Report of the Board of Directors
2012

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1. Chairman's Message

Dear shareholders,

May the blessings and peace of Allah be upon you.

On behalf of the board of directors, I am delighted to relay to your good selves the transformation highlights that took place in the Company and its audited annual report for the year ended 31 December 2012.

Radiance, heart and belonging have been our core values since the beginning of Zain KSA and are our driving force today more than ever. These values have fuelled our success in 2012 and gave us confidence for a better future.

Your company achieved several commercial milestones in 2012, of which the most important ones being the first mobile network in the Kingdom to introduce true 4G data services using the latest LTE 1800 technology, launching innovative products and services delivering real value to our customers. We continue to increase the technical capabilities of the network, which allowed Zain KSA to become the first mobile network operator in the Middle East to commercially launch the 4G network during 2012.

The year 2012 was a changing era when it comes to the Company's revenues evolution. During the last twelve months, the current Management exerted enormous efforts to enhance its revenue streams, as the postpaid segment has achieved notable progress during last year by posting 16% increase over the correspondence period of year of 2011. While Data revenue rose by around 83% during the year of 2012 as compared to the same period.

The year of 2013 will bring many challenges to our sector, including an increased use of public and private Wi-Fi hotspots and IP-based voice and messaging services, the continued need to raise the quality of customer services, the development of network sharing agreements and smartphone sales. However, Zain KSA is well positioned to tackle these challenges due to a comprehensive strategic plan which is being implemented by a new experienced management team with the support of Zain Group.

This strategic plan is based on a streamlined management structure, improved network quality and customer focus targets, and a more efficient financial structure. This new approach combined with greater synergies with Zain Group will give us an additional competitive edge. We have great confidence in our new management team to continue implementing this new strategy under the leadership of a strong and competent executive management and strongly believe that it will successfully address the challenges that lie ahead.

Allow me to thank, on behalf of members of the board of directors, the Custodian of the two Holy Mosques, King Abdullah Bin Abdulaziz, who has bestowed upon the telecommunications sector sufficient care and attention so that it can effectively contribute to the national economy and realize the major objectives that the Custodian of the two Holy Mosques - may Allah protect him - desires for this country and its people. It also gives me pleasure to extend my sincere appreciation to His Royal Highness Crown

Prince Salman Bin Abdulaziz for his continued support in promoting all sectors of the Kingdom's economy.

I am also grateful to the the Ministry of Communications and Information Technology (MCIT) and Communications and Information Technology Commission (CITC), whose expertise and support helped Zain KSA to launch and continue to enjoy success in our beloved country.

I also convey my heartfelt appreciation to our shareholders and customers for your confidence in Zain KSA and firm support. To our bankers and financiers, business partners and suppliers, I express my sincere gratitude for your continued belief in our company.

Finally, I would like to convey my personal thanks to my teammates in the Board of Directors for their worthy insights and wise counsel in helping to steer Zain KSA through the challenges of a highly competitive business landscape.

I remain extremely confident that the innovative strategy deployed by our strong management team combined with the support of Zain Group will enable our company to continue to grow and further improve its profitability. We look forward to 2013 and affirming our company's position as the operator of choice for our customers in the Kingdom.

Hussam Bin Saud Bin Abdulaziz
Chairman

2. CEO's Message

Dear shareholders,

2012 has been an important year for Zain KSA, marked by our successful rights issue, which reinforced our balance sheet and provided funding for our future growth and expansion.

It has also seen Zain join the world's largest strategic partnership of mobile operators with the Vodafone-partner network. This brings Zain KSA subscribers into the family of over 406 million customers worldwide, further ensuring a world-class experience at all touch points.

In addition, there were a number of management changes during the year. I was honored to become Chief Executive Officer in March 2012, as I firmly believe that Zain KSA has the right pedigree to be a truly successful telecom player in the Kingdom.

Today, we have a new strategy in place with a clear plan to grow the business in a sustainable manner for ongoing success in the market. This is based upon short, mid and long term initiatives to help improve the performance, enhance positioning and overall market share for Zain KSA.

Our financial results for 2012 reflect both the company's successes and challenges; continuing cost controls delivering clear operational efficiencies across the board, but the historical focus on the pre-paid international segment still causing a heavy reliance on non-local traffic.

One of the most exciting accomplishments in 2012 was signing the 'Partner Market' agreement with Vodafone; this is a non-equity partnership, which provides Zain KSA customers with additional high quality communications services. Zain KSA thereby gains access to Vodafone's cutting edge technology, telecom knowledge, global footprint, efficient roaming expertise and handset portfolio. Through this agreement Zain KSA also has access to Vodafone Global Enterprise (VGE), which will revolutionize our business sector segment. VGE is the global leader in managed communications solutions with mobility and competitive rates at its core for multinational organizations. We look forward to being able to report on the progress in this area during the course of 2013.

We have continued to focus on our staff this year, with training and development work at the center of all of we do. As for Saudization, we have achieved "Premium" status; the highest tier within "Nitaqat" program that's been issued by the Ministry of Labor. Saudi nationals account for around 80% of our workforce by the end of 2012 with an increase of around 9% as compared to 2011. Moreover, Saudi nationals occupied more than 91% of the total number of new joiners during 2012.

As Chief Executive Officer my responsibilities cover all aspects of Zain KSA's business and our relationships with all of our stakeholders. Working with communities and working in a positive and sustainable way is a core value of the Company and I am pleased that the Company has received a number of awards in the Corporate Social Responsibility "CSR" field.

I am fully confident that 2013 will be a successful year for Zain KSA and that the Company, with the support of Zain Group, will realize its growth potential.
I look forward to Zain KSA's progress in 2013 and beyond.

Fraser Curley
CEO

3. Overview

Mobile Telecommunications Company Saudi Arabia (hereinafter referred to as the “Company”, “Zain”, “Zain KSA” or “we”), is a Saudi joint stock company established pursuant to the Ministerial Resolutions No. 176 dated 25 Jumada I, 1428H (corresponding to June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008) and Royal Decree No. 48/M dated 26 Jumada I, 1428H (corresponding to June 12, 2007) and Commercial Registration No. 1010246192 issued in Riyadh, Saudi Arabia on 4 Rabi Awal 1429H (corresponding to March 12, 2008) to operate as the 3rd public mobile licensee in the Kingdom of Saudi Arabia for 25 Hijrah years.
The Company provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates; purchases, delivers, installs, manages and maintains mobile telephone and paging systems; and invest surplus funds in investment securities.

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

4. Operations

Zain launched its commercial operations on August 26, 2008, a year after it was awarded its mobile license. By the end of 2012 and after our fourth full year of operation, we had a solid performance that paved the way for optimistic yet achievable targets for 2013. The following sections will outline those achievements in operational aspects i.e. network, IT and commercial:

4.1. Network

4.1.1. Spectrum
Zain’s license includes usage of the global spectrum for 2G (GSM) services in the 900 MHZ and 1800 MHZ plus 3G (UMTS) services in the 2100 MHZ spectrum and LTE in 1800 MHZ. Zain continues to use the allocated 2100MHz spectrum to enhance the offered MBB services to higher speeds in line with market needs (>42Mbps). The network also uses various frequency bands to provide backhaul and backbone transmission as needed by the network. In addition to the microwave links, we have also leased fiber lines and

dark fibers with DWDM to provide high capacity backbone transmission links supporting the existing microwave and providing interconnections with other operators' networks. For future expansions, we also plan to expand the microwave and DWDM transmission to extend service areas to new cities and remote villages and roads.

4.1.2. Network technology

Our primary network technology platform is based on the latest 2G, 3G, HSPA and LTE global standards. The network was designed to provide reliable services; it incorporates several levels of protection to keep the network running during various breakdown conditions. As a result our network provided stable and reliable services during high traffic conditions in Ramadan and during the last Hajj 1433 H season. Also, the designed capacity of the network has enabled the network to accommodate the increasing numbers of subscribers and will be able to cater for higher capacity as our market share grows. The network is highly scalable and flexible to accommodate increasing numbers of subscribers in line with the marketing roadmap and the anticipated growth in our market share for both voice and data services. Zain is the only operation in Saudi Arabia with real commercial LTE network.

4.1.3. Network Expansion

In Q4 of 2008 Zain launched commercial operations. The Company's voice and messaging services, based on 2G technologies, covered 34 cities representing 53% of the Saudi population and 3G data services covered 43%.

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

In 2010 and 2011 and 2012, Zain continued building its voice and Mobile Broadband (MBB) services; voice services now cover more than 400 cities and 59 highways, serving more than 92% for 2G, 80% for 3G & 36% for LTE of the population. Network Growth has also included providing MBB and LTE services in all major cities. The following key projects were also successfully completed by the end of 2012:

- The Ramadan expansion project which aimed to maintain the high quality services in Makkah and Madina during Ramadan peak traffic
- The building of the Hajj Network with a capacity of 3 million customers, enabling Zain to capture a higher market share than the previous Hajj seasons with triple the capacity in data traffic.
- Zain continued the implementation of a large scale project to build own Nationwide Fiber transmission network. The agreement with TOC (the Telecommunication arm of Saudi Electricity Company) to use the existing dark fibers enabled Zain to reduce its dependence on the local service providers. In addition this project will prepare the network to provide future high capacity MBB services
- In order to provide more robust network services, Zain Deployed LTE core in three main cities: Dammam, Riyadh and Jeddah;
- Modernize all the major cities with latest Radio & Transmission solution;
- Expand the Cores with Pooling concept for better efficiency;
- Improve the network quality on services level and introduce the Key Quality Indicators (KQIs);

- Zain completed USF2 project (part of the CITC universal service fund program)
- Zain completed USF4.

4.1.4. Strategy for 2013

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

- Expand 2G/3G network for coverage and capacity; minimum 3G capacity is 21Mbps.
- Expand on LTE network in all major cities in Saudi Arabia including three LTE core locations with VoLTE capability.
- Complete rollout of our fiber network project to significantly reduce current Leased Line Opex
- Enhance indoor coverage with building dedicated indoor solutions to provide best levels of 2G/3G/HSPA services..
- Minimize national roaming by increasing Zain foot print in uncovered areas.
- Enhancing core resiliency and capacity.
- Modernizing Transmission and Radio with latest technologies
- Optimize the OPEX by insource some of the functions and improve the quality of service.

4.2. IT Infrastructure and applications

Zain KSA started its operation with state-of-the art IT systems, providing maximum flexibility and capabilities. In 2012, ZAIN KSA continued building IT systems and focused on Operations optimization to create an efficient IT environment and enabling on-time solution delivery. Below are highlights of Major achievement from IT in 2012:

- ZAIN contact center System is expended in terms of capacity which can support up to 700 concurrent calls at a time while IVR is handling more than 65 % of daily calls
- High quality and swift product development which was the key factor for the timely launch of new ZAIN products in 2012.
- Better operational process to support Customer problems.
- Enhancements in company's Financial & ERP system to make it more productive for finance and staff.
- Roll out of state of the art IT Services in ZAIN flagships.
- Enhancements in Infrastructure which has increased the performance of billing & credit Control.

4.2.1. Strategy for 2013

In 2013 and beyond, Zain has planned for more expansion and enhancement of IT Infrastructure/Applications; the key initiatives are highlighted below:

- Implementing Convergent charging system to optimize charging, product development and customer experience by reducing the OpEx.
- Infrastructure optimization using virtualization & consolidation which will reduce Opex and increase the efficiency in IT systems.
- Continue the development and enhancement of the IT applications Architecture to support the introduction of more and new services to our customers, with an enhanced time to market lifecycle.

- Further improve the "customer experience" oriented end to end KPI's ensuring the best services to Zain customers.
- Further improve IT Security to avoid any electronic invasions or hackings.

4.3. Commercial

The Company has adopted new commercial initiates during 2012 that would boost its commercial operations in order to strongly compete within the local telecom market and also to enrich its portfolio of products and services that would satisfy most of the customers' needs. Those commercial initiatives include the following:

Postpaid services (Mazaya)

The launch of Mazaya attractive postpaid packages by End of May 2012 made it a very successful year for the postpaid services in Zain KSA. According to this successful launch, Mazaya postpaid number of subscribers increased by over 120% during the year of 2012 in comparison with the year of 2011. While postpaid revenues increased by around 16% during 2012 compared to 2011. Moreover, the launch of Mazaya postpaid packages has improved the brand equity of Zain KSA in the market.

Prepaid services (Hala)

The new Hala Prepaid packages have been launched in March 2012 in an endeavor to attract Saudi youth and young professionals; this segment has clearly seen the benefits of these carefully designed packages across the kingdom due to their uniqueness and relevance to this particular segment. Hala brand has gained a significant brand equity and momentum which has been translated into revenue growth in this particular segment.

Fourth Generation (4G-LTE) MBB internet

Zain KSA was poised to define a new value proposition for its MBB internet customers that would position the Company as the 4G-LTE leader in the market. Zain KSA has worked diligently during the last year of 2012 to provide its MBB internet customers the most innovative products and services. And during the last twelve months, Zain KSA launched number of innovative MBB internet services and products including the following:

4G Router

Zain KSA was the first in the Saudi Telecom market to launch the 4G-LTE internet services. In 14th May 2012, Zain KSA has successfully launched the first and fastest innovative 4G Router with a data transferring speed reaching up to 100 Mbps.

SPEED 4G

In 14th July 2012, Zain KSA introduced to the Saudi market its own brand related to the Mobile Broad Band (MBB) internet services called SPEED 4G. SPEED 4G is the brand name of the USB featured device (i.e. dongle or USB Stick) that is enabling the use of the 4G-LTE MBB internet through various devices. In 3rd November 2012, Zain KSA launched the double data promotion related to SPEED 4G called "GB on you .. GB on us", that would grant a double free data usage for the first 100,000 subscribers.

SPEED 4G MiFi

Consequent to the successful launch of SPEED 4G, Zain KSA launched again a totally new 4G MBB internet product called SPEED 4G MiFi at the end of December 2012. SPEED 4G

MiFi is quite small 4G MBB device that can connect up to 10 devices at once.

It's worth mentioning that the above launched products and service have contributed in the increase in the Company's data revenues by around 83% during 2012 as compared to the year of 2011.

Handsets

The year of 2012 witnessed an increased focus by Zain KSA on its handsets business. Owning the last mile is an important step towards improving customer experience and better exposure of Zain inherit services. Zain KSA launched number of handsets models in year of 2012 through its own channels and aligned with many KDR to bundle Zain own services.

Handsets were bundled with Zain KSA's new Mazaya Attractive postpaid Packages offering up to full rebate of the price of the handset. This valuable proposition has been extended as well to our key partner providing rebate over some key handsets. In its drive to own the 4G aspiration, Zain KSA was mainly focusing on launching 4G-LTE devices.

Loyalty program (Zain Plus)

Zain Plus was the latest platform launched by Zain KSA during 2012 roadmap. It is the loyalty program for all current and new subscribers of both Postpaid/Prepaid and Consumer/Corporate customer.

Zain Plus is based on pointing approach where every consumption (Postpaid) or recharge (Prepaid) is equivalent to 1 Loyalty Point. Customers will start accumulating points and then will be eligible to redeem those points into various lists of rewards.

4.3.1. Develop the most effective sales and distribution channels in the KSA market

The Company has developed and pursued a strategy to broaden and deepen its sales and distribution channels in order to increase customer base numbers and optimize the distribution of its products and services to its customer base. The Company has drawn on the Group's extensive experience across the Middle East to design and commission a system that encourages all parts of the distribution network to deliver on time and to customers› satisfaction.

During 2012, Zain KSA continued to develop its sales and distribution model and despite a sharp increase in airtime distribution, Zain managed to maintain a very solid distribution network. Independent research showed than Zain's sales and airtime coverage in 2012 significantly increased and was similar to or better than competition that started their operations years before Zain. In this line Zain KSA also pushed to implement more efficient logistics models relying on electronic channels to distribute airtime, which allowed the Company to increase the contribution weight of EVD (Electronic Voucher Distribution) significantly by end of 2012.

Finally, Zain embarked in the revamp of the incentive scheme for its sales partners. This exercise aimed to adjust to the realities of the market and also geared towards driving acquiring quality customer base performance in order to deliver an excellent customer experience. The revamped incentive scheme achieved a significant reduction in prepaid churn compare to 2011 and also controlled the price wars as by allowing and seeking its partners' profitability. Moreover, the implementation of the new incentive scheme allowed the Company to capture the majority of the pre-paid gross adds generated throughout the year in KSA.

By the end of the year, eleven six flagships were up and running, two of which opened in Riyadh, offering running offering the best Zain customer experience and allowing the company to compete in the best-in-class retail environment, and also having 180 operating franchise outlets across KSA that provide Zain products and services. The plan is to have a total of 11 flagships by the year end 2012.

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

4.3.2. Vodafone commercial agreement

On 1 August 2012 Zain Group, including Zain KSA, entered into a 3-year non-equity strategic partnership with Vodafone Group, an industry-leading mobile operator.

The partnership will see Zain and Vodafone work together to provide enhanced, seamless services to their mutual customers across a wider global footprint. Particular beneficiaries will be multinational corporations and international roamers. By virtue of the partnership Zain Saudi Arabia becomes part of the Vodafone Global Enterprise (VGE) footprint and is able to offer services as part of Vodafone's global offering to over 1,400 leading multinationals.

Additionally, Vodafone will collaborate with Zain in a variety of functional areas, bringing extensive proprietary knowledge to operations in the Kingdom. Key areas of engagement include business and consumer products, terminals portfolio, brand support, technology and supply chain. Engagement in these areas will drive new product launches, innovative and exclusive devices, procurement savings and network efficiencies.

Early successes include Zain KSA's first VGE win, the development of an opportunity pipeline, driving network best practice to reduce costs, and access to exclusive devices through the Vodafone portfolio. The 2013 fiscal year should see more successes building on this early momentum across all functional areas.

4.4. Strategy moving forward – 2013 and beyond

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

IMPROVING AND INNOVATING OUR SERVICES AND PRODUCTS

We will continue to lead the market in terms of innovative products and services delivering real value to our customers. We aim to increase the spend and loyalty of our existing customers, as well as attracting new customers. We will do this through building upon our leadership in customer care; we have been independently rated by JD Powers as offering the best customer care amongst our competitors in the Kingdom. And through our recently introduced loyalty platform, which offers tailored benefits, relevant to our customers. We intend to attract customers through the bundling of devices with service packages.

ENHANCING OUR BRAND

We strive to clearly differentiate the Zain brand in the mind of consumers.

EXTENDING OUR DISTRIBUTION NETWORK

We aim to transform our retail distribution operation going forward, improving our customer experience and making our products available through more points of sales across the Kingdom. In 2012 we expanded our distribution footprint in partnership with one of the leading local retailer of electronics in the Kingdom. We expect to continue such initiates in the near future.

CONTINOUS IMPROVEMENT OF OUR NETWORK & OPERATIONS

We will offer more customers the benefit of our ultrahigh speed, low latency mobile data network. We will build upon our leadership position, being the first mobile network in the Kingdom to introduce true 4G data services using the latest LTE 1800 technology. We are committed to constantly continuing to improve our network and operational efficiency. We will target our capital investment to maximize the financial returns from our current and forecasted demand. Our strategic partnership with Vodafone is enabling us to build a truly world class operation in KSA. We now strive to meet international benchmarks for operational excellence.

AIMING TO EXCEL IN WHOLESALE SEGMENT

We aim to be number 1 in the MVNO wholesale market. We will achieve this by selecting the right partners and making them successful. International experience shows that late entrants have successfully used MVNOs as a key element of their commercial strategy.

5. Capital Restructuring

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

- Approval on the Board of Directors› resolution to decrease the Company›s capital from SR14 billion to SR4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit till 30 September 2011.
- Approval on the Board of Directors› resolution to increase the Company's capital through executing partial capitalization of the "Advances from Founding Shareholders" and rights issue transactions for a total amount of SR6 billion that represents the following:

(a) An amount of approximately SR2.5 billion which will be used to partially capitalize the "Advances from Founding Shareholders"; and

(b) Cash injection amounting to approximately SR3.5 billion will be subscribed by the Company's shareholders that are registered in the Company›s register as at the date of the Extraordinary General Assembly mentioned above.

- Approval on the modifications of clauses 7 and 8 of the by-laws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications sought were as follows:

(a) Clause 7 after modification: The Company›s capital is SR10.8 billion post rights issue. The number of shares is 1.08 billion at a par value of SR10 per share.

(b) Clause 8 after modification: The shareholders subscribed in 1.08 billion shares at a par value of SR10 per share for an amount of SAR10.8 billion.

The subscription period relating to the rights issue commenced on 10 July 2012 and it closed on 17 July 2012 at end of day. As at 24 July 2012 Zain KSA had successfully executed the capital restructuring that involved the following phases:

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

The cost of above-mentioned transactions amounting to SR 137.6 million has been recorded directly in the statement of changes in shareholders’ equity.

Capital Reduction

The Company reduced its share capital from SR14 billion to SR4.8 billion and accordingly the total number of shares was reduced from 1.4 billion shares to 480.1 million shares by cancellation of 919.9 million shares (65.7% reduction of share capital). The purpose of this reduction was to absorb the accumulated deficit of the Company as at 30 September 2011. The capital reduction was completed on 4 July 2012.

Partial Capitalization of the "Advances from Founding Shareholders"

The founding shareholders who provided the Company previously with interest bearing advances along with Abu Dhabi Investment House (ADIH) capitalized partially the "Advances from Shareholders" which amounted to approximately SR2.5 billion. The accumulated accrued interest due to this particular interest bearing debt was not subject to this partial capitalization transaction.

After this capitalization transaction the share capital increased from SR4.8 billion to SR7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

Rights Issue

After the partial capitalization mentioned above, a cash injection transaction was executed through the rights issue transaction which amounted to SR3.5 billion. This amount was subscribed by the Company›s shareholders that were registered in Zain KSA register as at the date of the Extraordinary General Assembly that was held on 4 July 2012. After this transaction the share capital increased from SR7.3 billion to SR10.8 billion and accordingly the number of shares increased from 734.7 million shares to 1.08 billion shares. Mobile Telecommunications Company K.S.C. injected SR1.3 billion whereas the remaining amount of SR2.2 billion was injected by the public shareholding.

Accordingly; the ownership percentage of Mobile Telecommunications Company K.S.C. increased from 25% to 37.05%.

The cash injection of SR3.5 billion was partially utilized by the Company as set out below:

- Settlement of the related rights issue costs amounted to SR 94 million as of December 31, 2012;
- Partial settlement of principal amounted to SR 750 million related to the Syndicated Murabaha Facility; and
- Financing capital expenditure projects required to increase the coverage and capacity of the Company which amounted to SR 296 million as of December 31, 2012; and
- Reduction of Company's current liabilities with an amount of SR 1.273 billion as of December 31, 2012

6. Summary of Zain KSA financial results

Balance Sheet Highlights as at 31 December 2008, 2009, 2010, 2011 and 2012

The following table summarizes the financial position of Zain KSA as at December 31, 2008, 2009, 2010, 2011 and 2012:

SAR Million	2008 Audited	2009 Audited	2010 Audited	2011 Audited	2012 Audited	Change 11 / 12	% Change 11 / 12
Current assets	1,181	1,850	2,602	2,432	4,391	1,959	80.5%
Non-current assets	25,484	25,980	25,453	24,312	23,559	(753)	(3.1)%
Total assets	**26,665**	**27,830**	**28,055**	**26,744**	**27,950**	**1,206**	**4.5%**
Current liabilities	13,090	6,789	7,454	15,511	15,537	25	0.2%
Non-current liabilities	1,853	12,419	14,472	6,940	3,961	(2,978)	(42.9)%
Total liabilities	**14,943**	**19,208**	**21,926**	**22,451**	**19,498**	**(2,953)**	**(13.2)%**
Shareholders' equity	11,722	8,622	6,129	4,293	8,452	4,159	96.9%
Total liabilities and shareholders' equity	**26,665**	**27,830**	**28,055**	**26,744**	**27,950**	**1,206**	**4.5%**

Source: Audited financial statements for the years ended 2008, 2009, 2010, 2011 and 2012

As at 31 December 2012, the Company had total assets amounted to SAR 27,950 million, of which SAR 19,226 million (69% of total assets) relating to the carrying amount of the CITC license acquired back during year 2007. In addition; property and equipment amounted to SAR 4,285 million as at 31 December 2012 represented 16% of total assets.

At the same date, the Company's total liabilities amounted to SAR 19,498 million, of which 75% amounting to SAR 14,620 million are related to the following:

- Syndicated Murabaha Financing;
- Advances from Shareholders;
- Long-Term Borrowing Facility (Junior Debt); and
- Vendors' Financing.

The Company has incurred net loss for the year ended December 31, 2012 and its current liabilities exceeded its current assets and it has an accumulated deficit as of that date. During the year, the Company has obtained approval from the Murabaha Investors to extend the Murabaha Facility for additional period up to February 27, 2013. Based on its business plan, the Company believes that it will be successful in meeting its obligations in the normal course of operations and in its efforts to secure the necessary funding and refinancing of its current financial obligations to the banks.

Overview of the Company's Borrowings

As at 31 December 2012, the outstanding balances of borrowing arrangements amounted to SAR 14,620 million. The following table summarizes the types of those arrangements, their outstanding balances as well as their maturity dates:

Type of borrowing	Outstanding balance	Maturity
Syndicated Murabaha Financing	9,000	27-Feb-2013*
Advances from Shareholders	2,563	Open
Long-Term Borrowing Facility (Junior Debt)	2,243	05-Apr-2013
Vendors' Financing	814	Jul-2016 till Jul-2017
Total	**14,620**	

* This maturity date would be extended subject to the MFA banks' approval, for the purpose of negotiation and finalization of a new long term financing agreement to replace the existed one

Syndicated Murabaha Financing

The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 9,748 million was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SAR portion totaling SAR 7.09 billion and a USD portion totaling USD 710 million (equivalent to SAR 2.66 billion). The initial purpose of this agreement was to partially finance the acquisition of CITC license back in year 2007.

The Company partially settled an amount of SR750 million out of the cash proceeds from the rights issue transaction. Accordingly; the balance of this Facility amounted to approximately SR9 billion as at 31 December 2012.

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. The Company has successfully exercised both renewal options and the Murabaha Facility was extended till 27 July 2012.

The Company obtained several unanimous approvals of the Murabaha Facility Investors to extend existing Facility until 27 February 2013. These extensions will permit the finalization of the refinancing with a new planned USD2.4 billion Murabaha Facility. The terms and conditions of the new facility (which will have a maturity of five (5) years and be at a lower financing cost to the existing Murabaha Facility) are being finalized. As of 31 December 2012, the Company has signed a mandate letter with the mandated lead arrangers to secure the refinancing.

The Company is in very advanced negotiations with a syndicate of banks, comprising current existing, as well as potential new investors to refinance the existing Murabaha Facility. Discussions are well advanced and the directors believe a formal refinancing agreement will be most likely signed during 2013.

The outstanding balance as at 31 December 2012 has been classified as current liability.

Financial covenants imposed by the financing banks are:
- Pledge on all revenues and assets insurance and operating accounts;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and Compliance with various financial milestones across the life of the agreement.

Throughout the year 2012, the Company was not in breach of any financing covenants and was able to meet the milestones agreed with the funding banks to ensure compliance.

Advances from Shareholders

The founding shareholders have provided advances to the Company. In accordance with the arrangements agreed with the shareholders during the third (3rd) quarter of year 2007, the outstanding balance as at 31 December 2012 amounting to SAR 2,563 million, carries finance cost that approximate the prevailing market rates.

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

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

The advances from shareholders as at 31 December 2012 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Murabaha Facility of SAR 9 billion.

The founding shareholders who provided the Company previously with interest bearing advances along with Abu Dhabi Investment House (ADIH) capitalized partially the "Advances from Shareholders" which amounted to approximately SR2.5 billion. The accumulated accrued interest due to this particular interest bearing debt was not subject to this partial capitalization activity. After this capitalization transaction, the share capital increased from SR4.8 billion to SR7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

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

Long-term Borrowing Facility (Junior Debt)

On 5 April 2011, local commercial banks arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility. This facility is due for repayment on 3 April 2013. 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 a founding shareholder. 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. Repayment of this facility's principal has not been scheduled as it will be refinanced at the time of its maturity, whilst the interest is payable from the Group and cross charged back to the Company. The outstanding balance of this facility amounted to SAR 2,243 million as at 31 December 2012.

Vendor financing

On 20 June 2012 an Export Credit Agency Facility Agreement was signed on between the Company and international banks (as "Mandated Lead Arrangers"). This facility is fully guaranteed by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

At 31 December 2012, the Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B.

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 USD170 million). The Company has repaid first installment due on July 2012.

Statements of Operation Highlights for years ended December 31, 2008, 2009, 2010, 2011 and 2012

The following table summarizes the statement of operation for the years ended 31 December 2008, 2009, 2010, 2011 and 2012:

SAR Million	2008 Audited	2009 Audited	2010 Audited	2011 Audited	2012 Audited	Change 11 / 12	% Change 11 / 12
Revenues	505	3,004	5,934	6,699	6,404	(295)	(4.4)%
Cost of revenues	(489)	(2,127)	(3,404)	(3,499)	(3,544)	(45)	1.3%
Gross profit	**16**	**877**	**2,530**	**3,200**	**2,860**	**(340)**	**(10.6)%**
Distribution and marketing	(1,021)	(1,574)	(1,848)	(1,972)	(1,687)	285	(14.5)%
General and administrative	(260)	(376)	(351)	(329)	(295)	35	(10.6)%
Depreciation and amortization	(434)	(1,394)	(1,494)	(1,710)	(1,810)	(100)	5.9%
Loss from operations	**(1,699)**	**(2,467)**	**(1,163)**	**(811)**	**(932)**	**(120)**	**14.8%**
Commission income	65	1	1	-	6	6	na
Financial charges	(226)	(633)	(1,196)	(1,114)	(823)	291	(26.1)%
Pre-operating expenses	418	-	-	-	-	-	-
Net loss for the year	**(2,278)**	**(3,099)**	**(2,358)**	**(1,925)**	**(1,749)**	**176**	**(9.1)%**

Source: Audited financial statements for the years ended 2008, 2009, 2010, 2011 and 2012

The year 2012 was a changing era when it comes to the Company's top line evolution. During the last twelve months, the new Management exerted enormous efforts to reshape its revenue streams, as it recognized the essence of its caliber resources that have been accumulated over the recent past. The year of 2012 was just a start of this journey of excitements.

The Postpaid revenue has achieved notable progress during last year as it posted 16% increase over the correspondence period of year of 2011. This was associated to launch of newly attractive Mazaya packages that were designed to satisfy the type of customers who enjoy the value added mobile services.

Data was also witnessing an extraordinary innovation with revealing the 4G-LTE technology to the Saudi Market. Zain KSA decided far prior to that to be a leading provider of such services, as it met this objective by being the first company to commercially launches this type of service. Accordingly, Data revenue rose by around 83% during the year of 2012 as compared to the previous year.

Nevertheless, the Company experienced an overall decline in its overall revenue during 2012 by around 4% as compared to 2011 due to the decrease in prepaid segment. This was mainly attributable to two main events:
1. The termination of price war towards the end of year 2011, which boosted the Company's main revenue stream at that time i.e. prepaid segment.
2. The commitment of the new Management during 2012 to rebalancing of significant volumes of traffic from international to national destinations. The Company has made significant progress in reducing its reliance on non-sustainable unstable revenue flows from international "calling card" behavior and hence has reduced its exposure to the fierce price competition and regulatory restrictions within the international calling segment.

During 2012, the company's loss from operations increased by 14.8% as compared to the year of 2011 which was attributable to the increased depreciation related to the increased fixed assets. It is worth mentioning that the Company invested significantly in the enhancement of its network during the year of 2012.

By end of 2012, The Company had a market share of 16% of active customers in the Kingdom of Saudi Arabia. The current Management is working diligently to achieve a fair market share in the Saudi market by executing number of strategic initiates those was prudently set during the year of 2012.

Other areas of developments were the decrease in financial charges by 26% in 2012 reaching SAR 823 million as compared to SAR 1,114 million during the corresponding period of 2011. Also, the optimization of the company's operating expenses benefiting from the economies of scale and the sound control over the total operating expenses. Those developments resulted in narrowing the net loss during the year of 2012 by 9.1% as compared to 2011.

The following table presents revenue breakdown for years 2008, 2009, 2010, 2011 and 2012:

SAR Million	**2008**	**2009**	**2010**	**2011**	**2012**	**Change 11 / 12**	**% Change 11 / 12**
Usage charges	486	2,879	5,815	6,524	6,142	(382)	(6)%
Subscription	19	123	115	143	232	89	62%
Other	-	2	4	32	30	(2)	(6)%
Total revenue	**505**	**3,004**	**5,934**	**6,699**	**6,404**	**(295)**	**(4)%**

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

Dividend policy

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

(a) Ten percent (10%) of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one-half (12/) 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 until 2015 at the earliest, at which time it will consider the Company's retained earnings, capital expenditure requirements, financial condition, market condition, the general economic climate and other factors, including investment opportunities and the reinvestment needs of the Company, cash and capital requirements, business prospects, other legal and regulatory considerations and any dividend restrictions under any debt financing arrangements entered into by the Company. In addition, the payment of dividends, if any, will be subject to certain requirements of the Companies Regulations and the By-Laws.

7. Investor relations

Zain KSA is committed to developing an Investor Relations function that is recognized as leading the market in terms of the provision of information and timely and accurate response. Zain KSA recognizes that it is the responsibility of a listed company to engage proactively with the investment community.

In 2012, in addition to the normal course of business communication of annual and interim reports and the AGM, Zain KSA's Investor Relations team implemented a comprehensive information and education campaign in respect of the Company's capital restructuring including meetings, transaction news releases, investor-targeted advertising and a dedicated website area.

The Company has also undertaken a number of roadshow tours; domestically, regionally and internationally. This direct contact with investors and analysts is important in fostering a two-way dialogue between the company and the financial markets and the Company is committed to reinforcing these initiatives in the year ahead.

8. Corporate social responsibility

Zain KSA's CSR Department is the essence and built in the company's values. The area of CSR and Sustainability are pinnacle areas for the company and the path to engage with the community.

Zain KSA started to practice its pattern of commitment to social responsibility prior to the launch of its commercial services. This type of commitment reflects Zain KSA's national duties as they are considered as an integral part of its philosophy and vision towards its relation with the local community.

CSR in Zain KSA follows international known standards to implement CSR initiatives that fall into the four pillars of CSR (Workplace, Marketplace, Community and Environment). The four pillars provide a more focused approach to CSR initiatives that can also be linked with community needs.

In 2012, the objective in CSR was to focus on youth. With such objective follows action plans related to the following points:

1. Involvement of Shabab Tamouh on-ground CSR projects (Youth Program).
2. Enhancing the youth program into theory and practice based work.

CSR 2012 Highlights

Holy Seasons (Ramadan & Hajj)

Ramadan: For the fourth year in a row Zain KSA distributed thousands of meals throughout the holy month of Ramadan in sites of huge mass of populations of the Holy Mosque and the pilgrims in Makkah and Madinah.

Hajj: For the third year in a row, Zain KSA supported the Two Holy Mosque, King Abdullah's guests for the pilgrims of Hajj. By providing voice and data solutions to support them in order to stay in communication with their families. In addition to an awareness campaign in association with Ministry of Hajj.

Youth Event – TEDx (Feb 2012)

TEDx is a famous US based event and its main concept is to spread and share ideas "Ideas worth sharing". In 2012 TEDx Almanahij was an event that Zain KSA participated in as a technical partner, by providing 4G LTE High Speed Internet coverage WIFI to audience; thus provided high exposure among the youth and education community.

Mobile Application Competition (Dec 2012)

Mobile application is the future area in telecom industry and Zain KSA was the technical partner during this event to support the developer's community. This was a competition among developers to see who will develop the best application in famous OS such as Iphone or Android devices. It is vital for Zain KSA to be part of such events because it brings youth and telecom in one event; thus it fulfills our core business objectives and CSR.

On-going support to charity

Zain KSA CSR Department continues to make sustainable partnerships with charities. This is an ongoing support by using our core business to support charities via business solutions such as SMS campaigns, providing connectivity and utilizing Social Media to raise awareness about charities and the short codes.

9. Disclosures

In this Board of Directors Report we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the word "anticipates", "believes", "estimates", "hopes" or similar expressions.

9.1. Risk factors

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

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

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

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

Financing risk and requirements: We estimate that Zain will require a significant amount of external funds over the next years, in particular because the maturity date of our

Murabaha facility has been extended several times. Accordingly, we will require further sources of funds. If bank financing is not available to us on commercially reasonable terms and we are not otherwise able to raise additional funds through further capital injections from our shareholders, our investment program could be negatively affected, which could have a material adverse effect on our business, financial position, prospects and results of operations.

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

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

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

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

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

or security breach results in a loss of or damage to customers› data or applications, or inappropriate disclosure of confidential information, we may incur liability as a result. Such failures, breakdown, interruptions, disruptions or costs could have a material adverse effect on our business, financial position and results of operations.

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

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

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

9.2. Subsidiaries

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

9.3. Compliance with corporate governance regulations in the KSA

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

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

- Articles that were not implemented in 2012:
    - Paragraph (B) of Article 6: as the Company's By-Laws states that it should uses the normal voting method.

9.4. The Journey to Excellence

Business excellence can be defined as the systematic use of quality management principles and tools of business management, with the goal of improving performance. In accordance with this definition, Zain Saudi Arabia is on right track towards "Business Excellence"

As the Performance improvement is based on the principles of customer focus, stakeholder value and process management, Zain SA Business Excellence focus in 2012 was shifting from managing processes internally to managing outcomes of process for the customers and our services acts as differentiators in our way of delivering experience.

While 2012 was distinguished by execution of high transformational in the optimization phase, the end of 2012 with incremental improvements reached the stabilization phase. Business excellence was the key to ensure this success with clients as Zain SA strives to deliver reliability and perfection to customers by maintaining high standards in service offerings, as well as internal processes and people management.

In 2012 Zain SA successfully completed the Re-Certification of ISO Audit in Quality Management System certificate 9001:2008 and Information Security Management System 27001:2005. The audit was performed June 2012 by DNV Det Norska Veritas. The recertification is valid for three years, and this marks the first successful recertification audit since the system was implemented in June 2009. Compliance with the requirements of standards fits well with the way we should to work. By being re-certified in ISO QMS assures quality at all levels in our organization and the requirements help us become more effective and focused. While 27001 re-certification it allow us to strengthen the levels of trust between ourselves within Zain SA and our customers and follow information security best practice.

Additionally, 2012 was a year of distinction for Zain SA in the telecom business in the kingdom by receiving three awards in different areas, honored by Forbes Middle East with award of One of 50 Best Companies, honored as Best Social Media and Best Customer Care.

We will strive to continue our journey of excellence by maintaining a management discipline to guide organizational performance and a continuous improvement culture and customer satisfaction. This enables our organization to focus on performance upon moving towards becoming "world class" and demonstrating credibility to stakeholders and the marketplace.

9.5. Internal Audit

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

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

The key areas of audit for the year 2012, with summary comments, are as follows:

- Logical Access Controls over Prepaid billing systems and related applications – Logical Access Controls over prepaid billing systems need to be made more robust to improve data security.
- Security and controls over Core GSM Network – Controls over the core GSM network need to be improved to ensure better network performance and improved data security.
- Receivables, Credit Control, Dunning and Collection process – Controls over the dunning and collection process required to monitor credit exposure risk and better collection of outstanding bills from customers.
- Revenue Assurance and controls over Revenue Recognition and Completeness process – Enhancements to the Revenue Assurance and billing processes were recommended to improve internal controls over revenue recognition and to prevent revenue leakages.
- Customer Care and Churn Management process – Improvements were recommended to the processes followed within the Customer Care function to enhance service levels. Further, the mechanism of monitoring the credit notes and waivers provided to the customers' needs to be strengthened.
- Product Profitability process – Recommendations to strengthen the controls over the VAS short code management and product profitability assessment were made to ensure maximization of revenues from VAS and other products.
- Treasury management process –Improvements in the process were suggested to enhance controls to ensure better treasury management and increase interest earning opportunities for the company.
- Human Resources process – Controls over the processes within the Human Resources Department such as employee records and payroll management required to be improved.
- New Accounts Administration process – Recommendations were made to enhance the process of obtaining and archiving subscriber information.

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

9.6. Major shareholders

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

Shareholder	No. of Shares on Dec. 31, 2011	No. of Shares on Dec. 31, 2012*	Ownership % on Dec. 31, 2012
Mobile Telecommunication Company K.S.C.	350,000,000	400,125,067	37.05%
Saudi Plastic Factory	96,250,000	64,495,867	5.97%
Faden Trading & Contracting Establishment	96,250,000	63,143,367	5.85%

*Note: Changes in ownership as at 31 December 2012 were due to the Capital Restructuring transaction took place in July 2012

9.7. Board of Directors

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

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

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

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

9.7.2. Hisham Akbar, Non-Executive Director (49 years)

Mr. Akbar began his career in the US as an Engineer in the Strategic Planning Department of American Express, and after his return to Kuwait, he held several positions in the Ministry of Communications, until he was appointed Director in the International Telecommunications Department. Mr. Akbar received his Bachelor of Science in Industrial Engineering from the University of Miami in 1988. Hisham joined Zain Group to head the commercial sector operations.

9.7.3. Nabil Khalaf bin Salamah, Non-Executive Director (53 years)

Nabil Khalaf bin Salamah is considered one of the most influencing leaders in the telecommunications sector. His wealthy history extends between the Kuwaiti Ministry of Transportation and the private sector. He holds a Bachelor's degree in Electronic Engineering from the University of Dayton, Ohio, United States and he became in 2009 the minister of Telecommunications, Electricity and Water. In 1997 Nabil named the GM of National Telecom Company (Wataniyah). In February 2010, Mr. Bin Salama returned to work for the private sector and this time it was with Zain Group to serve as the Group CEO.

9.7.4. Bader Nasser Al-Kharafi, Non-Executive Director (34 years)

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

9.7.5. Ossama Matta, Non-Executive Director (42 years)

Ossama Matta is one of the influential leaders of Zain Group during the past eight years. He has more than 15 years track record of solid financial and managerial experience in the Middle East. Mr. Matta attained an Executive MBA from the American University of Beirut, and was appointed as in 2004 as the CFO of the Lebanon operation 'mtc touch', and was thereafter promoted in 2007 to CFO of Zain Kuwait. In early 2008, Mr. Matta was again promoted to the role of Zain Group CFO overseeing the operations in Bahrain, Iraq, Jordan, Lebanon, Kuwait, Saudi Arabia and Sudan Zain Group's mother operation.

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

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

9.7.7. HH Prince Nayef Bin Sultan Bin Mohammed Bin Saud Al Kabeer, Independent Director (36 years)

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

9.7.8. Fahad Ibrahim Al Deghaither, Independent Director (57 years)

Al-Deghaither, a Saudi national, is currently the General Manager of the United Company for Trade. Al-Deghaither was previously the Chairman of SHAMMS between 2000 and 2009 and was Vice President of the Savola Group between 2000 and 2006. Al-Deghaither does not hold a degree certificate but read English studies at Linn Benton Community College (Oregon, USA) from 1974 - 75 and Mathematics at Lane Community College (Oregon, USA) from 1975 - 77.

9.7.9. Ammar Abdulwahid Al Khudairy, Independent Director (48 years)

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

9.8. Secretary to the Board of Directors

Waleed Khalid Alhakeem (39 years)

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

Shareholdings by members of the Board of Directors, their wives and minor children and the Company's secretary in Zain KSA:

Board member	Membership type	No. of shares held on 1st January 2012	No. of shares held on 31st December 2012
HRH Prince Hussam Bin Saud Abdul Aziz	Chairman – non-executive	1,000 (+ 6.88% indirect interest in the Company[2])	1,000 (+ 5.85% indirect interest in the Company[3])
Hisham Akbar	Non-Executive Director	Nil	1,000 (+ 0.0000% indirect interest in the Company[5])
Nabeel bin Salamah	Non-Executive Director	Nil	1,000 (+ 0.0092% indirect interest in the Company[7])
Bader Nasser Al-Kharafi	Non-Executive Director	1,000 (+0.0006% indirect interest in the Company[9])	1,000 (+0.0009% indirect interest in the Company[10])
Ossama Matta	Non-Executive Director	Nil	1,000 [11]
Abdullah Ibrahim Al-Rakhis	Non-Executive Director	1,000 (+2.812% indirect interest in the Company[12])	1,000 (+ 0.003% indirect interest in the Company[13])
	Independent	1,000 (+2.175% indirect interest in the Company[14])	1,000 (+ 0.036% indirect interest in the Company[15])
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Independent	1,000	Unchanged
Fahad Ibrahim Al Deghaither	Independent	5,000	Unchanged
Ammar Abdulwahid Al Khudairy	Company Secretary	Nil	Unchanged

2 HRH Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
3 HRH Prince Dr. Hussam Bin Saud Abdul Aziz indirect interest changed after the Company's Capital restructuring.
4 Legally held by MTC.
5 Hisham Akbar holds 2,472 shares in (i.e. 0.0001% of) MTC.
6 Legally held by MTC.
7 Nabeel bin Salamah holds 1,069,200 shares in (i.e. 0.0248% of) MTC.
8 Legally held by MTC.
9 Bader Nasser Al-Kharafi holds 100,000 shares in (i.e. 0.0023% of) MTC.
10 Bader Nasser Al-Kharafi indirect ownership in Zain KSA has changed after the Company's Capital restructuring
11 Legally held by MTC.
12 Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakhis Holding Company.
13 Abdullah Ibrahim Al-Rakhis indirect interest changed after the Company's Capital restructuring.
14 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 2,000,000 shares in (i.e. 0.87% of) Almarai Company.
15 HH Prince Nayef Bin Sultan Bin Saud Al Kabeer indirect interest changed after the Company's Capital restructuring.

9.9. Executive management

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

9.9.1. Chief Executive Officer ("CEO")

Fraser Curley (52 years) joined the Company in March 2012 and is a British national. He is responsible for managing the overall performance and operations of the Company, and guiding its sustainable strategic development. He ensures full dialogue is maintained with both internal and external stakeholders. Fraser has thirty years of technology and telecommunications based experience, the last twenty of which in the international mobile cellular markets. He has a wealth of expertise ranging from strategic management to operational performance improvement within the mobile sector. He attained his Bachelor degree with honors in Applied Physics from the University of Manchester in 1982 and his Master of Science in Electrical Engineering in 1986, from the University of London (Intercollegiate).

9.9.2. Chief Financial Officer ("CFO")

Wissam Farhat (34 years) joined the Company during January 2013 and is a Lebanese national, primarily responsible for managing the financial risks of the Company. He is also responsible for financial planning, in addition to financial reporting to senior management and the Board. Mr. Farhat had Thirteen years of financial management based experience including 3 years as the VP Finance and Admin for Mobile systems International Consultancy Limited, An International Telecom consultancy Company. The remaining experience of Mr. Farhat were in senior manager roles with a number of internationally sound financial Advisory houses; Such as Deloitte & Touche, PriceWaterHouseCoopers and Anderson & Co. Wissam achieved Bachelor Degree in Business Studies, Banking & Finance from Lebanese American University in 1999 and he has been certified in IFRS by ACCA London in 2004. Also, he has enrolled in many courses of Harvard Business School on Leadership Essentials and others.

9.9.3. Chief Commercial Officer ("CCO")

Saud Al-Bawardi (35 years) joined the Company during August 2011 and is a Saudi national. Saud has more than 13 years of experience in the telecommunications and banking industries. He joined the Company as Corporate Communications Director and was later appointed as Sales Director. Prior to joining the Company, Saud worked at Mobily as Country Director Retail sales and was part of the formation and launching team of Mobily in the KSA. Bawardi attained a BA in Media and Public Relations from King Saud University in 1999 and a Mini-MBA in Telecommunications from Informa in 2007. He has completed numerous courses, including a Strategic Management course from the London Academy, certification in Investment Principles from SAMA and other leadership and effective management training courses.

9.9.4. Chief Technical Officer ("CTO")

Michael Hoban (55 years) joined the Company during June 2012 and he is an American national. Michael is responsible mainly for running the Company’s network and technical operations and asserting its efficiency and carrying over the planning, developing and upgrading duties. Mr. Hoban had 25 years’ experience in the technology and telecommunication industry, as he had held a wide variety of positions in telecommunications and to have worked extensively in over 100 countries around the world. Michael is also having an extensive telecom regulatory experience, including but not limited to Telecom Bi-Laws, Licensing, Spectrum and Pricing, interconnection, Carrier Pre-selection, infrastructure sharing, anti-competition and consumer protection. Prior joining to Zain KSA, Michael worked for Afghan-Wireless as a CTO/CIO and before that worked for Atheeb Telecom (Go Broadband) as the Director of WiMax implementation & Roll out. Mr. Hoban

Shareholdings by executive management and their wives and minor children in Zain KSA:

Executive	Position	No. of shares held on 1st January 2012	No. of shares held on 31st December 2012
Fraser Curly	Chief Executive Officer (CEO)	Nil	Unchanged
Wissam Farhat	Chief Financial Officer (CFO)	Nil	Unchanged
Saud Al Bawardi	Chief Commercial Officer (CCO)	Nil	Unchanged
Michael Hoban	Chief Technical Officer (CTO)	Nil	Unchanged

9.10. Committees of the Board of Directors

The Board of Directors prepared and submitted to the General Assembly for approval the rules for selection of the members of the Committees, their terms and procedures on 52009/4/. The General Assembly subsequently approved the rules for selecting the members of the Committee, the term of the membership, the Committee›s terms of reference and its procedures.

9.10.1. Executive Committee

Members: Nabeel bin Salamah (Chairperson), HH Prince Nayef Bin Sultan Al Kabeer, Ammar Al-Khudhairy and Bader Al-Kharafi.

Duties and responsibilities of the Executive Committee include recommending objectives and strategy for the Company in the development of its business, having regard to the interests of its shareholders, customers, employees and other stakeholders; agreeing policy guidelines for business divisions based on the strategy approved by the Board; monitoring the successful execution of Company›s business plan (as approved by the Board) and monitoring the business division objectives and budgets to ensure that they fall within the Company›s targets (as approved by the Board). In addition, the Executive Committee also reviews the organization structure of the Company and makes recommendations for change, ensures the control, co-ordination and monitoring within the Company of risk and internal controls, ensures the Company›s compliance with relevant legislation and regulations, and safeguards the integrity of management information and financial reporting systems. The Committee is also responsible for identifying and executing new business opportunities outside the current core activities, including geographic diversification, examining all trade investments, divestments and major capital expenditure proposals and the recommendation to the Board of those which are material either by nature or cost, optimizing the allocation and adequacy of the Company's resources and reviewing and ensuring the implementation of the Company's policies. The committee has met five times in 2012.

9.10.2. Audit Committee

Members: HRH Prince Hussam Bin Saud Bin Abdul Aziz (Chairperson), Fahad Ibrahim Al Deghaither and Ossama Matta.

Duties and responsibilities of the Audit Committee include supervising the Company›s internal audit division in order to verify its efficiency in performing the functions assigned to it by the Board of Directors; reviewing the internal audit system and preparing a written report with its opinion and recommendations on the same; reviewing the internal audit reports and setting corrective actions to the same; submitting recommendations to the Board of Directors in respect of the appointment or renewal of the external auditors (who will be independent) and determining their fees; and following up on the performance of accountants and approving their fees. In addition, the Audit Committee also reviews the audit plan with the external auditor and gives remarks on the same; reviews the remarks of the external auditor on the financial statements and follows up on the actions taken in respect of the same; reviews the interim and annual financial statements before submission of the same to the Board of Directors and gives their opinion and recommendations on the same; and reviews the accounting policies used by the Company and gives opinions and recommendations on the same. The committee has met four in year 2012.

9.10.3. Nomination and Remuneration Committee

Members: HH Prince Nayef Bin Sultan Al Kabeer (Chairperson), Nabil bin Salamah, Bader Al-Kharafi and Fahad Ibrahim Al Deghaither.

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the Board of Directors; and establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company. The committee didn't hold any meetings during year 2012.

9.11. Compensation and Remuneration during year 2012:

SAR'000	Executive members of the Board of Directors	Non-executive members of the Board of Directors	Top five executives (including CEO, CFO, CCO & CTO)
Salary and allowances	-	-	6,737
Bonus	-	-	252*
Incentives	-	-	-
Other	-	-	-

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

9.12. BoD memberships in other Saudi companies:

Director	Company
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Al-Marai, Furabi Petro Company and Swicorp Josour Company
Ammar Abdulwahid Al Khudairy	Herfy Company for Food Services, Sports Clubs Company, Savola Group, Al-Tayar Group for Travel and Tourism, Al-Rowad Schools Company, Arabian Shield Company for Insurance, and Morgan Stanley Saudi Arabia

9.13. 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:

- Negative pledge on all revenues and assets;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and
- Compliance with various financial milestones across time.

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.

9.14. Redeemable debt instruments

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

9.15. Attendance record of Board of Directors meetings

The table below details the dates and attendance record for the Board of Directors' meetings held during 2012. Please note that "N/A" denotes that the director did not hold his position at the time of the meeting and "-" means the director held the position, but did not attend.

Director	19-Feb-12	12-Mar-12	14-Apr-12	13-May-12	15-Oct-12	12-Dec-12	Total attendances
HRH Prince Hussam Bin Saud Bin Abdul Aziz	X	X	X	X	X	X	6
Shaikh Khalif Al Sabah	-	-	-	N/A	N/A	N/A	0
HH Prince Nayef Bin Sultan Al Kabeer	X	X	X	X	X	X	6
Bader Nasser Al-Kharafi	X	X	X	X	-	X	5
Ammar Abdulwahid Al Khudairy	X	X	X	X	X	X	6
Abdullah Ibrahim Al-Rakhis	-	-	-	-	-	-	0
Fahad Ibrahim Al Deghaither	X	X	X	X	X	X	6
Barrak Al-Sabeeh	-	-	-	N/A	N/A	N/A	0
Khlid Al-Omar	X	X	X	N/A	N/A	N/A	3
Nabeel bin Salamah	N/A	N/A	N/A	X	X	-	2
Ossama Matta	N/A	N/A	N/A	X	X	X	3
Hisham Akbar	N/A	N/A	N/A	X	-	X	2
Total Present	6	6	6	8	6	7	

9.16. BoD interests in contracts with Zain

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

9.17. Waiving of emolument and compensation

No arrangements or agreements under which a director or a senior executive of Zain has waived any emolument or compensation have been made during 2012.

9.18. Waiving of dividend payment

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

9.19. Outstanding statutory payments

By the end of the fiscal year 2012, the outstanding statutory payments stood at SAR 484,682,306

Payable to:

1. CITC:
    a. License fee: SAR 29,057,016; and
    b. Revenue sharing with the government: SAR 455,625,289

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

9.20. Punishments, penalties, or preventive restrictions

During the year of 2012, the Company received notifications in relation to fine penalties that were imposed by Communications and Information Technology Commission ("CITC") (Violations Committee) resulted from breaches in some operational activities. The total fines amounted to approximately SAR 94 million, and the Company appealed these decisions before the Board of Grievance. The Company made the necessary provisions against these fines, and expects to pay them during the year of 2013 in case of failure to win the appeals.

During the year 2012, the Company also received two fines from the Capital Market Authority ("CMA") for non-compliance with the CMA Regulations, the first amounts to SAR 100,000 and the second amounts to SAR 50,000.

Other than these items, no other legal punishments or preventive restrictions were imposed on the Company.

9.21. Employees' end-of-service benefits

The value of the employees' end-of-service benefits, provided by Zain, amounted to SAR 25,898,102 as of December 31, 2012.

9.22. Statement by the Board of Directors

We hereby certify 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.

Annex 1 – Auditor's Report

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

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

FINANCIAL STATEMENTS AND AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

Deloitte.

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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 December 31, 2012, and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 26 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Unqualified Opinion

In our opinion, the accompanying financial statements, taken as a whole, present fairly, in all material respects, the financial position of the Company as at December 31, 2012, 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 matter

We draw attention to Note 1 to the financial statements wherein, the restructuring of the Company's share capital was undertaken and the accumulated deficit, through to September 30, 2011 has been extinguished through the capital reduction process and also the share capital was increased through partial capitalization of advances from shareholders and injection of cash. The Company has incurred a net loss for the year ended December 31, 2012. Furthermore, its current liabilities exceeded its current assets and it has an accumulated deficit as of that date. During the year, the Company has obtained approval from the Murabaha Investors to extend the Murabaha Facility for additional period up to February 27, 2013. Based on its business plan, the Company believes that it will be successful in meeting its obligations in the normal course of operations and in its efforts to secure the necessary funding and refinancing of its current financial obligations to the banks. Accordingly, the accompanying financial statements have been prepared on a going concern basis.

Deloitte & Touche
Bakr Abulkhair & Co.

Ehsan A. Makhdoum
License No. 358

Rabi Al Thani 7, 1434
February 17, 2013

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

BALANCE SHEET
AS AT DECEMBER 31, 2012

	Notes	2012 SR'000	2011 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**2,384,898**	780,273
Accounts receivable, net	4	**1,329,673**	1,006,574
Inventories, net	5	**50,300**	43,617
Prepaid expenses and other assets	6	**625,738**	601,706
Total current assets		**4,390,609**	2,432,170
Non-current assets			
Property and equipment, net	7	**4,284,994**	4,058,813
Intangible assets, net	8	**19,274,353**	20,252,778
Total non-current assets		**23,559,347**	24,311,591
TOTAL ASSETS		**27,949,956**	26,743,761
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowing facility	10 (c)	**170,039**	-
Long-term borrowing facility - current	10 (b)	**2,243,382**	-
Notes payable	9	**199,897**	915,876
Syndicated Murabaha Financing – current	10 (a)	**9,000,000**	9,747,638
Accounts payable	11	**732,702**	1,609,284
Due to related parties	12	**46,743**	26,673
Deferred revenue		**395,923**	434,392
Accrued expenses and other liabilities	14	**2,748,173**	2,731,184
Derivative financial instruments	13	**-**	45,781
Total current liabilities		**15,536,859**	15,510,828
Non-current liabilities			
Notes payable	9	**34,872**	153,937
Long-term borrowing facility	10 (b)	**644,083**	2,223,529
Advances from founding shareholders	15	**2,562,810**	4,018,550
Due to related parties	12	**693,570**	520,651
Provision for employees' end-of-service benefits		**25,898**	23,201
Total non-current liabilities		**3,961,233**	6,939,868
TOTAL LIABILITIES		**19,498,092**	22,450,696
SHAREHOLDERS' EQUITY			
Share capital	16	**10,801,000**	14,000,000
Hedging reserve	13	**-**	(45,781)
Accumulated deficit		**(2,349,136)**	(9,661,154)
Total shareholders' equity		**8,451,864**	4,293,065
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**27,949,956**	26,743,761
Contingencies and Commitments	23,24		

Fraser Curley - CEO **Fahad Al Deghaither-Board Member** **Wissam Farhat-CFO**

The accompanying notes form an integral part of these financial statements

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

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	2012 SR'000	2011 SR'000
Revenue	17	**6,404,188**	6,699,060
Cost of revenue	18	**(3,544,267)**	(3,498,893)
Gross profit		**2,859,921**	3,200,167
Operating expenses			
Distribution and marketing expenses	19	**(1,686,727)**	(1,972,132)
General and administrative expenses	20	**(294,415)**	(329,185)
Depreciation and amortization expenses	7, 8	**(1,810,387)**	(1,710,328)
Total operating expenses		**(3,791,529)**	(4,011,645)
Operating loss		**(931,608)**	(811,478)
Other income / (expenses)			
Finance charges	9,10,13,15	**(823,390)**	(1,113,856)
Commission income		**5,586**	138
Net loss for the year		**(1,749,412)**	(1,925,196)
Loss per share (in Saudi Riyals):	21		
• From operating loss		**(0.71)**	(0.51)
• From non-operating loss		**(0.63)**	(0.70)
• From net loss		**(1.34)**	(1.22)

Fraser Curley-CEO **Fahad Al Dheghaither-Board Member** **Wissam Farhat-CFO**

The accompanying notes form an integral part of these financial statements

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Net loss for the year		**(1,749,412)**	(1,925,196)
Adjustments to reconcile loss for the year to net cash used in operating activities:			
Provision for doubtful and other receivables	**4,6**	**34,981**	76,461
Depreciation and amortisation	**7,8**	**1,810,387**	1,710,328
(Write-off) / Provision for slow moving inventory items	**5**	**(3,000)**	750
Other provisions		**55,510**	-
Finance charges		**823,390**	1,113,856
Provision for employees' end-of-service benefits, net		**2,697**	6,105
Operating income before changes in working capital		**974,553**	982,304
Changes in working capital:			
Accounts receivable		**(355,877)**	380,131
Inventories		**(3,683)**	(15,568)
Prepaid expenses and other assets		**(26,235)**	(193,179)
Accounts payable		**(1,254,461)**	(344,622)
Due to related parties		**192,989**	90,254
Deferred revenue		**(38,469)**	(16,950)
Accrued expenses and other liabilities		**(109,704)**	(786,365)
Cash flows (used in) from operating activities		**(620,887)**	96,005
Financial charges paid		**(528,777)**	(183,530)
Net cash used in operating activities		**(1,149,664)**	(87,525)
INVESTING ACTIVITIES			
Purchase of property and equipment	**7**	**(558,779)**	(302,009)
Purchase of intangible assets	**8**	**(3,010)**	(8,815)
Proceeds from sale of property and equipment		**-**	1,728
Net cash used in investing activities		**(561,789)**	(309,096)
FINANCING ACTIVITIES			
Notes payable	**9**	**(125,623)**	-
Short-term borrowing facility	**10**	**170,039**	(2,193,750)
Long-term borrowing facility	**10**	**663,936**	2,223,529
Syndicated Murabaha financing		**(747,638)**	91,945
Advances from founding shareholders		**39,125**	353,053
Rights issue costs		**(137,570)**	-
Increase in share capital through rights issue		**3,453,809**	-
Net cash from financing activities		**3,316,078**	474,777
Net change in cash and cash equivalents		**1,604,625**	78,156
Cash and cash equivalents, beginning of the year		**780,273**	702,117
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**3**	**2,384,898**	780,273

The accompanying notes form an integral part of these financial statements

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

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2012

Non-cash transactions:	**2012 SR'000**	2011 SR'000
Changes in fair value of derivative financial instruments and corresponding debit to founding shareholders' equity	**-**	88,849
Adjustment to property and equipment with corresponding effect to notes payable	**118,475**	410,592
Adjustment to property and equipment with corresponding effect to accounts payable	**377,879**	150,597
Adjustment to advances from shareholders with corresponding effect to financial charges	**183,472**	-
Adjustment to advances from founding shareholders with corresponding effect to share capital	**2,546,191**	-
Adjustment to accumulated deficit with corresponding effect to share capital	**9,199,000**	-
Adjustment to notes payable with corresponding effect to financial charges	**39,958**	-
Adjustment to notes payable with corresponding effect to advances from founding shareholders'	**867,854**	-

Fraser Curley CEO **Fahad Al Dheghaither-Board Member** **Wissam Farhat -CFO**

The accompanying notes form an integral part of these financial statements

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total equity SR'000
Balance as at 1 January 2011		14,000,000	(134,630)	(7,735,958)	6,129,412
Net loss for the year		-	-	(1,925,196)	(1,925,196)
Derivative financial instruments	13	-	88,849	-	88,849
Balance as at 31 December 2011		14,000,000	(45,781)	(9,661,154)	4,293,065
Decrease of share capital (Capital reduction)	1	**(9,199,000)**	-	**9,199,000**	-
Increase of share capital (Subsequent capital increase)	1	**6,000,000**	-	-	**6,000,000**
Rights issue costs	1	-	-	**(137,570)**	**(137,570)**
Net loss for the year		-	-	**(1,749,412)**	**(1,749,412)**
Derivative financial instruments	13	-	**45,781**	-	**45,781**
Balance as at 31 December 2012		**10,801,000**	-	**(2,349,136)**	**8,451,864**

Fraser Curley CEO **Fahad Al Dheghaither-Board Member** **Wissam Farhat –CFO**

The accompanying notes form an integral part of these financial statements

1. ORGANIZATION AND ACTIVITIES

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

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

The Company incurred losses for the year ended 31 December 2012 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. The Company believes that it will be successful in meeting its obligations in the normal course of operations and in its efforts to secure the necessary funding.

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

- Approval on the Board of Directors' resolution to decrease the Company's capital from SR14 billion to SR4.8 billion and accordingly to decrease the number of shares from 1.4 billion to 480.1 million to offset the Company's accumulated deficit till 30 September 2011.
- Approval on the Board of Directors' resolution to increase the Company's capital through executing partial capitalisation of the "Advances from Founding Shareholders" and rights issue transactions for a total amount of SR6 billion that represents the following:
    - An amount of approximately SR2.5 billion which will be used to partially capitalise the "Advances from Founding Shareholders"; and
    - Cash injection amounting to approximately SR3.5 billion will be subscribed by the Company's shareholders that are registered in the Company's register as at the date of the Extraordinary General Assembly mentioned above.
- Approval on the modifications of clauses 7 and 8 of the by-laws of the Company to reflect the effect of the capital reduction and subsequent capital increase. The modifications sought were as follows:
    - Clause 7 after modification: The Company's capital is SR10.8 billion post rights issue. The number of shares is 1.08 billion at a par value of SR10 per share.
    - Clause 8 after modification: The shareholders subscribed in 1.08 billion shares at a par value of SR10 per share for an amount of SAR10.8 billion.

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

1. ORGANISATION AND ACTIVITIES (Continued)

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

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

The cost of above-mentioned transactions amounting to SR 137.6 million has been recorded directly in the statement of changes in shareholders' equity.

Capital Reduction

The Company reduced its share capital from SR14 billion to SR4.8 billion and accordingly the total number of shares was reduced from 1.4 billion shares to 480.1 million shares by cancellation of 919.9 million shares (65.7% reduction of share capital). The purpose of this reduction was to absorb the accumulated deficit of the Company as at 30 September 2011. The capital reduction was completed on 4 July 2012.

Partial Capitalisation of the "Advances from Founding Shareholders"

The founding shareholders who provided the Company previously with interest bearing advances along with Abu Dhabi Investment House (ADIH) (Refer Notes 15 and 16) capitalised partially the "Advances from Shareholders" which amounted to approximately SR2.5 billion. The accumulated accrued interest due to this particular interest bearing debt was not subject to this partial capitalisation transaction.

After this capitalisation transaction the share capital increased from SR4.8 billion to SR7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

Rights Issue

After the partial capitalisation mentioned above, a cash injection transaction was executed through the rights issue transaction which amounted to SR3.5 billion. This amount was subscribed by the Company's shareholders that were registered in Zain KSA register as at the date of the Extraordinary General Assembly that was held on 4 July 2012. After this transaction the share capital increased from SR7.3 billion to SR10.8 billion and accordingly the number of shares increased from 734.7 million shares to 1.08 billion shares. Mobile Telecommunications Company K.S.C. injected SR1.3 billion whereas the remaining amount of SR2.2 billion was injected by the public shareholding.

Accordingly; the ownership percentage of Mobile Telecommunications Company K.S.C. increased from 25% to 37.05%.

The cash injection of SR3.5 billion was partially utilized by the Company as set out below:

- Settlement of the related rights issue costs;
- Partial settlement amounted to SR750 million related to the Syndicated Murabaha Facility; and
- Financing capital expenditure projects required to increase the coverage and capacity of the Company which amounted to SR 244 million as of December 31,2012.

1. ORGANISATION AND ACTIVITIES (Continued)

Refinancing Arrangements

On 11 October 2011 the Board of Directors also approved the commencement of negotiations with the current existing investors and to seek new potential investors to refinance the existing Murabaha Facility.

On 27 July 2012, the Company's existing SR 9.75 billion Murabaha Facility was due to mature. Prior to that date the Company secured the unanimous consent of the Murabaha Facility investors to extend the maturity for two (2) months until 27 September 2012. Then the Company obtained several approvals to extend the existing Facility until 27 February 2013. At the same time and as mentioned before, Zain KSA utilised SR750 million of the proceeds from the rights issue transaction to reduce the outstanding principal under the existing Murabaha Facility to approximately SR9 billion.

The extension of the maturity was required in order to allow for the planned implementation of a new refinancing facility. The Company is in very advanced negotiations with a syndicate of banks, comprising current existing, as well as potential new investors to refinance the existing Murabaha Facility. The directors believe a formal refinancing agreement will be most likely signed during 2013.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

Strategic Cooperation

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

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

These financial statements were approved by the board on February ----, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The relative size of the Company's intangible assets being 69% (2011: 75.7%) 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 15.3% (2011: 15.2%) 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 Company’s assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life, such as changes in technology. Unless there is a reasonable expectation of renewal or an alternative future use for the asset, network infrastructure is depreciated over a period that does not exceed the expiry of the associated license under which the Company provides telecommunication services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Segment reporting

(a) Business segment

A business segment is group of assets, operations or entities:
(i) engaged in revenue producing activities;
(ii) results of its operations are continuously analyzed by management in order to make decisions related to resource allocation and performance assessment; and
(iii) financial information is separately available.

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

Foreign currency translations

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable

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

Inventories

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

Property and equipment

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

	Years
Leasehold improvements	Shorter of lease term or useful life
Telecommunications equipment	8
Civil works (telecommunications)	15
Information technology systems	2
Information technology servers	5
Furniture and fixtures	5
Office equipment	2
Vehicles and other transportation equipment	5

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

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

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

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

Impairment of non-current assets

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

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

Borrowings

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Derivative financial instruments
Derivative financial instruments are measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedge is recognized in hedging reserve under shareholders’ equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of operations. Gains or losses recognized initially in hedging reserve are transferred to the statement of operations in the period in which the hedged item impacts the statement of operations.

3. CASH AND CASH EQUIVALENTS

	2012	2011
	SR'000	SR'000
Cash on hand	**186**	234
Cash at banks	**67,533**	228,789
Time deposits	**2,317,179**	551,250
	2,384,898	780,273

The Company invests part of surplus cash in time deposits with maturity period of 90 days or less with local commercial banks. The annual commission rates on this deposits during 2012 was 0.9 % (2011: 0 %). The total commission earned by the Company during 2012 was SR 5.6 Million (2011: SR 0.1 Million).

4. ACCOUNTS RECEIVABLE, NET

	2012	2011
	SR'000	SR'000
Billed receivables (Notes 4.1 and 4.2)	**1,587,182**	1,231,298
Unbilled receivables	**115,811**	116,158
Other	**826**	486
	1,703,819	1,347,942
Less: provision for doubtful receivables	**(374,146)**	(341,368)
	1,329,673	1,006,574

Movement in provision for doubtful receivables is as follows:

	2012	2011
	SR'000	SR'000
Balance as at 1 January	**341,368**	264,907
Additions	**32,778**	76,461
Balance as at 31 December	**374,146**	341,368

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, 2012 and 2011, the net amounts are included in accounts receivable and accounts payable are as follows:

	2012	2011
	SR'000	SR'000
Accounts receivables, net	**818,429**	605,745
Accounts payables, net	**968,193**	738,404

4.2 Billed receivable includes amount due from related parties amounting to SR 32.4 million (2011: SR 14.6 million) for providing telecommunication services to related parties.

5. INVENTORIES, NET

	2012 SR'000	2011 SR'000
Handsets and accessories	**23,359**	528
Sim cards	**16,579**	21,769
Prepaid recharge cards	**9,535**	11,134
Other	**827**	13,186
	50,300	46,617
Less: Provision for slow moving inventory items	**-**	(3,000)
	50,300	43,617

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

	2012 SR'000	2011 SR'000
Balance as at 1 January	**3,000**	2,250
Additions	**-**	750
Write-off	**(3,000)**	-
Balance as at 31 December	**-**	3,000

6. PREPAID EXPENSES AND OTHER ASSETS

	2012 SR'000	2011 SR'000
Advances to suppliers and refundable deposits	**322,210**	224,867
Advances for transmission lines and fiber links	**160,029**	239,175
Prepaid rent	**93,500**	86,938
Prepaid advertisement	**8,035**	13,689
Prepaid software license fee	**5,020**	8,339
Prepaid insurance	**385**	3,712
Other	**38,762**	24,986
	627,941	601,706
Less: Provision for other assets	**(2,203)**	-
	625,738	601,706

Movement in provision for other assets is as follows:

	2012 SR'000	2011 SR'000
Balance as at 1 January,	**-**	-
Additions	**(2,203)**	-
Balance as at 31 December,	**(2,203)**	-

7. PROPERTY AND EQUIPMENT, NET

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

7. PROPERTY AND EQUIPMENT, NET (Continued)

	January 1, 2011	Additions	Disposals/ Transfers	December 31, 2011
Cost				
Leasehold improvements	163,665	30,444	-	194,109
Telecommunications equipment	4,053,995	762,864	(1,846)	4,815,013
IT systems and servers	272,022	45,801	-	317,823
Furniture, fixtures and office equipment	62,080	13,383	-	75,463
Vehicles and other transportation equipment	5,765	-	(1,995)	3,770
Capital work in progress	711,318	342,068	(632,556)	420,830
	5,268,845	1,194,560	(636,397)	5,827,008
Accumulated depreciation				
Leasehold improvements	65,240	32,017	-	97,257
Telecommunications equipment	772,057	669,086	(939)	1,440,204
IT systems and servers	115,359	69,708	-	185,067
Furniture, fixtures and office equipment	15,420	27,815	-	43,235
Vehicles and other transportation equipment	2,569	1,037	(1,174)	2,432
	970,645	799,663	(2,113)	1,768,195
Carrying Amount	4,298,200			4,058,813

The Company is in the process of expanding its network. Capital work in progress at December 31, 2012 and 2011 principally represents costs incurred on several network expansions.

8. INTANGIBLE ASSETS, NET

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

	January 1, 2011	Additions	December 31, 2011
Cost			
License fee*	23,359,180	-	23,359,180
Computer software licenses	138,356	8,815	147,171
	23,497,536	8,815	23,506,351
Accumulated amortization			
License fee*	2,299,206	882,117	3,181,323
Computer software licenses	43,702	28,548	72,250
	2,342,908	910,665	3,253,573
Carrying Amount	21,154,628		20,252,778

* 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. During the year 2011 the company has retroactively adjusted the accumulated amortization of the license resulted from changing the useful life of the license from 25 Hijra years to 25 Gregorian years.

9. NOTES PAYABLE

	2012 SR'000	2011 SR'000
Current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**199,897**	73,125
Motorola Inc.	**-**	842,751
	199,897	915,876
Non-current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**34,872**	153,937
	34,872	153,937

10. SHORT AND LONG TERM BORROWING FACILITIES

	2012 SR'000	2011 SR'000
Syndicate Murabaha facility (a)	**9,000,000**	9,747,638
Long term facility from local commercial bank (b)	**2,243,382**	2,223,529
Export credit facility (c)	**814,122**	-
	12,057,504	11,971,167
Less: Current portion	**(11,413,421)**	(9,747,638)
	644,083	2,223,529

(a) Syndicated Murabaha Facility of approximately SR 9.75 billion was arranged by Banque Saudi Fransi in July 2009. This Murabaha Facility consists of a SR portion totalling SR7.09 billion and a USD portion totalling USD710 million (equivalent to SR2.66 billion).

As mentioned before under Note 1 above; the Company partially settled an amount of SR750 million out of the cash proceeds from the rights issue transaction. Accordingly; the balance of this Facility amounted to approximately SR9 billion as at 31 December 2012.

Financing charges as specified under the Murabaha Facility are payable in quarterly instalments 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, totalling the renewal of the facility for one (1) full year with the final maturity date is 27 July 2012. The Company has successfully exercised both renewal options and the Murabaha Facility was extended till 27 July 2012.

As mentioned in Note 1, the Company obtained several approvals of the Murabaha Facility Investors to extend existing Facility until 27 February 2013. These extensions will permit the finalisation of the refinancing with a new planned USD2.4 billion Murabaha Facility. The terms and conditions of the new facility (which will have a maturity of five (5) years and be at a lower financing cost to the existing Murabaha Facility) are being finalised. As of31 December 2012, the Company has signed a mandate letter with the mandated lead arrangers to secure the refinancing.

10. SHORT AND LONG TERM BORROWING FACILITIES (Continued)

Accordingly, the outstanding balance as at 31 December 2012 has been classified as current liability, (refer to Note 1).

Financial covenants imposed by the financing banks are:

- Pledge on all revenues and assets insurance and operating accounts;
- Loans and guarantees restrictions to customers, distributors, dealers, retailers, wholesalers and employees;
- No further financial indebtedness, pari passu, insurance on all assets; and Compliance with various financial milestones across time till 31 December 2011.

(b) On 5 April 2011, local commercial banks arranged a long-term facility to refinance the Company's obligations under a previously existing short-term borrowing facility. This facility is due for repayment on 3 April 2013. This facility consists of a SR portion totaling SR1,875 million and a USD portion totaling USD100 million (equivalent SR375 million) and is secured by a guarantee provided by a founding shareholder. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility.

(c) On 20 June 2012 an Export Credit Agency Facility Agreement was signed on between the Company and international banks (as "Mandated Lead Arrangers"). This facility is fully guaranteed by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:

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

At 31 December 2012, the Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD170 million). The Company has repaid first instalment due on July 2012.

11. ACCOUNTS PAYABLE

	2012 **SR'000**	2011 SR'000
Trade payables	**669,897**	1,528,001
Withholding tax provision	**50,351**	16,310
Staff	**11,534**	350
Other	**920**	64,623
	732,702	1,609,284

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:

	2012 **SR'000**	2011 SR'000
Revenue	**94,800**	44,602
Cost of revenue	**14,940**	13,273
Management fees (Note 19)	**172,919**	180,875
Financial charges	**148,634**	162,289

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

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

Also see Note 15 for the advances from shareholders.

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Related Party Balances

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

(i) Due from related parties – current

	2012 SR'000	2011 SR'000
Zain Bahrain	**21,674**	3,762
Zain Jordan	**-**	15,081
Others	**3,548**	2,379
	25,222	21,222
Less: Provision for due from related parties	**(2,203)**	-
	23,019	21,222

(ii) Due to related parties – current

	2012 SR'000	2011 SR'000
Zain Sudan	**37,541**	37,541
Mobile Telecommunications Company K.S.C – current account	**8,629**	9,344
MTC Touch	**-**	810
Others	**573**	200
	46,743	47,895
	23,724	26,673

(iii) Due to related parties – non current

	2012 SR'000	2011 SR'000
Mobile Telecommunications Company K.S.C – management fee	**693,570**	520,651

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

		Negative fair value	
	Contract notional amount SR'000	**December 31, 2012 SR'000**	**December 31, 2011 SR'000**
Derivative financial instruments	**8,287,500**	-	**45,781**

All commission rate swaps were matured on January 14, 2012.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

	2012 SR'000	2011 SR'000
Trade	**1,527,478**	1,368,539
Government fee (Note 18)	**587,731**	741,572
Accrued expenses	**331,624**	391,472
Employees	**43,917**	62,470
Financial charges	**40,775**	61,861
Others	**216,648**	105,270
	2,748,173	**2,731,184**

15. ADVANCES FROM FOUNDING SHAREHOLDERS

The founding shareholders have provided advances to the Company. In accordance with the arrangements agreed with the shareholders during the third quarter of 2009, the outstanding balance carries finance cost that approximate the prevailing market rates.

The following is a breakdown of the advances from shareholders:

	December 31,2012 (Unaudited) SR'000	December 31, 2011 (Audited) SR'000
Mobile Telecommunications Company K.S.C.	**1,946,890**	2,505,074
Faden Trading & Contracting Est.	**-**	314,890
Saudi Plastic Factory	**-**	301,365
Rakisa Holding Company ("Rakisa")	**-**	136,984
Almarai Company	**-**	109,587
Ashbal Al-Arab Contracting Est.	**-**	109,587
Al Jeraisy Development Company Limited	**-**	54,793
Al Sale Al Sharkiyah Company Limited	**-**	27,397
Abu Dhabi Investment House (ADIH)	**8,413**	-
	1,955,303	3,559,677
Accrued financial charges	**607,507**	458,873
	2,562,810	4,018,550

As discussed in Note 1, the advances from founding shareholders are capitalised "Advances from founding Shareholders" amounted to approximately SR2.5 billion. The accumulated accrued interest due to advances from founding shareholders was not subject to this capitalisation activity. After this capitalisation transaction, the share capital increased from SR4.8 billion to SR7.3 billion and accordingly the number of shares increased from 480.1 million shares to 734.7 million shares.

15. ADVANCES FROM FOUNDING SHAREHOLDERS (Continued)

The advances from shareholders as at 31 December 2012 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility of SR9 billion (Note 10 (a)).

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

16. SHARE CAPITAL

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

	Post-Capital Restructuring		**Pre-Capital Restructuring**	
Shareholders	**Number of shares**	**Share Capital SR'000**	**Number of shares**	**Share Capital SR'000**
Mobile Telecommunications Company K.S.C.	400,125,067	4,001,251	350,000,000	3,500,000
Saudi Plastic Factory	63,143,367	631,434	96,250,000	962,500
Faden Trading & Contracting Est.	64,495,867	644,958	96,250,000	962,500
Rakisa Holding Company (refer to Note 15)	4,715,270	47,153	13,750,000	137,500
Abu Dhabi Investment House (refer to Note 15)	23,145,004	231,450	30,000,000	300,000
Almarai Company	22,961,224	229,612	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	22,961,224	229,612	35,000,000	350,000
Al Jeraisy Development Company Limited	11,480,612	114,806	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	6,001,253	60,013	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	5,740,305	57,403	8,750,000	87,500
Total founding shareholders	624,769,193	6,247,692	700,000,000	7,000,000
Public shareholding	455,330,807	4,553,308	700,000,000	7,000,000
	1,080,100,000	**10,801,000**	**1,400,000,000**	**14,000,000**

16. SHARE CAPITAL (Continued)

A founding shareholder, Rakisa Holding Company transferred 30 million shares amounting to SR300 million as of 15 May 2012 to Abu Dhabi Investment House. The consent of the transfer has been obtained from the Murabaha Facility investors, CITC and CMA (refer to Note 15).

17. REVENUE

	2012 SR'000	2011 SR'000
Usage charges	**6,142,250**	6,524,467
Subscription	**231,558**	142,941
Other	**30,380**	31,652
	6,404,188	6,699,060

18. COST OF REVENUE

	2012 SR'000	2011 SR'000
Access charges	**1,973,746**	2,095,076
Government charges	**633,836**	644,175
Leased lines	**310,967**	297,644
Discount on prepaid recharge cards	**233,523**	274,634
Other	**392,195**	187,364
	3,544,267	3,498,893

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

	2012 SR'000	2011 SR'000
Employees' salaries and related charges	**317,999**	309,578
Advertising	**313,120**	407,853
Repairs and maintenance	**288,197**	343,665
Rent expenses	**236,444**	189,843
Dealers' commission	**214,109**	293,087
Management fees (Note 12)	**172,919**	180,875
Bad debts expense (Note 4)	**32,778**	76,461
Utilities	**21,565**	23,322
Customer promotions	**4,233**	40,079
Systems support and licenses	**-**	31,637
Other	**85,363**	75,732
	1,686,727	1,972,132

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 **SR'000**	2011 SR'000
Employees' salaries and related charges	**92,943**	101,883
Legal and professional charges	**74,967**	3,873
Consulting services	**36,241**	69,327
Repairs and maintenance	**33,030**	37,933
Withholding tax expense	**32,342**	33,830
System support and maintenance	**1,215**	42,135
Other	**23,677**	40,204
	294,415	**329,185**

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. 1.31 billion shares which takes into consideration the effect of the capital reduction and rights issue during the period ended December 31, 2012 (2011: 1.58 billion shares with a retrospective adjustment for the rights issue that took place in 2012).

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:

	2012 **SR'000**	2011 SR'000
Shareholders' equity at beginning of year	**4,293,065**	6,129,412
Provisions at beginning of year	**344,368**	284,253
Long-term borrowings and shareholders' advances	**3,241,765**	6,396,016
Adjusted net loss for the year (see below)	**(1,711,734)**	(1,842,630)
Property and equipment	**(4,284,994)**	(4,058,813)
Intangible assets	**(19,274,353)**	(20,252,778)
Approximate negative zakat base of the Company	**(17,391,883)**	(13,344,540)

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

	2012 SR'000	2011 SR'000
Net loss for the year	**(1,749,412)**	(1,925,196)
- Employee termination benefits	**2,697**	6,105
- Provision for doubtful receivables and for slow moving inventory items	**34,981**	76,461
Adjusted net loss for the year	**(1,711,734)**	(1,842,630)

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 received its final zakat assessment from DZIT for the period ended 2008 raising additional liability. This liability is being contested by the Company. The Company has filed its zakat returns for the years 2009, 2010 and 2011 with the DZIT but no final zakat assessments of the above-mentioned years have been received.

23. OPERATING LEASES COMMITMENTS

The Company leases sites, technical buildings and offices in connection with its operations. The lease commitments relating to such operating leases at December 31 are as follows:

	2012 SR'000	2011 SR'000
Within 12 months	**189,484**	164,216
Within 2 to 5 years	**757,935**	632,292
Over 5 years	**947,419**	299,840
	1,894,838	1,096,348

24. CONTINGENCIES AND COMMITMENTS

The Company has entered into arrangements with suppliers for the purchase of telecommunication equipment and with other mobile telecom companies for providing mobile cellular services. The capital commitments at December 31 are comprised of the following:

	2012	2011
	SR'000	SR'000
Within 12 months	**669,438**	318,212
Within 2 to 5 years	**62,899**	97,554
	732,337	415,766

Also see Note 23 for operating lease commitments.

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

25. SEGMENT INFORMATION

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

Currency risk

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

Fair value and cash flow commission rate risks

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

Price risk

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

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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company incurred net loss for the year ended December 31, 2012 and its current liabilities exceeded its current assets and has accumulated deficit as of that date. These conditions indicate that the Company’s ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company’s ability to arrange adequate funds in a timely manner. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments. (Also see note 1).

Fair value

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