1. Murabaha Facility;
2. Advances from Shareholders;
3. Junior Debt - ANB;
4. Governmental Loan; and
5. Vendor Financing.

- **Overview of the Company's Borrowings**

As at 31 December 2014, the outstanding balances of borrowing arrangements amounted to SAR 14,727 million. The following table summarizes these borrowing arrangements as at 31 December 2014:

SAR Million	Term	Principal Amount	Repaid during 2014	Lender	Outstanding balance	Maturity
Murabaha Facility	5 years	8,631	-	Consortium of 8 banks	8,631	30 Jun, 2018
Advances from Shareholders	Open	3,386	-	Founding Shareholders	2,539	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	801	01 Jun, 2027
Vendor Financing	5.5 years	1,219	200	Export Credit Agency	506	31 Jan, 2018
Total					**14,727**	

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

1. 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. This Murabaha Facility consists of a SAR portion totaling SAR 6.35 billion and a USD portion totaling USD 608.46 million (equivalent to SAR 2.28 billion). The initial purpose of this agreement was to partially finance the acquisition of CITC license back in year 2007.

The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and a pledge of shares of founding and major shareholders.

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:

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

2. Advances from Shareholders

The founding shareholders have delivered and continue to provide, advances to the Company since 2007. The outstanding balance as at 31 December 2014 amounted to SAR 2.54 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 upon 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 and Finnvera junior loans.

The advances from shareholders as at 31 December 2014 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

3. Junior Debt – ANB

On 5 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 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.

4. 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. This agreement is considered as a commercial loan since it bears interest that's lower than prevailing market levels.

5. Vendor Financing

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

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

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

- **Statements of Operation Highlights for years ended December 31, 2010, 2011, 2012, 2013 and 2014**

The following table summarizes the statement of operation for the years ended 31 December 2010, 2011, 2012, 2013 and 2014:

SAR Million	2010 Audited	2011 Audited	2012 Audited	2013 Audited	2014 Audited	Change 13/14	% Change 13/14
Revenues	5,934	6,699	6,171	6,523	6,244	(279)	-4.3%
Cost of revenues	(3,404)	(3,499)	(3,311)	(3,388)	(3,021)	367	-10.8%
Gross profit	**2,530**	**3,200**	**2,860**	**3,135**	**3,223**	**88**	**2.8%**
Distribution and marketing	(1,848)	(1,972)	(1,687)	(2,028)	(2,032)	(4)	0.2%
General and administrative	(351)	(329)	(295)	(216)	(91)	125	-57.9%
EBITDA	**331**	**899**	**878**	**891**	**1,100**	**209**	**23.5%**
Depreciation and amortization	(1,494)	(1,710)	(1,810)	(1,840)	(1,633)	207	-11.3%
Loss from operations	**(1,163)**	**(811)**	**(932)**	**(949)**	**(533)**	**416**	**-43.8%**
Commission income	1	-	6	21	9	(12)	-57.1%
Financial charges	(1,196)	(1,114)	(823)	(723)	(745)	(22)	3.0%
Net loss for the year	**(2,358)**	**(1,925)**	**(1,749)**	**(1,651)**	**(1,269)**	**382**	**-23.1%**

Source: Audited financial statements for the years ended 2010, 2011, 2012, 2013 and 2014

During 2014, revenues declined by 4.3%, reaching SAR 6,244 million down from SAR 6,523 million in 2013. The main driver behind the decline in revenues was the decline in prepaid segment revenues due to the end of the fierce international price competition, halted by CITC. In addition, it was due to the continued effect of the repatriation of a significant number of illegal workers as per the law imposed in Q4 of 2013.

It is worth mentioning that, despite the revenue decrease, the Company’s overall subscriber base by the end of 2014 showed a double-digit growth of 11%, reaching 9.7 million subscribers compared to 8.7 million subscribers by the end of 2013. It is also worth mentioning that this growth was mainly driven by the increase in internet service subscribers.

Cost of revenues also declined in 2014 by 11%, reaching SAR 3,021 million down from SAR 3,388 million in 2013. The decline in cost of revenues was mainly attributable to the declining cost related to the prepaid segment and the declining number of sold handsets.

Additionally, gross margin has improved significantly during 2014 to reach 52% up from 48% in 2013. Gross margin improvement came as a result of the increasing demand on higher margin internet services.

EBITDA improved during 2014 by 24%, reaching SAR 1,100 million up from SAR 891 million in 2013. The Company improved its EBITDA Margin during 2014 to reach 18% up from 14% back in 2013.
Loss from operations decreased by around 44% in 2014, reaching SAR 533 million down from SAR 949 million in 2013. This is attributable to the decline in provisions due to winning legal cases and based on external legal opinions, the decline in repair and maintenance expenses, and the adjustment of the useful life of some of the Company's assets.

All that's mentioned above has impacted the net losses of the company, causing them to narrow by around 23% in 2014, reaching SAR 1,269 million down from SAR 1,651 million back in 2013.

The following table presents revenue breakdown for the years 2010, 2011, 2012, 2013 and 2014:

SAR Million	2010	2011	2012	2013	2014	Change 13/14	% Change 13/14
Usage charges	5,815	6,524	5,909	5,819	5,640	(179)	(3.1%)
Subscription	115	143	232	370	395	25	6.8%
Other	4	32	30	334	209	(125)	(37.4%)
Total revenue	**5,934**	**6,699**	**6,171**	**6,523**	**6,244**	**(279)**	**(4.3%)**

Source: Audited financial statements for the years ended 2010, 2011, 2012, 2013 and 2014

It's worth mentioning that geographical analysis of revenue does not apply due to the nature of the Company's operations. It is, instead, attributable to the mobility of the customer within the Kingdom, since a customer's information might be registered in one region while he/she initiates calls in a different region depending on his/her location. Furthermore, revenue generated by international calls cannot be linked to any region since the calls occur overseas.

- **Dividend policy**

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

(a) Ten percent (10%) of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one-half (1/2) of the Company's capital;

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

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

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

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

It is the long-term aim of the Company to make regular dividend payments to shareholders alongside retaining and investing capital to maximize shareholder value. However, the Company does not expect to pay annual dividends to shareholders in the near term, where the Company will consider its retained earnings, capital expenditure requirements, financial condition, market condition, the general economic climate and other factors, including investment opportunities and the reinvestment needs of the Company, cash and capital requirements, business prospects, other legal and regulatory considerations and any dividend restrictions under any debt financing arrangements entered into by the Company. In addition, the payment of dividends, if any, will be subject to certain requirements of Company regulations and bylaws.

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

Emphasis of a matter by external auditor:

1. As disclosed in Note 1 and 9 to the accompanying financial statements, the Company has incurred a net loss amounting to SR 1.27 billion for the year ended 31 December 2014 and has an accumulated deficit amounting to SR 5.27 billion as of that date. In addition, during 2014, the Company's results were below its approved business plan which resulted in technical deviation of a covenant of a loan related to the Murabaha Financing Agreement referred to in note 9 to the accompanying financial statements. During the fourth quarter, the management of the Company has obtained from the financing banks the required waiver for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015. The Company's Board of Directors have approved a revised business plan on 20 January 2015 which is subject to reaching a final understanding with the banks to comply with the requirements of the financing agreements.

2. As disclosed in Note 1 to the accompanying financial statements in relation to the Company's Board of Directors recommendation to the shareholders in its meeting held on 27 November 2014 to reduce the Company's share capital from SR 10,801,000,000 (1,080,100,000 shares of SAR 10 each) to SR 5,837,291,750 (583,729,175 shares of SR 10 each), representing a decrease of 45.96%. This recommendation remains subject to the Company's shareholders approval in their extraordinary general assembly meeting scheduled to be held on 25 February 2015.

3. As disclosed in Note 23.2 to the accompanying financial statements which outlines that as of 31 December 2014 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 SAR 2.2 billion plus penalties that were rejected in their majority by the Company; thus resulting in a dispute arising from the Services Agreement entered into by the Company and Mobily on 6 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 accounts cannot be reliably determined at this stage.

- **Basis of Preparation of the Financial Statements**

The Company's financial statements for the year ended 31 December 2014 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.

- **Risk factors**

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

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

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

The reliance on key suppliers and vendors to provide equipment to operate the business: Zain relies on various key suppliers and vendors to provide it with the equipment that it needs to operate its 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 ongoing subscribers, or deterioration in the KSA economy affecting consumers' credit worthiness in general, could result in unanticipated levels of customer defaults, which could have a material adverse effect on our business, financial position, prospects and results of operations.

Telecommunications regulations: Our business is subject to regulations by the government of KSA. The regulatory framework within which we operate is continuing to evolve in the face of liberalization of the sector and competition. This evolving framework may constrain our ability to implement our business strategies and limit our flexibility to respond to changing market conditions and to meet our business objectives and plans, as currently envisaged. There can be no assurance that the applicable laws of KSA or the regulatory framework will not change further or be interpreted in a manner that could materially and adversely affect our operations. Under the Telecommunications Regulations, the Communications and Information Technology Commission in KSA ("**CITC**")[1] has broad powers that include amending, suspending, revoking or not renewing our operating license or imposing penalties against us. CITC also has the power to regulate content broadcasting activities. Any such action that CITC takes against us, or which affects us, or CITC's imposition of penalties, could materially adversely affect our business and financial position, prospects and results of operations.

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

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

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

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, breakdowns, interruptions, disruptions or costs could have a material adverse effect on our business, financial position and results of operations.

Foreign exchange and interest rates: We have non-Saudi Riyal denominated liabilities and enter into non-Saudi Riyal denominated transactions with suppliers and vendors. For so long as our consolidated financial statements are denominated in Saudi Riyals, we will be exposed to 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.

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

Dependence upon the KSA mobile telecommunications market: The development of our business will depend on the future level of demand for mobile telecommunications in KSA. Factors influencing demand include general economic conditions, the development of the 2G and 3G markets, the number of subscribers and their usage trends, the emergence of new technologies, intensifying competition and emergence of new competitors and future improvements in the quality, development and availability of fixed-line and mobile telephone services in KSA. Other factors that may affect the business are costs of attracting new customers, the competitiveness of our tariffs and the price of handsets. Given the multitude of factors, many of which are outside our control, it is difficult to predict with any degree of certainty the future growth of the mobile telecommunications sector in 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’s telecommunications sector that negatively impact Zain's business could materially adversely affect our business and financial position, prospects and results of operations.

- **Subsidiaries**

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

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

Zain KSA has established its Corporate Governance Framework with the view of providing its Board, management and stakeholders with a structure along with clear policies and guidelines to ensure that the Company’s objectives are realized, its stakeholder expectations are managed and the requirements of the Corporate Governance Regulations issued by the CMA are met. This framework, together with the Company’s Articles of Association, Company’s bylaws and the Charters of the

Board Committees listed in this document and Companies Act provide the authority and practices for governance of Zain KSA.

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

- Articles that were not implemented in 2014:
  - Paragraph (B) of Article 6: as the Company's bylaws state that 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 total number of members, whichever is greater due to Dr. Ba Sudan resignation on 5 June, 2014. The independent members were three again as of 15 December, 2014.
  - Paragraph (A) of article 14: The audit committee members were less than three after Dr. Abdullah Ba Sudan's resignation; from the period of 5 June, 2014 to 20 January, 2015.

- **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 Zain KSA's Internal Audit Manual. Zain Group Internal Audit has worked with Zain KSA 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 were 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 2014, with summary comments, are as follows:

- Cell Site Management Process
- HR & Payroll Management Process – A cap on the number of discounted mobile lines to each business partner needs to be defined. Business case/justification to evaluate the business need for providing discounted partner lines should be established. Active mobile lines should be reconciled with the business partner employees. Resigned employees access rights should be deactivated from the billing system.
- Direct, Indirect and Corporate Sales Process – Agreements with sales partners should be renewed including clauses for transferring CITC penalties and sole distributor definitions as part of roles and responsibilities. Airtime commission policy should be documented and approved by senior management. Staff salaries and benefits should be reviewed and realigned between the fixed and variable elements to provide incentive for higher target achievement.
- Operations and Maintenance Process – A process should be ensured for timely payment of electricity bills for cell sites in order to avoid stoppage of commercial power supply and service outage.
- Roaming and Interconnect Process – A set of procedures should be developed based on business requirements and cost effectiveness to efficiently route and monitor the traffic over trunk groups. A process needs to be ensured for configuration review of NRTDE

agreements in TABS on the signing of NRTDE agreement with roaming partners and a process of reconciliation of agreements and corrective action needs to be ensured.

- Accounting and Financial Close Process – Controls over dormant General Ledger (GL) accounts representing trade receivables or current liabilities need to be enhanced to ensure that the old balances are adjusted. Accrual for bonus liability should be based on defined basis instead of making ad-hoc provision to avoid overstatement of the accrual amounts.
- Customer Care and Churn Management Process – Adequate resources need to be ensured to conduct the customer retention programs.
- Network Operations (Active) – Utilize the TDD frequency band allocated by CITC or else, release it to avoid further expense with no returned benefits. Managed service contracts should be benchmarked with the best industry practices. Alarms severity i.e. customization of core, radio and transmission alarms should be conducted by Network Operation Team with its respective OSS and it should be periodically reviewed.

According to Zain KSA management, action plans related to many audit findings from the above process reviews, have been implemented.

- **Major Shareholders**

Over the course of the reporting period, Zain KSA has received no notification (other than that 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 Dec. 31, 2013	No. of Shares on Dec. 31, 2014	Ownership % on Dec. 31, 2014
Mobile Telecommunication Company K.S.C.	400,125,067	400,125,067	37.05%
Faden Trading & Contracting Establishment	64,495,867	64,495,867	5.97%
Saudi Plastic Factory	63,143,367	63,143,367	5.85%

- **Board of Directors**

The Company is managed, and its operations are overseen, by the Board of Directors, which currently consists of nine members. Each member of the Board is appointed for a term of three years starting from 20 March 2013; the date the Ordinary General Meeting approved them as the second board members since the Company's inception (except for Dr. Abdulaziz Salem Al Ruwais who has been appointed as board member on 15 December, 2014 to replace the resigned member Dr. Abdullah Ba Sudan).

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

Board member	Membership type	No. of shares on 1st January 2014	No. of shares on 31st December 2014
Eng. Farhan bin Naif Al Jarbaa	Chairman/ non-executive	1,189	Unchanged
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	Unchanged
Georges P. Schorderet	Independent	46,000	Unchanged
Abdullah bin Mohammed Ba Sudan	Independent	5,000	N/A[2]
Abdulaziz Salem Al Ruwais	Independent	N/A[3]	19,561

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

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

There are no shareholdings by any of the executive management or their wives and minor children in Zain KSA as of the dates of 1 January 2014 and 31 December 2014.

- **Committees of the Board of Directors**

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

(1) Executive Committee

Members: Eng. Farhan bin Naif Al Faisal Al Jarbaa (**Chairperson**)[4], Dr. Abdulaziz bin Yaqub Al Nafisi, Scott Marc Gegenheimer.

[2] Dr. Abdullah Ba Sudan resigned from the Board on the 5th of June, 2014

[3] Dr. Abdulaziz Salem Al Ruwais has been appointed as a Board member replacing Dr. Abdullah Ba Sudan on the 15th of December, 2014

[4] Eng. Farhan bin Naif Al Jarbaa became the Chairperson of Executive Committee on the 10th of March, 2014. Mr. Fahd bin Ibrahim Al Dughaither was the Chairperson until the 10th of March, 2014

Duties and responsibilities of the Executive Committee include recommending objectives and strategy for the Company in the development of its business, having regard to the interests of its shareholders, customers, employees and other stakeholders; agreeing policy guidelines for business divisions based on the strategy approved by the Board; monitoring the successful execution of 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 organizational structure of the Company and makes recommendations for change, ensures the control, co-ordination and monitoring within the Company of risk and internal controls, ensures the Company's compliance with relevant legislation and regulations, and safeguards the integrity of management information and financial reporting systems. The Committee is also responsible for identifying and executing new business opportunities outside the current core activities, including geographic diversification, examining all trade investments, divestments and major capital expenditure proposals and 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 has met two times in 2014.

(2) Audit Committee

Members: Georges P. Schorderet (**Chairperson**)[5], Ossama Michael Matta and Dr. Abdulaziz Salem Al Ruwais[6].

Duties and responsibilities of the Audit Committee include supervising the Company's internal audit division in order to verify its efficiency in performing the functions assigned to it by the Board of Directors; reviewing the internal audit system and preparing a written report with its opinion and recommendations on the same; reviewing the internal audit reports and setting corrective actions to the same; submitting recommendations to the Board of Directors in regards to the appointment or renewal of the external auditors (who will be independent) and determining their fees; and following up on the performance of accountants and approving their fees. In addition, the Audit Committee also reviews the audit plan with the external auditor and gives remarks on the same; reviews the remarks of the external auditor on the financial statements and follows up on the actions taken in respect of the same; reviews the interim and annual financial statements before submission of the same to the Board of Directors and gives their opinion and recommendations on the same; and reviews the accounting policies used by the Company and gives opinions and recommendations on the same. The committee has met four times in 2014.

(3) Nomination and Remuneration Committee

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

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the

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[5] Georges P. Schorderet was appointed as the Audit Committee Chairperson on the 5th of June, 2014 as Dr. Abdullah Ba Sudan resigned from the Board at that date

[6] Dr. Abdulaziz Salem Al Ruwais was appointed an Audit Committee member on the 20th of January, 2015

Board of Directors; and establishing clear policies concerning the remuneration of members of the Board of Directors and senior executives of the Company. The committee has met once during the year 2014.

- **Compensation and Remuneration during year 2014**

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	-	-	8,356
Bonus	-	-	2,466
Incentives	-	-	-
Other	-	-	-

- **BoD Memberships in Other Saudi Companies**

Director	Company
Raied bin Ali Al Saif	ANB Invest Co.
Dr. Abdulaziz Salem Al Ruwais	Riyadh Valley Company
Dr. Abdullah bin Mohammed Ba Sudan[7]	United Mining Investment Co., Maceen Capital Co. and Al Yamamah Real Estate Financing & Investment Co.

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

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

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

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

- **Redeemable Debt Instruments**

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

[7] Dr. Abdullah Ba Sudan resigned from the Board on the 5th June, 2014

- ### Attendance Record of Board of Directors Meetings

The table below details the dates and attendance record for the Board of Directors' five meetings that were held during 2014 (Please note that the mark (✓) denotes that the director attended the meeting; while the mark (×) means the director did not attend).

Director	17-Feb	10-Mar	21-Apr	05-Jun	22-Oct	Attendance
Eng. Farhan bin Naif Al Jarbaa	✓	✓	✓	✓	✓	5
Abdulaziz bin Yaqub Al Nafisi	✓	×	✓	✓	✓	4
Ossama Michael Matta	✓	✓	×	✓	✓	4
Scott Marc Gegenheimer	✓	✓	✓	✓	✓	5
Thamer Ahmed Obeidat	✓	✓	✓	×	✓	4
Fahd bin Ibrahim Al Dughaither	✓	✓	×	×	✓	3
Raied bin Ali Al Saif	✓	×	✓	✓	✓	4
Georges P. Schorderet	✓	✓	✓	×	✓	4
Abdullah Ba Sudan[8]	×	×	×	N/A	N/A	0
Abdulaziz Al Ruwais[9]	N/A	N/A	N/A	N/A	N/A	N/A
Total Presence	8	6	6	5	8	

- ### BoD Interests in Contracts with Zain

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

- ### Transactions with Related Parties

Zain KSA did not make any transaction with any related party (as defined by CMA in Article 43 of the Listing Rules) during 2014.

- ### Waiving of Compensation

There were no arrangements or agreements under which a director or a senior executive of Zain had waived any compensation during 2014.

- ### Waiving of Dividend Payment

There were no arrangements or agreements under which any Zain KSA shareholders had waived their dividends payments.

[8] Dr. Abdullah Ba Sudan resigned from the Board on the 5th of June, 2014

[9] Dr. Abdulaziz Salem Al Ruwais has been appointed as a Board member replacing Dr. Abdullah Ba Sudan on the 15th of December, 2014

- **Outstanding Statutory Payments**

By the end of 2014, the outstanding statutory payments stood at SAR 912,500,193 payable to:

1. CITC:
    a. License fee: SAR 6,973,779.
    b. Revenue sharing with the government: SAR 104,606,687.
2. Ministry of Finance:
    a. Ministry of Finance Loan: SAR 800,919,727.

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

- **Fines and Penalties**

The Communication and Information Technology Commission (CITC) has issued miscellaneous fine-incurring administrative decisions against Zain KSA. The reasons behind issuance of such decisions, as claimed by CITC, relate to Zain's breach of CITC's decisions numbered 325, 215, and others.

Zain KSA's legal department has immediately challenged these decisions in front of the Board of Grievance. The Board of Grievance has abolished to date one hundred and thirty seven decisions by virtue of irrevocable verdicts in favor of Zain and with a total amount of SAR 296,346,000 million. The legal department of Zain KSA will exert every effort to gain irrevocable and enforceable verdicts in relation to the remaining pending decisions.

During 2014, the Company received a fine from the Capital Market Authority ("CMA") due to its violation of Clause (B) of Article (40) of the Listing Rules. The Company was late to inform the public about its preliminary financial results for the period ending 31 March 2014. The Company announced them less than two hours before market opening on 16 April 2014; and the fine amount was set at SAR 20,000.

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

The value of the employees' end-of-service benefits, provided by Zain KSA, amounted to SAR 50.3 million as at 31 December 2014.

- **Statement by the Board of Directors**

The Board hereby certifies that:

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

Board of Directors
Mobile Telecommunications Company
Saudi Arabia (Zain KSA)

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

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AUDITORS' REPORT

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

Scope of Audit

We have audited the accompanying balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at 31 December 2014, and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 29 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at 31 December 2014, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's bylaws as these relate to the preparation and presentation of these financial statements.

Emphasis of matters

We draw attention to the following matters:

1. As disclosed in Note 1 and 9 to the accompanying financial statements, the Company has incurred a net loss amounting to SR 1.27 billion for the year ended 31 December 2014 and has an accumulated deficit amounting to SR 5.27 billion as of that date. In addition, during 2014, the Company's results were below its approved business plan which resulted in technical deviation of a covenant of a loan related to the Murabaha Financing Agreement referred to in note 9 to the accompanying financial statements. During the fourth quarter, the management of the Company has obtained from the financing banks the required waiver for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015. The Company's Board of Directors have approved a revised business plan on 20 January 2015 which is subject to reaching a final understanding with the banks to comply with the requirements of the financing agreements.

2. As disclosed in Note 1 to the accompanying financial statements in relation to the Company's Board of Directors recommendation to the shareholders in its meeting held on 27 November 2014 to reduce the Company's share capital from SR 10,801,000,000 (1,080,100,000 shares of SAR 10 each) to SR 5,837,291,750 (583,729,175 shares of SR 10 each), representing a decrease of 45.96%. This recommendation remains subject to the Company's shareholders approval in their extraordinary general assembly meeting scheduled to be held on 25 February 2015.

3. As disclosed in Note 23.2 to the accompanying financial statements which outlines that as of 31 December 2014 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 SAR 2.2 billion plus penalties that were rejected in their majority by the Company; thus resulting in a dispute arising from the Services Agreement entered into by the Company and Mobily on 6 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 accounts cannot be reliably determined at this stage.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

6 Jumada Al-Awal 1436
25 February 2015

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

BALANCE SHEET
AS AT 31 DECEMBER 2014

	Notes	2014 SR'000	2013 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**1,092,117**	1,293,086
Accounts receivable, net	4	**1,393,689**	1,220,855
Inventories, net	5	**62,680**	140,940
Prepaid expenses and other assets	6	**1,339,901**	655,083
Total current assets		**3,888,387**	3,309,964
Non-current assets			
Property and equipment, net	7	**4,296,435**	4,292,616
Intangible assets, net	8	**17,469,010**	18,351,126
Other non-current assets		**211,694**	283,473
Total non-current assets		**21,977,139**	22,927,215
TOTAL ASSETS		**25,865,526**	26,237,179
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Long-term borrowings – current portion	9	**200,005**	200,005
Notes payable	10	**-**	32,331
Accounts payable	11	**265,541**	496,370
Due to related parties	12	**3,631**	36,838
Deferred revenue		**515,811**	406,909
Accrued expenses and other liabilities	13	**2,912,633**	2,648,869
Total current liabilities		**3,897,621**	3,821,322
Non-current liabilities			
Notes payable	10	**-**	2,542
Long-term borrowings – non current portion	9	**11,187,030**	11,387,035
Advances from shareholders	14	**3,475,657**	3,034,239
Due to related parties	12	**785,833**	740,809
Other non-current liabilities		**938,287**	412,043
Derivative financial instruments	15	**66,830**	41,727
Provision for employees' end-of-service benefits		**50,264**	38,790
Total non-current liabilities		**16,503,901**	15,657,185
TOTAL LIABILITIES		**20,401,522**	19,478,507
SHAREHOLDERS' EQUITY			
Share capital	16	**10,801,000**	10,801,000
Hedging reserve	15	**(66,830)**	(41,727)
Accumulated deficit		**(5,270,166)**	(4,000,601)
Total shareholders' equity		**5,464,004**	6,758,672
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**25,865,526**	26,237,179
Commitments and Contingencies	23,24		

Farhan Bin Naif Al Jarba - Chairman **Hassan Kabbani - CEO** **Wissam Farhat – CFO**

The accompanying notes 1 to 29 form an integral part of these financial statements

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

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2014 SR'000	2013 SR'000
Revenue	17	**6,243,936**	6,522,587
Cost of revenue and sales	18	**(3,021,286)**	(3,387,732)
Gross profit		**3,222,650**	3,134,855
Operating expenses			
Distribution and marketing expenses	19	**(2,031,457)**	(2,028,005)
General and administrative expenses	20	**(91,443)**	(216,455)
Depreciation and amortization expenses	7, 8	**(1,633,371)**	(1,839,713)
Total operating expenses		**(3,756,271)**	(4,084,173)
Operating loss		**(533,621)**	(949,318)
Other income / (expenses)			
Finance charges	9,10,12,14	**(745,332)**	(722,777)
Commission income		**9,388**	20,630
Net loss for the year		**(1,269,565)**	(1,651,465)
Loss per share (in Saudi Riyals):	21		
• From operating loss		**(0.49)**	(0.88)
• From non-operating loss		**(0.68)**	(0.65)
• From net loss		**(1.17)**	(1.53)

Farhan Bin Naif Al Jarba - Chairman **Hassan Kabbani - CEO** **Wissam Farhat – CFO**

The accompanying notes 1 to 29 form an integral part of these financial statements

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 SR'000	2013 SR'000
OPERATING ACTIVITIES			
Net loss for the year		**(1,269,565)**	(1,651,465)
Adjustments to reconcile loss for the year to net cash from operating activities:			
Provision for doubtful and other assets	4,6	**57,215**	45,469
Depreciation and amortization	7,8	**1,633,371**	1,839,713
Other provisions		**(135,465)**	5,394
Reversal of provision for slow moving inventory items	5	**34,966**	-
Finance charges		**745,332**	722,777
Provision for employees' end-of-service benefits, net		**11,474**	12,892
Operating income before changes in working capital		**1,077,328**	974,780
Changes in working capital:			
Accounts receivable		**(230,049)**	50,404
Inventories		**43,294**	(90,640)
Prepaid expenses and other current and non-current assets		**(613,039)**	(238,369)
Accounts payable		**(467,134)**	(312,403)
Due to related parties		**11,817**	42,103
Deferred revenue		**108,902**	21,728
Accrued expenses and other current and non-current liabilities		**878,794**	307,491
Cash flows generated from operating activities		**809,913**	755,094
Financial charges paid		**(523,139)**	(526,079)
Net cash generated from operating activities		**286,774**	229,015
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(417,781)**	(739,006)
Purchase of intangible assets	8	**(100,986)**	(64,373)
Net cash used in investing activities		**(518,767)**	(803,379)
FINANCING ACTIVITIES			
Notes payable	10	**(34,873)**	(199,896)
Short and long-term borrowings, net	9	**-**	(347,474)
Advances from shareholders		**65,897**	29,922
Net cash generated from (used in) financing activities		**31,024**	(517,448)
Net change in cash and cash equivalents		**(200,969)**	(1,091,812)
Cash and cash equivalents, beginning of the year		**1,293,086**	2,384,898
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3	**1,092,117**	1,293,086

Farhan Bin Naif Al Jarba - Chairman **Hassan Kabbani - CEO** **Wissam Farhat – CFO**

The accompanying notes 1 to 29 form an integral part of these financial statements

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

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 SR'000	2013 SR'000
Non-cash transactions:		
Adjustment to property and equipment with corresponding effect to accounts payable	**236,307**	120,729
Adjustment to advances from shareholders with corresponding effect to financial charges	**175,516**	241,502
Adjustment to advances from shareholders with corresponding effect to long - term borrowing facilities	**200,005**	200,005
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	**25,103**	41,727

Farhan Bin Naif Al Jarba - Chairman **Hassan Kabbani - CEO** **Wissam Farhat – CFO**

The accompanying notes 1 to 29 form an integral part of these financial statements

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total shareholders' equity SR'000
Balance as at 1 January 2013		10,801,000	-	(2,349,136)	8,451,864
Net loss for the year		-	-	(1,651,465)	(1,651,465)
Derivative financial instruments	15	-	(41,727)	-	(41,727)
Balance as at 31 December 2013		10,801,000	(41,727)	(4,000,601)	6,758,672
Net loss for the year		-	-	**(1,269,565)**	**(1,269,565)**
Derivative financial instruments	15	-	**(25,103)**	-	**(25,103)**
Balance as at 31 December 2014		**10,801,000**	**(66,830)**	**(5,270,166)**	**5,464,004**

Farhan Bin Naif Al Jarba - Chairman

Hassan Kabbani - CEO

Wissam Farhat – CFO

The accompanying notes 1 to 29 form an integral part of these financial statements

1. ORGANIZATION AND ACTIVITIES

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

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

The registered address of the Company is P.O. Box 295814, Riyadh 11351, Kingdom of Saudi Arabia.

The Company incurred losses for the period from 1 January 2014 to 31 December 2014 amounting to SR 1.27 billion and has accumulated deficit amounting to SR 5.27 billion as of that date. As of the third quarter 2014, the Company’s results were below its approved business plan and also fell below one of the loan covenants which is not considered as an event of default per the terms of the Murabaha Financing Agreement. During the fourth quarter, the management of the Company met with the financing banks to discuss the variance from its business plan and have obtained the required waiver for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015. The Company’s Board of Directors have approved a revised business plan on January 20, 2015. Currently, the Company is working with the banks consultants and financing banks to comply with the requirements of the financing agreements.

The Company’s management believes that the Company will be successful in meeting its obligations in normal course of operations. The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Reduction of share capital to absorb accumulated deficit

The Company‘s Board of Directors in their meeting held on 27 November 2014 recommended to the shareholders’ of the Company to reduce the Company's share capital from SR 10,801,000,000 (1,080,100,000 shares of SAR 10 each) to SR 5,837,291,750 (583,729,175 shares of SR 10 each), representing a decrease of 45.96% of the share capital.

The principal reason for the proposed capital reduction is to write-off all of the Company’s accumulated losses up to 30 September 2014 approximately 45.96% of the share 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 value of the Company will not change solely as a result of the capital reduction, although the number of shares held by each shareholder will reduce (Reducing 1 share for every 2.18 shares owned).

1. ORGANISATION AND ACTIVITIES (Continued)

Reduction of Share Capital to absorb accumulated deficit (Continued)

On 27 January 2015 the Company has received required the resolution from the Board of the Capital Market Authority ("CMA"), approving the Company's request to reduce its share capital. The above recommendation of the Board of Directors and approval from CMA is subject to the Company's shareholders approval in an extraordinary general assembly meeting.

On 28th January 2015 the Company has invited its shareholders owning 20 shares or more to attend the extraordinary general assembly meeting to be held on 25 February 2015 to approve the recommendation of the Board of Directors for reduction in share capital and relevant amendments in the bylaws of the Company.

Refinancing Arrangements

On 31 July 2013 the Company has signed an amended and restated "Murhabaha financing Agreement" which also includes some of the Existing Murabaha Facility Investors. As per the terms of the new agreement the Company has settled a portion of the existing facility amounting to SR 369 million from its internal cash resources to reduce the outstanding principle from SR 9 billion to SR 8.63 billion. With the signing of the new agreement the Company has successfully extended the maturity date of its Existing Murabaha facility for 5 years ending 30 June 2018 which was due on 31 July 2013.

On 5 June 2013 the Company has also signed a new long-term borrowing facility amounting to SR 2.25 billion with three years maturity ending 5 June 2016 to refinance the existing facility obtained from local commercial banks due on 3 April 2013.
(Also refer to Note 9).

Agreement with the Ministry of Finance, Saudi Arabia

During 2013, the Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at SAR 5.6 billion. These deferred payments under this agreement will be bearing commercial commission payable annually, while the amount due will be repayable in equal installments starting June 2021. The amount deferred by the Company as of 31 December 2014 amounted to SR 801 million (2013: SR 275 million) included in other non-current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of preparation
The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by revaluation of derivative financial instruments at fair value, and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

Critical accounting estimates and judgments
The preparation of financial statements in conformity with generally accepted accounting standards in the Kingdom of Saudi Arabia requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Intangible assets

Intangible assets include license acquired from the Ministry of Telecommunication and licenses related to computer software.

The relative size of the Company's intangible assets being 67.5 % (2013: 70%) of the Company's total assets makes the judgments surrounding the estimated useful lives critical to the Company's financial position and performance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimate of useful life
The useful life used to amortize intangible assets relates to the future performance of the assets acquired and management's judgment of the period over which economic benefit will be derived from the asset. The basis for determining the useful life for the most significant categories of intangible assets is as follows:

(i) Mobile telecommunication license
The estimated useful life is the term of the license using the license term reflects the period over which the Company will receive economic benefit.

(ii) Computer software licenses
The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. The useful life represents management's view of expected useful life over which the Company will receive benefits from the software, but not exceeding the license term.

(b) Property and equipment
Property and equipment also represent a significant proportion of the asset base of the Company, being 16.6% (2013: 16.4%) of the Company’s total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimate of useful life
The charge in respect of periodic depreciation is derived after determining estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the statement of operations.

The useful lives of the Company’s assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life, such as changes in technology. Unless there is a reasonable expectation of renewal or an alternative future use for the asset, network infrastructure is depreciated over a period that does not exceed the expiry of the associated license under which the Company provides telecommunication services.
(Also refer to Note 25).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Provision for doubtful receivables

A provision for impairment of accounts receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the accounts receivable are impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and past recovery rates.

Segment reporting

(a) **Business segment**

A business segment is a group of assets, operations or entities:

(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analysed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

(b) **Geographical segment**

A geographical segment is a group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments.

Foreign currency translations

(a) **Reporting currency**

These financial statements are presented in Saudi Riyals ("SR") which is the reporting currency of the Company.

(b) **Transactions and balances**

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and with banks and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable
Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the statement of operations and reported under “distribution and marketing expenses”. When an account receivable is uncollectible, it is written-off against the provision for doubtful receivables. Any subsequent recoveries of amounts previously written-off are credited against “distribution and marketing expenses” in the statement of operations.

Inventories
Inventories are carried at the lower of cost or net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

Property and equipment
Property and equipment are carried at cost less accumulated depreciation except for capital work in progress which is carried at cost. Depreciation is charged to the statement of operations, using the straight-line method, to allocate the costs of the related assets to their residual values over the following estimated useful lives of the assets:

	Years
Leasehold improvements	Shorter of lease term or useful life
Telecommunication equipment	3 - 10
Civil works (telecommunications)	20
Information technology systems	3
Information technology servers	5
Furniture and fixtures	5
Office equipment	5
Vehicles and other transportation equipment	5

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of operations.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of operations as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.
(Also refer to Note 25).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

License fee is stated at cost less accumulated amortization. The amortization period is 25 years and is primarily determined by reference to the unexpired license period, the conditions for license renewal and whether the license is dependent on specific technologies. Amortization is charged to the statement of operations on a straight-line basis over the estimated useful life from the commencement of service of the network.

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

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

Costs associated with maintaining the software are recognized as an expense when they are incurred.

Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-current assets other than intangible assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years.

A reversal of an impairment loss is recognized as income immediately in the statement of operations. Impairment losses recognized on intangible assets are not reversible.

Borrowings

Borrowings are recognized at the proceeds received. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Zakat
The Company is subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax (the "DZIT"). Provision for zakat, if any, is charged to the statement of operations. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Employees' end-of-service benefits
Employee end-of-service benefits required by Saudi Labour and Workman Law are accrued by the Company and charged to the statement of operations. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the balance sheet date. Termination payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the laws of Saudi Arabia.

Contingent Liabilities
A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Revenues
The Company's revenue mainly comprises revenue from mobile telecommunications. Revenue from mobile telecommunications comprises amounts charged to customers in respect of airtime usage, text messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's network.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Airtime used by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services to be provided in periods after each accounting period is deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Incentives are provided to customers in various forms as part of a promotional offering. Where such incentives are provided in the context of an arrangement that comprises other deliverables, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognized in line with the Company's performance of its obligations relating to the incentive. In arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

Distribution, marketing, general and administrative expenses
Distribution, marketing and general and administrative expenses include direct and indirect costs not specifically part of cost of revenue as required under generally accepted accounting standards. Allocations between distribution, marketing and general and administrative expenses and cost of revenue, when required, are made on a consistent basis.

Operating leases
Lease of property and equipment under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Rental expenses under operating leases are charged to the statement of operations on a straight-line basis over the period of the lease.

Derivative financial instruments
The Company uses derivative financial instruments to hedge its interest rate risk on the floating rate Syndicate Murabaha facility. The Company designates these derivatives financial instruments as cash flow hedges in accordance with the approved policies and consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes. These derivative financial instruments are measured at fair value. The effective portions of changes in the fair value of derivatives are recognized in hedging reserve under the statement of shareholders' equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the statement of operations in the period in which the hedged item impacts the statement of operations

3. CASH AND CASH EQUIVALENTS

	2014	2013
	SR'000	SR'000
Cash on hand	**259**	153
Cash at banks	**31,858**	140,733
Time deposits	**1,060,000**	1,152,200
	1,092,117	1,293,086

The Company invests part of the surplus cash in time deposits with maturity period of three month or less with local commercial banks. The annual commission rates on this deposit during 2014 were 0.89 % (2013: 1.19 %). The total commission earned by the Company during 2014 was SR 9.38 Million (2013: SR 20.63 Million).

4. ACCOUNTS RECEIVABLE, NET

	2014	2013
	SR'000	SR'000
Billed receivables (Notes 4.1 and 4.2)	**1,759,987**	1,550,848
Unbilled receivables	**109,324**	88,481
Other	**3,411**	3,344
	1,872,722	1,642,673
Less: provision for doubtful receivables	**(479,033)**	(421,818)
	1,393,689	1,220,855

Movement in provision for doubtful receivables is as follows:

	2014	2013
	SR'000	SR'000
Balance as at 1 January	**421,818**	374,146
Additions	**57,215**	47,672
Balance as at 31 December	**479,033**	421,818

4.1 The Company has agreements with other operators whereby amount receivable from and payable to the same operator are subject to offsetting. At December 31, 2014 and 2013, the net amounts are included in accounts receivable and accounts payable are as follows:

	2014	2013
	SR'000	SR'000
Accounts receivables, net	**829,032**	738,903
Accounts payables, net	**703,034**	677,409

4.2 Billed receivable includes amount due from related parties amounting to SR 85.96 million (2013: SR 69.90 million) for providing telecommunication services to related parties.

5. INVENTORIES, NET

	2014 SR'000	2013 SR'000
Handsets and accessories	**80,006**	120,973
Sim cards	**13,823**	11,348
Prepaid recharge cards	**2,387**	8,271
Other	**1,430**	348
	97,646	140,940
Less provision for slow moving items	**(34,966)**	-
	62,680	140,940

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

	2014 SR'000	2013 SR'000
Balance as at 1 January	**-**	-
Additions	**46,425**	-
Reversal	**(11,459)**	-
Balance as at 31 December	**34,966**	-

6. PREPAID EXPENSES AND OTHER ASSETS

	2014 SR'000	2013 SR'000
Advances to suppliers and refundable deposits (Note 6.1)	**1,037,876**	364,738
Advances for transmission lines and fiber links	**135,852**	145,454
Prepaid rent	**146,629**	126,198
Prepaid software license fee	**3,215**	13,224
Prepaid advertisement	**2,581**	2,362
Prepaid insurance	**4,532**	465
Other	**9,216**	2,642
	1,339,901	655,083

Movement in provision for doubtful other assets is as follows:

	2014 SR'000	2013 SR'000
Balance as at 1 January,	**-**	(2,203)
Additions	**-**	-
Write-off	**-**	2,203
Balance as at 31 December,	**-**	-

6. PREPAID EXPENSES AND OTHER ASSETS (Continued)

6.1. This includes advances amounting to SR 859 million provided by the Company during 2014 to various suppliers under the agreements signed by the Company for telecommunications infrastructure supply that will increase the network coverage and enchanted the quality of mobile telecommunications services provided by the Company.

7. PROPERTY AND EQUIPMENT, NET

	January 1, 2014	Additions	Disposals/ Transfers	December 31, 2014
Cost				
Leasehold improvements	223,551	13,809	44,690	**282,050**
Telecommunications equipment (a)	6,499,168	384,816	594,437	**7,478,421**
IT systems and servers	381,589	27,408	56,739	**465,736**
Furniture, fixtures and office equipment	81,199	16,377	3,159	**100,735**
Vehicles and other transportation equipment	3,770	-	-	**3,770**
Capital work in progress (b)	552,599	220,369	(707,716)	**65,252**
	7,741,876	662,779	(8,691)	**8,395,964**
Accumulated depreciation				
Leasehold improvements	171,551	34,056	-	**205,607**
Telecommunications equipment	2,859,923	566,596	-	**3,426,519**
IT systems and servers	338,748	45,098	-	**383,846**
Furniture, fixtures and office equipment	75,289	4,496	-	**79,785**
Vehicles and other transportation equipment	3,749	23	-	**3,772**
	3,449,260	650,269	-	**4,099,529**
Carrying Amount	4,292,616			**4,296,435**

7. PROPERTY AND EQUIPMENT, NET (Continued)

	January 1, 2013	**Additions**	**Disposals/ Transfers**	**December 31 2013**
Cost				
Leasehold improvements	215,130	7,967	454	223,551
Telecommunications equipment (7.1)	5,720,158	336,788	442,222	6,499,168
IT systems and servers	331,809	11,697	38,083	381,589
Furniture, fixtures and office equipment	79,832	1,367	-	81,199
Vehicles and other transportation equipment	3,770	-	-	3,770
Capital work in progress (7.2)	531,442	546,495	(525,338)	552,599
	6,882,141	904,314	(44,579)	7,741,876
Accumulated depreciation				
Leasehold improvements	136,650	34,901	-	171,551
Telecommunications equipment	2,131,302	728,621	-	2,859,923
IT systems and servers	264,503	74,245	-	338,748
Furniture, fixtures and office equipment	61,507	13,782	-	75,289
Vehicles and other transportation equipment	3,185	564	-	3,749
	2,597,147	852,113	-	3,449,260
Carrying Amount	4,284,994			4,292,616

7.1. This includes cost incurred on civil works in placing telecommunication equipment.

7.2. The Company is in the process of expanding its network. Capital work in progress at December 31, 2014 and 2013 principally represents costs incurred on several network expansions.

8. INTANGIBLE ASSETS, NET

	January 1, 2014	**Additions**	**Transfers**	**December 31, 2014**
Cost				
License fee*	23,359,180	-	-	**23,359,180**
Computer software licenses	195,679	47,495	8,691	**251,865**
Rights of use	18,875	44,800	-	**63,675**
	23,573,734	92,295	8,691	**23,674,720**
Accumulated amortization				
License fee*	5,082,833	949,454	-	**6,032,287**
Computer software licenses	138,622	31,394	-	**170,016**
Rights of use	1,153	2,254	-	**3,407**
	5,222,608	983,102	-	**6,205,710**
Carrying Amount	18,351,126			**17,469,010**

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

* Pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007), the 3rd license to provide mobile telecommunication services within the Kingdom of Saudi Arabia over 25 years was granted to the Company for an amount of Saudi Riyals 22.91 billion. The license fee also comprises an amount equal to Saudi Riyals 449.18 million related to financing costs which was capitalized as part of license cost in accordance with the accounting standards applicable in the Kingdom of Saudi Arabia.

9. LONG TERM BORROWINGS

	2014 SR'000	2013 SR'000
Export credit facility - current Portion (9.3)	**200,005**	200,005
	200,005	200,005
Syndicate Murabaha facility – non-current portion (9.1)	**8,630,769**	8,630,769
Long term facility from local commercial bank (9.2)	**2,250,000**	2,250,000
Export credit facility – non-current portion (9.3)	**306,261**	506,266
	11,187,030	11,387,035
	11,387,035	11,587,040

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

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

On 31 July 2013, the Company has signed an amended and restated "Murhabaha financing Agreement" with a consortium of banks which also includes Existing Murabaha Facility Investors to extend the maturity date of its Murabaha Facility for 5 years ending 30 June 2018 which was due on 31 July 2013. The new facility has been restructured as an amortising facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid portion of the existing facility, amounting to SR 369 million from its internal cash resources, and the current outstanding principal stands at SR 8.63 billion, SR portion totaling 6.35 billion and USD portion totaling 0.6 billion (SR 2.3 billion).

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

9. LONG TERM BORROWINGS (Continued)

Financial covenants imposed by the financing banks are:

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

As of the third quarter of 2014, the Company's results were below its approved business plan and also fell below one of the loan covenants mentioned above which is not considered as an event of default per the terms of the Murabaha Financing Agreement. During the fourth quarter, the management of the Company have obtained the required waiver from the financing banks for the above-mentioned breach as of 30 September 2014 and also agreed with the financing banks to revise covenant calculations for 31 December 2014 and 31 March 2015.

9.2 This facility consists of a SAR portion totaling SAR 1,875 million and a USD portion totaling USD 100 million (equivalent SAR 375 million) and is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and was subordinated to the Murabaha Facility and was due for repayment on 3 April 2013. The Company has obtained the approval from financing banks to extend this long term facility until 5 June 2013.

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

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

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

At 31 December 2014, the Company has utilized tranche A (USD 155 million) (2013: USD 150 million) in full and also utilized USD 98 million (2013: USD 98 million) out of approved USD 170 million of tranche B. The remaining unutilized portion amounting to USD 72 million of tranche B has been cancelled during the first quarter of 2013.

9. LONG TERM BORROWINGS (Continued)

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) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). As at 31 December 2014 all eight (2013: four) installments were repaid in full.

9.4 The maturity details of long term borrowings facilities as at December 31 are as follows:

	2014 **SR'000**	2013 SR'000
2014	**-**	200,005
2015	**200,005**	200,005
2016	**2,881,543**	2,881,543
2017	**1,832,410**	1,832,410
2018	**6,473,077**	6,473,077
	11,387,035	11,587,040

10. NOTES PAYABLE

	2014 **SR'000**	2013 SR'000
Current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	-	32,331
	-	32,331
Non-current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	-	2,542
	-	2,542

11. ACCOUNTS PAYABLE

	2014 **SR'000**	2013 SR'000
Trade payables	**235,499**	483,405
Other	**30,042**	12,965
	265,541	496,370

12. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related Party Transactions

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

	2014 **SR'000**	2013 SR'000
Revenue	**61,781**	71,126
Cost of revenue	**15,695**	29,227
Management fees expenses	**45,026**	47,240
Finance charges	**175,516**	154,205

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

	2014 **SR'000**	2013 SR'000
Zain Bahrain	**-**	4,769

(ii) Due to related parties – current

	2014 **SR'000**	2013 SR'000
Zain Sudan	**-**	37,607
Mobile Telecommunications Company K.S.C–current account	**3,631**	3,629
Others	**-**	371
	3,631	41,607
Due to related parties, net	**3,631**	36,838

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(iii) Due to related parties – non current

	2014 SR'000	2013 SR'000
Mobile Telecommunications Company K.S.C – management fee	**785,833**	740,809

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2014 SR'000	2013 SR'000
Trade	**1,340,546**	1,210,006
Accrued expenses	**736,308**	551,721
Government charges (Note 18)	**488,648**	480,875
Employees	**67,034**	41,008
Financial charges	**28,712**	16,889
Others	**251,385**	348,370
	2,912,633	2,648,869

14. ADVANCES FROM SHAREHOLDERS

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. During 2012, pursuant to all related approvals, the principal amounts of these advances were utilized to increase the share capital of the Company. Additionally, a founding shareholder has provided additional loans and made certain payments on behalf of the Company.

All advances, loans and amounts due to shareholders carry finance cost that approximate the prevailing market rates.

The breakdown of the above-mentioned advances, loans and amounts due to shareholders and related accrued financial charges at 31 December are as follows:

	2014 SR'000	2013 SR'000
Mobile Telecommunications Company K.S.C.	**2,530,352**	2,264,450
Abu Dhabi Investment House	**8,413**	8,413
	2,538,765	2,272,863
Accrued financial charges	**936,892**	761,376
	3,475,657	3,034,239

The above-mentioned advances from shareholders and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Existing Murabaha Facility.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments (profit rate swaps) (maturing 2018) together with the contracts notional amounts is as follows:

		Fair Value	
	Contracts notional amounts SR'000	**2014 SR'000**	2013 SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	**66,830**	41,727

The notional amounts do not reflect the amount of future cash flow involved.

16. SHARE CAPITAL

The share capital of the Company as of 31 December 2014 and 2013 comprised of 1.08 billion shares stated at SR10 per share owned as follows:

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

(Also refer to Note 1).

17. REVENUE

	2014	2013
	SR'000	SR'000
Usage charges	**5,639,667**	5,819,123
Subscription	**395,276**	369,714
Other	**208,993**	333,750
	6,243,936	6,522,587

18. COST OF REVENUE AND SALES

	2014	2013
	SR'000	SR'000
Access charges	**1,721,081**	1,883,711
Government charges	**702,642**	691,521
Leased lines	**274,082**	329,714
Other	**323,481**	482,786
	3,021,286	3,387,732

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

19. DISTRIBUTION AND MARKETING EXPENSES

	2014	2013
	SR'000	SR'000
Employees' salaries and related charges	**465,919**	395,667
Repairs and maintenance	**344,894**	537,086
Rent expenses	**359,527**	286,220
Dealers' commission	**280,997**	299,459
Advertising	**273,134**	270,013
Consulting	**92,122**	60,094
Bad debts expense (Note 4)	**57,215**	47,672
Management fees (Note 12)	**45,026**	47,240
Utilities	**25,169**	41,467
Other	**87,454**	43,087
	2,031,457	2,028,005

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2014 **SR'000**	2013 SR'000
Employees' salaries and related charges	**123,234**	103,245
Repairs and maintenance	**51,151**	47,980
Consulting services	**23,931**	18,247
Legal and professional charges	**10,347**	16,077
Withholding tax expense	**-**	6,543
System support and maintenance	**4,068**	1,007
Legal Provision (Note 20.1)	**(135,465)**	5,394
Other	**14,177**	17,962
	91,443	216,455

20.1 During 2014, certain provisions for legal cases amounting to SR 135 million were reversed due to the continuing benefits from favorable judgments in a number of legal cases and based on external legal opinion.

21. LOSS PER SHARE

Losses per share are computed by dividing losses for the year by the weighted average number of shares outstanding i.e. 1.08 billion shares for the year ended December 31, 2014 and 2013.

22. ZAKAT

Components of zakat base

The significant components of the Company's approximate zakat base, for the year ended December 31, which are subject to certain adjustments under zakat and income tax regulations, are principally comprised of the following:

	2014 **SR'000**	2013 SR'000
Shareholders' equity at beginning of year	**6,758,672**	8,451,864
Provisions at beginning of year	**312,972**	481,684
Long-term borrowings and shareholders' advances	**14,421,275**	14,149,850
Other non – current liabilities	**1,605,034**	1,120,358
Adjusted net loss for the year (see below)	**(1,159,930)**	(1,587,710)
Property and equipment	**(4,296,435)**	(4,292,616)
Intangible assets	**(17,680,704)**	(18,351,126)
Approximate negative zakat base of the Company	**(39,116)**	(27,696)

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

22. ZAKAT (Continued)

Calculation of adjusted net loss

	2014 **SR'000**	2013 SR'000
Net loss for the year	**(1,269,565)**	(1,651,465)
- Provision for employees' end-of service-benefits	**17,454**	12,892
- Provision for doubtful and other receivables and for slow moving inventory items	**57,215**	50,863
-Other provision	**34,966**	-
Adjusted net loss for the year	**(1,159,930)**	(1,587,710)

Status of assessments
No zakat provision for the year has been made in these financial statements as the Company's zakat base is negative and the Company has incurred losses. The Company has finalized its zakat assessments up to 2008. The Company has also filed its zakat returns for the years from 2009, to 2013 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

23. COMMITMENTS AND CONTINGENCIES

23.1 Capital Commitments

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment. The capital commitments are comprised of the following:

	2014 **SR'000**	2013 SR'000
Within 12 months	**667,643**	275,441
Within 2 to 5 years	**2,240,535**	-
	2,908,178	275,441

23. COMMITMENTS AND CONTINGENCIES (Continued).

23.2 Claim by an operator

On 16 November 2014, the Company has received a request from Etihad Etisalat Company ("Mobily") to begin an Arbitration procedure related to a disputed and rejected claim of SR 2.2 billion and a penalty of SR 58.7 million raised by Mobily against the Company

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

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

The arbitration sessions which are in progress, started effective 20 December, 2014, and the ultimate outcome from the arbitration cannot be determined reliably at this stage. The management believes that the amounts stated in the Company's books as at 31 December 2014 are adequate and there is no need for any additional provision.

23.3 Other legal proceedings, penalties and other claims

The Company in the normal course of business is subject to and also pursuing lawsuits, penalties and fines imposed by the regulator and other claims from suppliers and telecommunication providers. The management of the Company based on its internal and external lawyers and technical advisors believe that these matters, once concluded are not expected to have a significant impact on the financial position or the results of operations of the Company.

24. OPERATING LEASES COMMITMENTS

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

	2014 **SR'000**	2013 SR'000
Within 12 months	**275,546**	228,644
Within 2 to 5 years	**1,102,186**	914,575
Over 5 years	**1,377,732**	1,143,219
	2,755,464	2,286,438

25. CHANGE IN ACCOUNTING ESTIMATES

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

	Years 2008 to 2013	**Years starting from 2014**
Telecommunication equipment	2 - 8	3 - 10
Civil works (telecommunications)	15	20
Information technology systems	2	3
Office equipment	2	5

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

The change in estimate was accounted for prospectively with effect from January 1, 2014. As a result of the change, the net loss for the year ended 31 December 2014 was lower by SR 223 million compared to the results had the old estimate been used by the Company.

26. SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the Company’s operations which comprises Mobile Voice, Data, Internet and other related communication services which are substantially concentrated in mobile phone services since commencement of its activities, are not met as of the balance sheet date, accordingly, the Company’s management believes that operating segments information disclosure for the Company is not applicable. The Company carries out its activities in the Kingdom of Saudi Arabia.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow commission rate risks and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by senior management. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are discussed in this note below.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, borrowings, notes payable and accounts payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability is offset and net amounts reported in the financial statements, when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, and US Dollars which is pegged to the Saudi Riyals. Management closely monitors the exchange rate fluctuations and believes that Company's exposure to currency risk is not significant.

Fair value and cash flow commission rate risks
Fair value and cash flow commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows. The Company's commission rate risks arise mainly from borrowing facilities including syndicated murabaha financing, notes payable and advances from shareholders and which are at floating rate of commission and are subject to repricing on a periodic basis. The Company manages its cash flow commission rate risk on syndicated murabaha financing by using floating-to-fixed commission rate swaps. Such commission rate swaps have the economic effect of converting murabaha financing from floating rates to fixed rates. Under the commission rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate commission amounts calculated by reference to the agreed notional amounts.

Price risk
The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The management believes that the Company is currently not exposed to significant price risk.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has no significant concentration of credit risk. Cash is placed with banks with sound credit ratings. Account receivables are carried net of provision for doubtful receivables.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company incurred net loss for the year ended 31 December 2014 and has accumulated deficit as of that date. These conditions indicate that the Company’s ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company’s ability to arrange adequate funds in a timely manner. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments. (Also please refer see note 1).

Fair value

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

28. COMPARATIVE FIGURES

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

29. APPROVAL OF FINANCIAL STATEMENTS

These year-end financial statements were approved by the Board of Directors on 25 February 2015.