Report of the Board of Directors 2011

Index

1. Chairman's Message

Dear shareholders,

May the blessings and peace of Allah be upon you.

Radiance, heart and belonging have been our core values since the beginning of Zain KSA and are our driving force today more than ever. The developments and innovations these values have inspired fuelled our success in 2011 and give us confidence for the future.

Your company achieved several commercial milestones in 2011, including pricing innovation with the successful introduction of new and improved packages, the many best-in-class recognitions of its call center and the launch of the "Zain World" flagship stores concept. We continued to increase the technical capabilities of the network, which allowed in particular Zain KSA to become the first mobile network operator in the Middle East to commercially launch a 4G Long-Term Evolution (LTE) network.

Our financial performance substantially improved during the year, with revenue and gross profit increasing at a double-digit pace and EBITDA being multiplied by a factor of [2.7x] compared to 2010. Gross margin reached [48]% for the full year, a shift of 5% above the previous year, and the company achieved full year 2011 EBITDA of [SAR899]m thanks to a set of initiatives launched in 2011 to reduce operational costs, which are part of the company's new strategy.

This performance was achieved despite the significant attention that the Board and the management had to dedicate to the potential acquisition by the Kingdom Holding /Batelco consortium of the 25% stake held by our main shareholder Zain Group. Following the termination of these discussions, Zain Group has reaffirmed its commitment to Zain KSA by extending its strong support to the company. .

2012 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 thanks 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 Khalid Al Omar and strongly believe that it will successfully address the challenges that lie ahead.

Allow me to thank, on behalf of the members of the Board, 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 Naif Bin Abdulaziz for his continued support in promoting all sectors of the Kingdom's economy.

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

I also wish 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 fellow Board members 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 2012 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,

2011 has been a milestone year for Zain KSA, marked by improved financial metrics and key strategic changes being initiated, in part reflected by the new management team that has been put in place. I took over the position of Chief Executive Officer in October 2011 with great enthusiasm, as I firmly believe that Zain KSA has today all the ingredients to be successful, with a new strategy and the strong support of its main shareholder Zain Group

2011 has been another commercially strong year for Zain KSA due to the company's focus on marketing, sales and customer service:

- Our brand-inspired marketing innovations included the introduction of Saudi Arabia's first unlimited pricing concept "Zain Unlimited", the flexible pricing promotion "Dynamic Discount", and "Zain Broadband Delight" which consolidated our position in the market.
- The company continued to increase sales and distribution channels. We have started the development of four flagship stores in key cities, which will further consolidate Zain's strong brand image.
- We kept putting our customers first, and are proud that our call center is consistently rated the best in the industry in reputable surveys.

Emphasis was put again on expanding our network to improve coverage and quality while optimizing costs. This was done by modernizing and integrating sites, launching 2G/3G/LTE and in-building solution sites, and effectively managing the additional load in Mecca during the Hajj period. Also, Zain KSA was the first operator in KSA to introduce LTE/4G services, after intensive simulation testing. The lightning-fast speeds offered by these services have allowed customers to enjoy shorter download times and better online gaming experiences, among many benefits that have been well received.

All of these technological investments and cost optimization have positively impacted our financial results for 2011, with a drop of 30% in operating expenses during the year, compared to the last year and are expected to bear further fruit in 2012.

Our staff remains a key component of our success. In 2011, achievements in this area included optimization of our management structure, improved resource allocation and comprehensive training to boost standards of management.

Finally, Zain KSA's commitment towards building a nationally competitive workforce, innovative solutions for social development, and responsible environmental management was recognized by the King Khalid Award for Responsible Competitiveness in the Smart Philanthropy category.

I am fully confident that 2012 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 journey in 2012 and beyond.

Khalid Al Omar
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.

3.2. Economic review of the Saudi Arabian market [1]

KSA continues to be the biggest Arab economy where economic indicators show a healthy growth with GDP growth of 3.8% in 2010 and 6.8% in 2011.In addition, the growth in the non-oil economy in 2012 is expected to see a near five percent increase and government spending is to be supported by a rise in bank lending and consumer spending. The GDP per capita PPP, in Saudi Arabia exceeded USD 24k in 2011, according to the World Bank. Previously it was standing at USD 22.2K in December of 2009.

The inflation rate in Saudi Arabia was last reported at 5.2 percent in November of 2011, from 2003 until 2010, the average inflation rate was 3.44 percent reaching an historical high of 11.08 percent in July of 2008 and a record low of 0.00 percent in September of 2004. Supported by prudent government fiscal and monetary policies Inflation is forecasted to moderate to an annual average of 4.4 percent in 2012. Negligible external price pressures, due to lower commodity prices, a strong dollar and subdued inflation in trading partners, will underpin the decline.

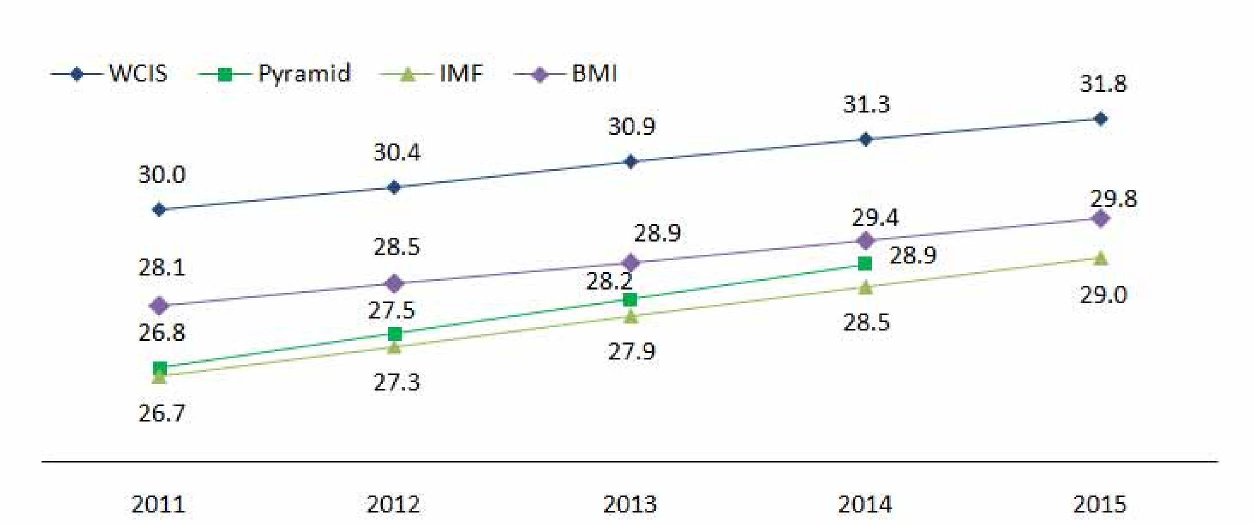
[1]Source: www.tradingeconomics.com

The unemployment rate in Saudi Arabia was last reported at 10.50 percent in 2010. From 1999 until 2009, the Unemployment Rate averaged 10.05 percent reaching an historical high of 12.00 percent in December of 2006 and a record low of 8.10 percent in December of 1999. Almost 8 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors; while government is struggling to reduce unemployment among its own nationals.

Saudi officials are particularly focusing on employing its large youth population by spending on job training and education. The Government is planning to set the minimum salary for nationals working in the private sector at SAR3,000 ($800). The program, which may be implemented by March 2012, aims to retain Saudis in the private sector by making their minimum salary equal to that in the public sector.

KSA Population grown to over 27.8 million residents by the end of 2011, comprising of residents and visitors, both groups are forecasted to grow at a CAGR of 3% over the coming five years.The population shows a favorable demographic fact that almost half of the local population is aged below 19 years (more than 60% below 29 years).

The country receives more than 8.5 million visitors per year Visitor population estimation covers pilgrims, tourists and business people, KSA attracts a large number of pilgrims for both Hajj and Umrah with average length of stay for visitors is 21 days. In addition, Number of visitors is forecasted to continue its growth, especially for business visitors.



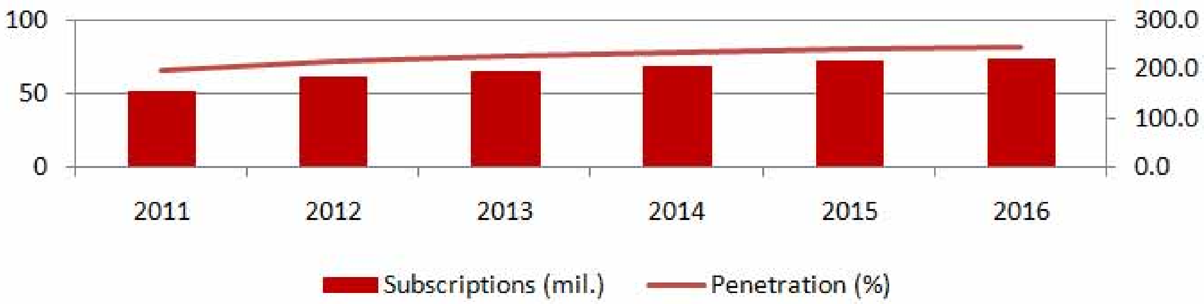
Source: WCIS

Political and Regulatory Overview

Regulator has worked towards the establishment of increased competition in the mobile market and has facilitated opportunities for local and foreign investment. The regulatory framework is relatively sound. Forming a business has become less time-consuming, and licensing requirements have been eased. With no minimum capital required, starting, a business takes only three procedures and five days. There is no mandated minimum wage, but wage increases have exceeded labor productivity.

3.3. Competition (Saudi Telecom Market)

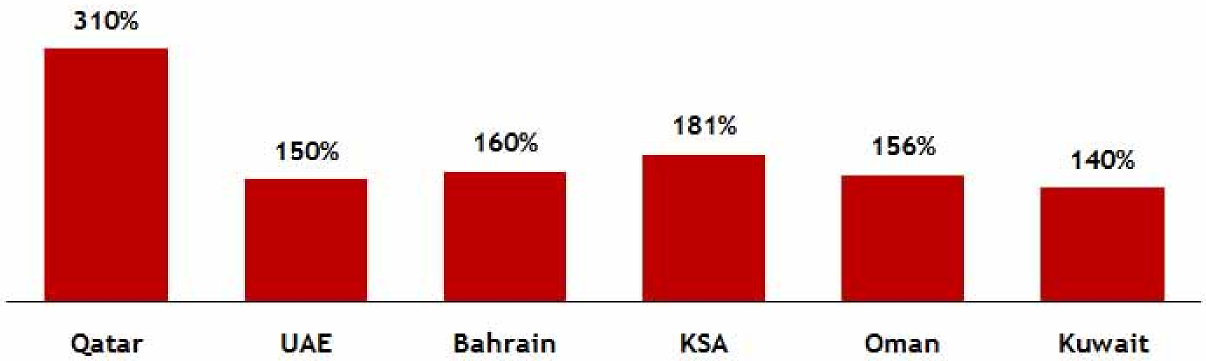
Saudi Arabia is by far the largest telecommunications market in the GCC region, with SR 52.5 billion total revenues in 2010, as reported by the CITC, out of which up to 74% is attributable to various mobile telecommunication services.In particular, these mobile services experienced continued healthy growth over the past year, with mobile subscriptions increasing approximately 23% to 48.3 million by 31st December 2011



Source: WCIS

Penetration Indicator

Mobile penetration benchmark
(Dec 2011; % population)

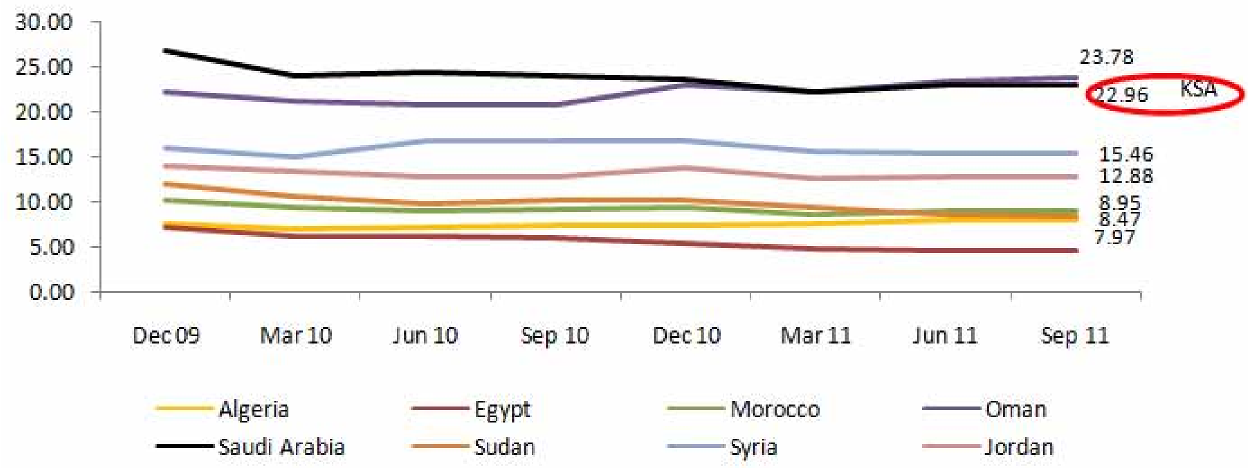


Source: WCIS

The average revenue per user in the Saudi market has been declining in line with peers, though it is still higher than in most of other Middle East countries suggesting there is still room for capturing value, as per the chart below.

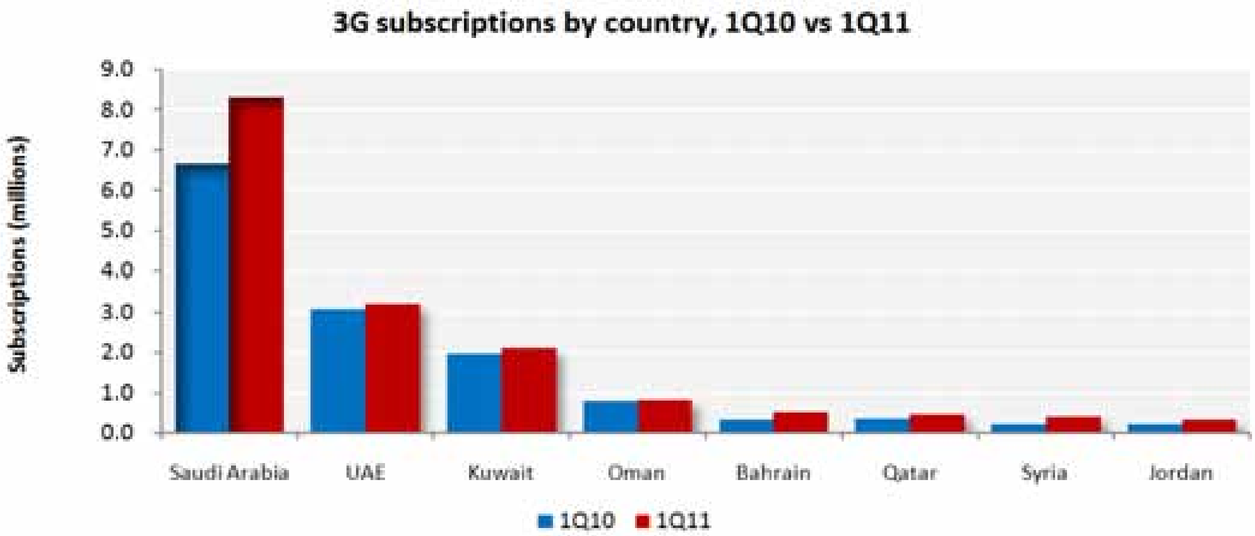
ARPU indicator

Middle East ARPU evolution benchmark
(2009-2011, USD per month)



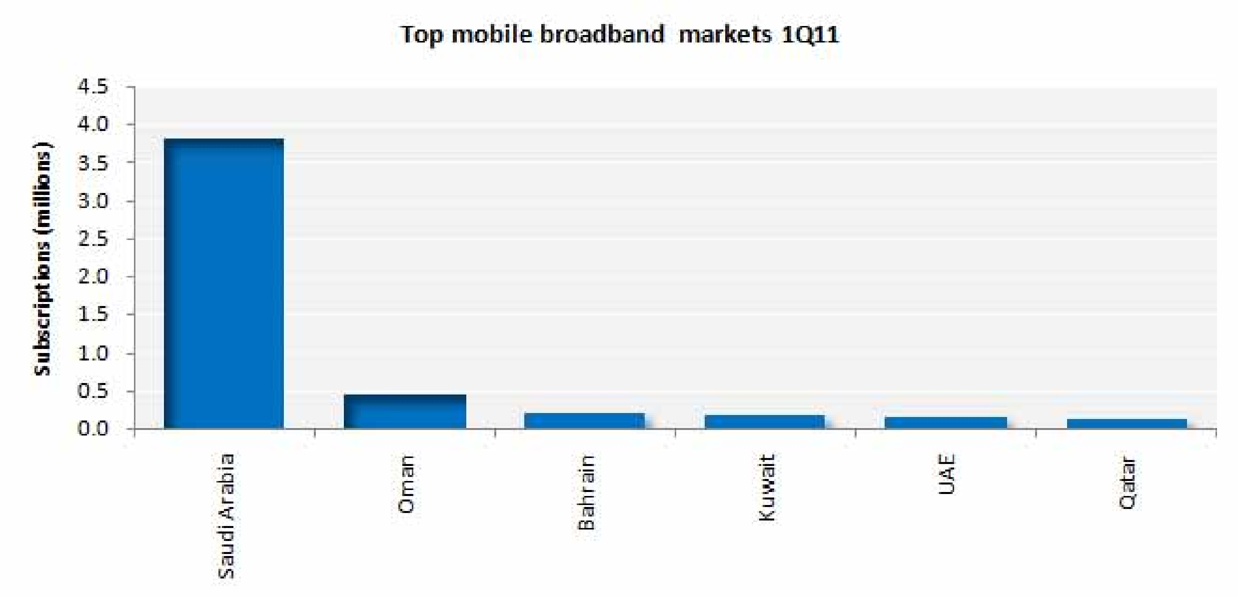
Source: WCIS

Saudi Arabia is the second largest market in the region and is one of the top 20 countries on a global scale for net additions over the year to end 2Q11. Saudi Arabia is also the market leader in terms of 3G subscriptions in the Middle East, to close 2011 at 64% of the regions' HSPA subscriptions.



Source: WCIS

Saudi Arabia is by far the regional leader on Mobile Broadband.



Source: WCIS

Fixed line services also indirectly compete with The Company and penetration currently stands at 16% of the KSA population, which is similar to other countries in the GCC region, and is expected to remain at this level. Looking forward, in light of this competitive market with significant value still to be captured, it is imperative to leverage our competitive advantages in order to maintain and grow market share.

Zain Saudi is looking to differentiate itself via:

Brand positioning and recognition

The key objective of the Company in marketing its products and services is to convey the "Zain" brand, its values and customer offerings in a positive and proactive manner in order to differentiate the Company from its competitors. The Company plans to relay an image reflecting a robust brand (customer) experience, which will enable the company to draw on each aspect of its branding to drive growth and profitability, this will be achieved through a variety of relevant initiatives that impacts all customer touch-points.

Continued high quality customer service

Studies and analyses undertaken by both the Company and an independent research organization (the Nielsen Company) show the Company's customer service satisfaction level in call centers as the highest in the industry. These components include, among others, ability to solve problems at first call, ability to follow up, waiting time, ease in connecting to the call center, clarity and ease on the IVR, employee competence and clarity of information provided.

Strong distribution network and partner relationships

The Company has around 200 branded stores in the KSA and a network of more than 3,000 authorized points of sale, that facilitate a reach of its distribution channels that spans the country, helping to support the strong acquisition of new customers. In addition, the Company has strong relationships with distribution partners that have telecommunication expertise and a high level of retail knowledge.In line with enhancing its brand presence and coverage the company launched six Flagships in Riyadh, Jeddah, Dammam and Khobar, and plans to launch an additional five to ensure best reach.

A culture of product and service innovation

The introduction of new and innovative products, services and pricing as well as the Company's continuous efforts to position itself as providing the best value for money for its consumers, has been one of the key success factors behind the growth of the mobile customer base that the Company has experienced over the past three years of commercial operations.

An Experienced Management Team

The Company's management team comprises individuals with extensive experience in the mobile telecommunications sector, in particular, emerging markets. The management team has been successful to date in growing the Company's market share in the KSA. In addition, the Company's management team has developed substantial expertise in strategy execution, managing financial risk, planning, building and managing new networks and services, whilst developing a strong branding strategy and introducing distinctive product strategies. The new management team included as an example the introduction of Chief Commercial Officer, Saud Al Bawardi, who has many years of sales and marketing experience across KSA mobile operators, which demonstrates Zain commitment to secure best talent.

4. Operations

Zain launched its commercial operations on August 26, 2008, a year after it was awarded its mobile license.By the end of 2011 and after our third full year of operation,we had a solid performance that paved the way for optimistic yet achievable targets for 2012. 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 plans to expand 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 1432 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.

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, Zain continued building its voice and Mobile Broadband (MBB) services; voice services now cover more than 400 cities and 59highways, serving more than 90% of the population. Network Growth has also included providing MBB services in all major cities. The following key projects were also successfully completed by the end of 2011:

- 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 2.3 million customers, enabling Zain to capture a higher market share than the previous Hajj seasons
- Zain started the real implementation of a large scale project to build own Nation wide Fiber transmission network. An agreement with TOC (the newly established Telecommunication arm of Saudi Electricity Company) to use the existing dark fibers which will enable Zain to reduce its dependence on the local service providers and will eventually provide an approximate SR 300 million reduction in OPEX paid to local service providers over the next few years. In addition this project will prepare the network to provide future high capacity MBB services
- In order to provide more robust LTE core, Zain Deployed LTE core in three main cities: Dammam, Riyadh and Jeddah;
- Modernizing Dammam, Riyadh and Madinah regions with latest RF and Tx technology.
- Ramadan and Hajj expansion with MSS pooling concept;
- To improve Zain network quality, RF and Tx expansion took place to eliminate congestions and increase Zain coverage.
- Zain has won USF2 project (part of the CITC universal service fund program) completely executing the project covering more than 550 remote localities in the north and south of the kingdom of Saudi Arabia. The services provided by Zain include 2G

and 3G voice and data to totally new areas and customers.

- Zain has also won the USF4 project and this will be under implementation in 2012.

4.1.4. Strategy for 2012

In line with Zain'sbusiness 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..
- Eliminating national roaming by increasing Zain foot print in uncovered areas.
- Enhancing core resiliency and capacity. Modernizing Transmission and Radio with latest technologies
- Outsource a large portion of the Network / IT services with one vendor to reduce overall OPEX and improve on the quality of those services provided

4.2. IT

4.2.1. IT Infrastructure and applications

Zain KSA started its operation with state-of-the art IT systems, providing maximum flexibility and capabilities. In 2011, 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 2011:

- 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 2011, e.g. ZAIN Unlimited, ZAIN Super, Broadband and other promotions
- Better operational process to support Customer problems which increased the Customer Services SLA from 65% to 80%
- 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 started in 2011
- Successful Launch of mobile number portability system
- Enhancements in Infrastructure which has increased the performance of billing & credit Control.

4.2.2. Strategy for 2012

In 2012 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 devel opment 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 en hanced time to market lifecycle.
- Further improve the “customer experience” oriented end to end KPI’s ensuring the best services to Zain customers.

4.3. Commercial

The Company’s aim is to secure the best possible returns for Shareholders while maintaining high standards of internal organization and corporate governance. The Company has pursued this aim through the implementation of 5 key strategic initiatives:

- Become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation
- Focus on customer retention and enhancing the Zain customer experience
- Enhance the strength of the Zain brand
- Accelerate the rollout of mobile broadband (“MBB”)
- Develop the most effective sales and distribution channels in the KSA market

4.3.1. Become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation

Based on data published by analyst reports, the Company’s customer acquisition level during the first year of operations was the highest in the KSA for a new entrant. The Company acquired 3 million customers in its first seven months of operations. The Company has also been one of the most successful third entrants in the global telecommunications market and has developed its customer base against the backdrop of a highly penetrated market.

The Company believes that it has achieved this growth through its continued product and service development, ongoing marketing innovation and market segmentation strategies. The Company focuses on key market segments where it can benefit from a sustainable competitive edge. The Company’s priority segments are young executives, students, expatriates, higher end customers and business customers. The Company believes it is on the right track to market itself as a credible alternative to its competitors in relation to such customers that is has attracted by improving its improved network capabilities, expanding and enhancing its range of mobile product and service offerings and maintaining new technology offerings. During 2011, the Company launched several products in terms of new residential packages, new MBB packages, and new products for Corporate / SME and new Blackberry packages, examples of which are:

1) The re-vamped Mazaya postpaid package offering a selection of add-ons to suit the customers' needs
2) The unlimited offer for both prepaid and postpaid, where customers can talk to free on net against a small monthly fee .
3) The International package which added more destinations in 2011, providing a reduced rate for those who frequently call internationally

4.3.2. Focus on customer retention and enhancing the Zain customer experience

The Company intends to continue to implement marketing and promotional strategies to maintain and increase loyalty amongst existing customers and to attract new ones. The Company believes that expansion of customer numbers and the retention of customers is an end-to-end process whereby customers are guided in a consistent manner through each stage of their customer experience: from the point of sale, with a strong retail distribution network, ensuring a close proximity between services and customers, to call centres with segmented and specialised support, in addition to using innovative channels such as self-care portals and online payment tools.

In order to enhance the customer experience, the Company has continued to expand its reach by increasing the number of shops it has across the KSA. Currently, it has more than 3,500 points of sale and the aim is to have the widest distribution network of all operators in the KSA to help to ensure that services are easily accessible by customers. The Company has continuously upgraded its infrastructure to provide a better quality of customer service and employs well-educated and motivated staff who can respond to the customers' needs. In addition, the Company has launched a loyalty programme to help retain and reward customers through innovative reward schemes based on the length of time that customers remain with the Company and service usage levels.

4.3.3. Enhance the strength of the Zain brand

The Company's brand positioning in relation to its customers is essential to achieve its aim of attracting and retaining a diverse mix of customers. The key objective of the Company in marketing its products and services is to convey the "Zain" brand, its values and customer offerings in a positive and proactive manner in order to differentiate the Company from its competitors.

The company believes that customers identify with brands and products that reflect their values; hence the Company focuses its marketing efforts on leveraging the key attributes of the Zain brand: "fun, enjoyable, caring, trendy and fashionable, young at heart and vibrant" (with a positive "buzz"). The Company seeks to align its brand and services portfolio to enhance these attributes and, in turn, the customer experience. The Company continues to draw on each aspect of its branding to drive growth and profitability and does this through a variety of initiatives, including sponsoring high profile sporting and educational events, such as the Saudi Arabia Soccer League and the PrincessNourahBintAbdulrahmenUniversity exhibitions.

4.3.4. Accelerate the rollout of mobile broadband ("LTE")

Following the soft launch of MBB by the Company in July 2009 and its full commercial launch in December 2009, the Company has been consistently investing in its MBB offering. 2011 has been a successful year for the MBB segment of the Company, with more than 100,000 active customers using Zain Data lines and 300,000 Voice customers with Broadband opt-ins enabled as of December 31st. The growth of the MBB segment has generated more than SAR 274million for the Company during 2011 and customers' usage has tripled in the last 12 months.

The Company continues to improve this offering in order to capture the anticipated growth in broadband usage by customers. The Company believes that MBB will overtake fixed broadband in the near future and, accordingly, is pursuing opportunities that will be brought about by this shift in usage through offering different propositions such as computer and mobile handsets for Pre-paid and Post-paid customers.

In line with this strategy, the Company has introduced certain innovative MBB promotions to the KSA market, including the delight pay as you go offer, cash-back offer for dongles and discounts for customers entering into long-term contracts for MBB. TheCompany continues to develop new and targeted MBB products, including (i) specialized youth and business offerings (including PC bundles with tailored usage packages); and (ii) promotional packages with specific hardware devices that enable the use of MBB. The Company is also partnering with vendors of hardware devices in order to provide financing to customers who wish to acquire handsets and laptops that contain the Company's data packages.

4.3.5. 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 distribution channels in order to increase customer 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 2011, Zain KSA continued to develop its 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 2011 was similar or better than competition. 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 weight of EVD (Electronic Voucher Distribution) from 5% to 30% by end of the year.

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 performance in order to deliver an excellent customer experience. The revamped incentive scheme achieved a significant reduction in price wars 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, six flagships were up and running, two of which opened in Riyadh, offering the best Zain customer experience and allowing the company to compete in the best-in-class retail environment. The plan is to have a total of 11 flagships by the year end 2012.

The Company will continue to assess its partner network and is seeking and engaging alternative distribution channels 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 seek to expand the availability of mobile recharge options to its customers in a cost effective manner, the Company is continuing to develop its electronic distribution network across the KSA. By end of 2009, approximately 5 per cent of mobile recharges (as a percentage of the Company's total airtime sales) were made through electronic, paperless methods. This figure increased to approximately 30 per cent by end of 2011.

4.4. Strategy moving forward – 2011 and beyond

The Company's long term aim is to secure the best possible returns for Shareholders. The Company pursues this aim through the implementation of the following strategic initiatives.

Become the telecommunications operator of choice in the KSA with an approach based on market segmentation and innovation

The Company is continuing to position itself as a strong alternative to its competitors in relation to the young population in the Saudi market in general, and to young Saudi and expatriate executives, as well as students. In particular, it intends to attract such Customers (and thereby increase ARPU figures) by marketing its improved network capabilities, expanding and enhancing its range of mobile product and service offerings, maintaining new technology offerings, such as LTE, continuing the rollout of 3G and upgrading its current network.

Increase focus on Customer retention and enhancing the experience of the Company's Customers

The Company intends to reinforce its efforts to implement marketing and promotional strategies and to enhance its customer care and contact centers. This will enable it to maintain and increase loyalty amongst existing Customers and to attract new ones. The Company believes that expansion of Customer numbers and the retention of Customers can be achieved by providing a consistent customer experience.

Enhance the strength of the Zain brand

The Company aims to maintain and strengthen its vibrant brand image that resonates with its Customers and distinguishes it from other mobile telecommunications operators. The Company's goal is to attract and retain Customers through a targeted marketing message and service offerings that are straightforward, flexible and good value.

Accelerate the rollout of mobile broadband

The Company believes that innovative services, extensive geographical coverage and a high quality network are critical success factors in the MBB market in the KSA and it is committed to accelerating the rollout of its broadband network to support the anticipated growth. To achieve this, the Company will upgrade its network to HSPA+ and continue its roll-out of LTE across the KSA.

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

The Company intends to seek and engage alternative distribution channels during 2012 and 2013 to ensure that the distribution channel network is as diversified as possible, allowing for a more effective targeting of specific customer segments. It has been continuously implementing several strategic sales projects across its retail, distribution and business channels, and has focussed on improving the quality of its agents, their knowledge, materials and skills and its processes.

5. Proposed capital restructuring

On 26 October 2011, the Board of Directors of Zain KSA announced that it resolved the following:

1. To convene an Extraordinary General Assembly of the shareholders of Zain (the "Shareholders") to vote on the recommendation of the Board of Directors to reduce the share capital of Zain from SAR 14 billion to SAR 4,801,000,000, to be effected by way of a reduction in the number of shares in issue from 1.4 billion shares of SAR 10 each ("Shares") to 480,100,000 Shares by the cancellation of 919,900,000Shares, being a ratio of one Share to be cancelled for every 1.5219 Shares held (the "Capital Reduction"). The convening of the Extraordinary General Assembly to approve the Capital Reduction is conditional upon Zain obtaining the required approvals from the Capital Market Authority (the "CMA"), the Ministry of Commerce and Industry ("MoCI"), third party lenders and other interested parties.

2. To convene an Extraordinary General Assembly of the Shareholders to vote, subject to the resolution to approve the Capital Reduction having been passed, on the recommendation of the Board of Directors to increase the share capital of Zain by SAR 6,000,000,000 (following the Capital Reduction) from SAR 4,801,000,000 to SAR 10,801,000,000 will be effected by Zain issuing 600,000,000 new Shares (the "New Shares") (the "Capital Increase"). The Shareholders whom names appear on share registry maintained by Tadawul at the close of trading on the date of the Extraordinary General Assembly will have the right to subscribe for New Shares in cash, pro-rata to their respective shareholding in Zain at that time. The Founding Shareholders will have the right to subscribe for New Shares pro-rata to their shareholding in Zain at that time by capitalizing part or the entire principal amount of their shareholder loans previously provided to Zain. The convening of the Extraordinary General Assembly to approve the Capital Increase is conditional upon Zain obtaining the required approvals from the CMA, MoCI, third party lenders and other interested parties.

6. Summary of Zain KSA financial results

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

SAR Million	2008 Audited	2009 Audited	2010 Audited	2011 Audited	Change 10/11	% Change 10/11
Current assets	1,181	1,850	2,602	2,432	(170)	(7%)
Non-current assets	25,484	25,980	25,453	24,312	(1,141)	(4%)
Total assets	**26,665**	**27,830**	**28,055**	**26,744**	**(1,311)**	**(5%)**
Current liabilities	13,090	6,789	7,454	15,512	8,058	108%
Non-current liabilities	1,853	12,419	14,472	6,939	(7,533)	(52%)
Total liabilities	**14,943**	**19,208**	**21,926**	**22,451**	**525**	**2%**
Shareholders' equity	11,722	8,622	6,129	4,293	(1,836)	(30%)
Total liabilities and shareholders' equity	**26,665**	**27,830**	**28,055**	**26,744**	**(1,311)**	**(5%)**

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

As at 31 December 2011, the Company had total assets amounted to SAR 26,744 million, of which SAR 20,178 million (75.4% 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 4,059 million as at 31 December 2011 represented 15.2% of total assets.

At the same date, The Company's total liabilities amounted to SAR 22,451 million. 76% of this balance amounting to SAR 17,060 million relate to the following:

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

The Company incurred net loss for the year ended December 31, 2011 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.

Overview of the Company's Borrowings

As at 31 December 2011, the outstanding balances of borrowing arrangements amounted to SAR 17,060 million. The following table summarizes the types of those arrangements, their outstanding balances as well as their maturity dates:

Type of borrowing	Outstanding balance (SAR Million)	Maturity
Syndicated Murabaha Financing	9,748	27-Jul-2012
Advances from Shareholders	4,019	Open
Long-Term Borrowing Facility	2,224	09-Apr-2013
(Junior Debt)		
Vendors' Financing	1,070	Dec-2012 till Jul-2014
Total	**17,060**	

Syndicated Murabaha Financing

The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 9,748 million was arranged by Banque Saudi Fransi during August 2009 in order to refinance the previous financing which matured in July 2009. This Murabaha Facility consists of a SAR portion totaling SAR 7.09 billion and a
US$ portion totaling US$ 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.

Financing charges, as specified under the Murabaha Facility, are payable in quarterly payments over a period of two (2) years. The principal amount was repayable in one bullet payment on July 27, 2011. As per the terms of the Murabaha financing agreement, the Company had two (2) options to extend the initial maturity date (August 12, 2011) for six months each, totaling the renewal of the facility for one (1) full year with the final maturity date being July 27, 2012. The Company has successfully exercised the first renewal option and the Murabaha Facility was extended till January 27, 2012. During December 2011, the Company had formally submitted the request to exercise its second and final option to extend the maturity date of the Murabaha Facility till July 27, 2012 and obtained the required approval from the lenders on January 24, 2012.

On October 11, 2011 the Board approved to commence the negotiations with the current existing lenders and to seek new potential lenders to refinance the existing Murabaha Facility. Currently, the Company is evaluating the terms and conditions of various potential lenders and we believe a formal refinancing agreement will be most likely signed during the first half of year 2012.

The conditions, relating to the Murabaha financing agreement, that were imposed by the lending banks as set out below:

- 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.

Throughout the year 2011, 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, which amounted to SAR 4,019 million as at 31 December 2011, carried finance cost that approximate the prevailing market rates.

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

- Partially finance the acquisition of CITC license back in year 2007;
- Finance the working capital requirements during the third (3rd) quarter of year 2009;
- Provide security required by syndicated Murabaha financing agreement during the third (3rd) quarter of year 2009.

The advances from shareholders as at 31 December 2011 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Murabaha Facility of SAR 9.75 billion.

The share capital increase will involve capitalization of advances from the founding shareholders by converting most of the above advances to equity which is subject to the final approval of the founding shareholders.

Long-term Borrowing Facility (Junior Debt)

During second (2nd)quarter of year 2010, a short-term borrowing facility was arranged by BNP Paribas to refinance the Company's obligations under the existing vendor financing arrangements to be repayable in June 2011. This facility consisted of a SAR portion totaling SAR 438.8 million and a US$ portion totaling US$ 468 million (equivalent SAR 1,755 million) and was secured by cash guarantee provided by a founding shareholder. The facility attracted financing charges as specified in the agreement.

On April 5, 2011, a long-term borrowing facility (Junior Debt) was arranged from a local commercial bank to refinance the Company's obligations under the above-mentioned existing short-term borrowing facility to be repayable on April 9, 2013. This facility consists of a SAR portion totaling SAR 1,875 million and a US$ portion totaling US$ 100 million (equivalent to SAR 375 million) is utilized in full and is secured by a guarantee provided by a founding shareholder. The facility attracts financing charges as specified in the agreement.

The initial purpose of obtaining this type of financing was to refinance the Company's obligations under the existing 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 further, the Board amounted to SAR 2,223 million as at 31 December 2011.

Vendor financing

The Company entered into financing arrangements through the shape of notes payable with international telecom's network companies totaling SAR 1,070 million in order to secure the purchase and installment of required telecom's equipment.

This financing arrangement was guaranteed by a founding shareholder. The outstanding balance amounting to SAR 1,070 million, as at 31 December 2011, carries finance cost that approximates the prevailing market rates and will be repaid in full at maturity of each arrangement (total of eight (8) vendor financing arrangements) which vary from 12 December 2012 till 17 July 2014.

Statements of OperationHighlights for years ended December 31, 2008, 2009, 2010 and 2011.

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

SAR Million	2008 Audited	2009 Audited	2010 Audited	2011 Audited	Change 10/11	% Change 10/11
Revenues	505	3,004	5,934	6,699	765	13%
Cost of revenues	(489)	(2,127)	(3,404)	(3,499)	(95)	3%
Gross profit	**16**	**877**	**2,530**	**3,200**	**670**	**26%**
Distribution and marketing	(1,021)	(1,574)	(1,848)	(1,972)	(124)	7%
General and administrative	(260)	(376)	(351)	(329)	22	(6%)
Depreciation and amortization	(434)	(1,394)	(1,494)	(1,710)	(216)	14%
Loss from operations	**(1,699)**	**(2,467)**	**(1,163)**	**(811)**	**352**	**(30%)**
Commission income	65	1	1	-	(1)	(100%)
Financial charges	(226)	(633)	(1,196)	(1,114)	82	(7%)
Pre-operating expenses	(418)	-	-	-	-	-
Net loss for the year	**(2,278)**	**(3,099)**	**(2,358)**	**(1,925)**	**433**	**(18%)**

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

Revenues have been increasing steadily in the past years, reaching SAR 6.7 billion in year 2011 thus increasing by 13% when compared to year 2010. This increase in revenue was achieved despite the decrease in the number of subscribers that resulted from management's decision in order to fully comply with the industry standard rule applicable to the definition of active subscribers. This rule defines an active subscriber as subscriber who gives rise to a revenue generating event within a 90-day period.

As at 31 December 2011, The Company had a market share of 16% of active customers in the Kingdom of Saudi Arabia. This represents a marginal decrease than what was previously reported during the same year, which is attributed to a decrease in the customers' base reaching 8.1 million customers resulting from the previously mentioned clean-up process undertaken by management during the fourth (4th) quarter of year 2011.

The Company recognized that the Saudi market is characterized by a "transitory" segment consisting of a large number of visitors who travel to the Kingdom for short periods throughout the year, purchase prepaid SIM cards and generate revenues during their short stay after which these SIMs become inactive.
It is worth noting, however, that these revenues are recurring by nature but are generated by a different base of customers each year. As such, this will not impact the revenue and income base of the Company for the previous year or the coming years.

Moreover, this decrease by 17% in the customers' base at the end of the fourth (4th) quarter of year 2011 reaching 8.1 million customers as compared to 9.8 million in the previous quarter is resulting in an increase in the overall ARPU by 16% within the same period.

On another note, the cost of revenues has been increasing at a slower pace than the revenues reaching SAR 3.5 billion in year 2011 thus increasing by 3% when compared to year 2010.

As a result of the increase in revenues by 13% between years 2010 and 2011 and the increase in the cost of revenues by 3% for the same period, the gross profit improved by 26%. This year on year gross profit improvement was mainly driven by the decrease in cost of international calls termination and improvement in call mix.

Distribution and marketing costs have also increased during year 2011; however, at a slower pace than revenues thus experiencing only a 7% increase from year 2010 to year 2011.

EBITDA reached SAR 899 million increasing by 172% during the same period as compared to SAR 331 million in year 2010, EBITDA margins increased by 7.9 percentage points during the period reaching 13.4% as compared to 5.5% in year 2010.

During year 2011, the company narrowed its net loss by 18.4% amounting to SAR 1.9 billion as compared to SAR 2.4 billion in year 2010

The following table presents revenue breakdown for years 2008 (year of inception), 2009, 2010 and 2011:

SAR Million	2008	2009	2010	2011	Change 10/11	% Change 10/11
Usage charges	486	2,879	5,815	6,524	709	12%
Subscription	19	123	115	143	28	24%
Other	-	2	4	32	28	700%
Total revenue	**505**	**3,004**	**5,934**	**6,699**	**765**	**13%**

Source: Company's information

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

Dividend policy

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 until 2015 at the earliest at which time it will reconsider this policy based on the Company's earnings, its financial condition, and the condition of the markets, the general economic climate and other factors. In the interim, the Company is focusing on developing its revenue base by making significant capital expenditures for the development of its mobile network and supporting operational infrastructure. In addition, the Company is required to seek the prior written consent of the syndicated Murabaha Facility's lenders and meet the requirements of the Companies Regulations and the By-Laws prior to making any dividend payments.

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 and, in addition to the normal course of business communication of annual and interim reports and the AGM, the Company has 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 Saudi Arabia activities in supporting the society have been characterized with quality of performance and speedy implementation; the Company started to practice its pattern of commitment to social responsibility prior to the launch of its commercial services. This type of commitment reflects Zain's national duties as they are considered as an integral part of its philosophy and vision towards its relation with the local community.

The social support exerted by Zain, whether it is a material support or moral support, is not restricted to a certain sector; Zain gives special attention to all community needs. Large amount of its capabilities and potentials have been dedicated to the following : education, youth, localizing of jobs, support of universities, health, sports , empowering women as well as to other aspects that reflects the progress of any society. In line with this policy, Zain has concluded a number of agreements with some Saudi universities, training centers and other job localization organizations. Zain also is sponsoring youth activities, football teams, cultural gatherings and forums and meetings that aim at development of performance among Saudi society.

8.1. 2011 highlights

8.1.1. Zain summer Festival

Zain SaudiArabia hosted Children from different Charity Organizations during summer festivals in the Zain Entertainment Center from different regions, The aim was to inject happiness in their hearts and have fun and enjoy their time, in addition to raise awareness on these special needs.

8.1.2. Ramadan

- For the fourth year in a row Zain Saudi 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 ,Madinah and Jeddah . Members of Shabab Tamouh program and Saudi volunteers helped distributing the meals. The aim was to be a part of this holy month and to increase the brand value and benefit from the high exposure during Ramadan.
- Zain Saudi Arabia disclosed that part of the calls revenues generated from its cus-

tomers throughout the holy month of Ramadan to benefit the Disabled Children Association. The purpose for this initiative is to support the Association pursuant to an agreement concluded between both parties. Zain customers did not incur any additional costs while all of them contributed in this program just through making calls per the currents rates featured as competitive in the Saudi market.

8.1.3. Sustainability

At Zain Saudi Arabia we have made the commitment to implement sustainability management and transparent reporting. The first step has been the creation of our baseline sustainability report that sets out what sustainability means to us and presents our framework and baseline performance since establishment, from an environmental, social and economic perspective. Comparable data is provided for 2008, 2009 and 2010 as available.With this baseline Sustainability Report for 2011, we aim to open a constructive and engaging dialogue with all our stakeholders on the subject of our sustainability ambitions, performance, and the overall sustainable development of the Kingdom of Saudi Arabia. This report has been prepared using the most internationally recognized and comprehensive sustainability reporting guidelines – the Global Reporting Initiative (GRI) G3. We have self-declared this report to have achieved a GRI Level B, demonstrating the level of disclosure achieved. The GRI has checked and approved our declaration level.

8.1.4. Awards

Zain SA participated in the CSR Arabia Award and awarded (Special Mention Award in CSR Strategy and Sustainability), This Awards calls on all organizations with operations in the Arab world to submit their CSR best practices, and offers them a platform for recognition of their leadership in Corporate Social Responsibility.

The Arabia CSR Awards has the support of the UN Global Compact, giving Award winners international recognitionto demonstrate our outstanding leadership and commitment to corporate sustainability and commend international organizations that are actively pursuing corporate sustainability in the Arab region also to promote CSR as an essential element of a successful business model in the Arab region and to create a database of CSR best practice case studies from around the region

Zain SA participated in King Khaled Award and won in the category of Best Smart Philanthropy .This annual award is intended for private sector enterprises operating in the Kingdom of Saudi Arabia, which applies the best practices and adopt the most effective programs to support sustainable development socially, economically and environmentally. although Zain didn’t win the prize, we got awarded and recognized for the best smart philanthropy programs Building a nationally competitive workforce Innovating Solutions for Social Development Making a Commitment to High Quality Responsible environmental management

8.1.5. Shabab Tamouh Program

This program gives university students a chance to invest their energy, acquire on-ground experience, and practice the theoretical knowledge they gain at university. The program also offers students the chance to work while they are at university, network with other members and exchange experiences. Shabab Tamouh encourages individuality, creativity, and prepares members for theirfuture in the business world.

Some Examples of the Youth projects:

- Saudi National Day Video: By following their passion and loyalty to this great country and using their tremendous talents, they created a video with mix of Zain melody and the Saudi National Anthem which been well communicated to the public through YouTube and social media and our flagship shops.
- World Teachers Day : A post from Shabab Tamouh members (Youth Program) dedicated to the World's Teacher's Day , expressing gratitude and appreciation to the Teacher.
- They have participated in many projects and events in Zain and some universities.

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. The resulting affects may put pressure on the price of 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 advance in competing technologies on a timely basis or at an acceptable 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 restraints to our introduction of new services. If these services fail to gain acceptance in the market place, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract 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 service 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 requirements contained in our license obligations regarding the rollout our mobile network. The Company's failure to maintain good relationships with the distributors, or the failure of the Company's to maintain good relationships withits business partners to procure sufficient customers, could have a material adverse effect on the Company's business, financial position, prospects and results of its operations.

Financing risk and requirements: The Company estimates that it will require a significant amount in external funds over the next years. Accordingly, the Company will require further sources of funds. If bank financing is not available to the Company on commercially reasonable terms and it is not otherwise able to raise additional funds through further capital injections from Shareholders, the Company's investment program could be negatively affected, which could have a material adverse effect on its business, financial position, prospects and results of operations.

Credit risks: Whilst the Company's business plan envisages a subscriber base that will consist of a majority of pre-paid accounts, the Company, like most mobile operators, will be exposed to bad debt risk from post-paid accounts. Subscribers who were blacklisted by other operators are likely to attempt to subscribe with the Company since there is no general database of blacklisted subscribers maintained in the KSA. 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 the Company's business, financial position, prospects and results of operations.

Telecommunications regulations: The business of the Company is subject to regulation by the KSA Government. The regulatory framework within which the Company operates is continuing to evolve in the face of liberalization of the sector and competition. This evolving framework may constrain its ability to implement its business strategies and limit its flexibility to respond to changing market conditions and to meet its business objectives and plans, as currently envisaged. There can be no assurance that the applicable laws of the KSA or the regulatory framework will not change further or be interpreted in a manner that could materially and adversely affect the Company's operations. Under the Telecommunications Regulations, the CITC has broad powers that include amending, suspending, revoking or not renewing the License or imposing penalties against the Company. The CITC also has the power to regulate content broadcasting activities. Any such actions against the Company or affecting it, or the imposition of penalties, could materially adversely affect the Company's business and financial position, prospects and results of operations.

Unexpected business interruption or breach of security measures: The Company will be able to provide services only insofar as it can protect its 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.

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

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

Economic risks: The contribution of the oil sector to the KSA’s GDP continues to be substantial despite the 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. Such impact may adversely affect companies operating in the KSA, including the Company.

Dependence upon the KSA Mobile telecommunications market: The development of the Company’s 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 the Company’s tariffs and the price of handsets. Given the multitude of factors, many of which are outside the Company’s 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, the Company’s subscriber and revenue projections could be negatively affected. Any developments in the KSA telecommunications sector that negatively impact the Company or its business could materially adversely affect the Company’s 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 regulationsin 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 Stock Exchange 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 2011

- Paragraph (B) of Article 6: as the current cycle of the BoD extends for five (5) years that will be ended in first (1st) quarter of year 2013 as stated in the Company's Article of Association. Nevertheless, the BoD will discuss approving the accumulative voting method during the coming year as it will serve the shareholders' benefit.

9.4. The Journey to Excellence

With the start of year 2011, Zain KSA has to excel in its business practices in order to compete in local markets. Business excellence is the application of quality management strategies, techniques and tools to achieve the world-class performance in managing business. The best performance in business will be realized by identifying suitable performance measures and metrics, systematically measuring the performance, comparing the performance with the best-in-class performing companies and then eventually determining the best practices and their effective implementation framework. Some of the best practices should include continuous and breakthrough improvement, proactive management, and management by objective and facts. There are several successful tools that could be employed for business excellence and some of them include balanced scorecard, six sigma, process reengineering, supply chain management, and project management.

Business Excellence journey is the systematic improvement of business performance based on the principles of customer focus, stakeholder value, and process management.

Purpose of the BE function

To initiate, drive and support programs, projects or other activities leading to business excellence through focus areas such as Zain Management System, Business Process Management, Security & Risk Management, Certifications, integrating tools and methods, administrative efficiency, quality and assessment, Business Continuity Management and functional unit level.

Business Excellence ("BE") Department will continue focusing on world-class practices to support Zain KSA's Management to ensure achieving sustainable results, based on a set of fundamental concepts:

- Results orientation

- Customer focus
- Leading Business units achieving their targets based on Zain KSA's Strategy and Objectives.
- Management by enhancing & developing processes
- Continuous learning
- Business Units engagement
- Innovation and development
- Partnership development

BE's mandate is to assist Zain KSA to improve its performance and capabilities by providing a best practice business framework and by offering support, training, assessment, access to development programs and networking with other Zain operations and world organizations. It aims at nurturing a management discipline to guide organizational performance and a continuous improvement culture. This enables our organization to focus on performance upon moving towards becoming "world class" and demonstrating credibility to stakeholders and the marketplace.

This will achieve five main Objectives:

1. Drive operational excellence initiatives to enhance quality, increase revenue and cost effectiveness.
2. Enhance cross-functional business process through BPM program to support Zain KSA to gain market leadership.
3. Benchmark and share best practices through certification and standardization.
4. Conduct business simulation in line with the marketing product and services road map and Post-launch from customer perspective.
5. Develop and champion rollout of an integrated Enterprise Risk Management Framework.

For 2011, the ambitious program includes:

- Ongoing maintenance of the ISO certification for QMS and ISMS (ISO 9001 and ISO 27001) – 3 year Cycle, with performing regular Periodic External Assessments supported with Management Reviews.
- Continues Development & Maintenance of Business Process Management (BPM)
- Running a full independent Business Continuity Management audit
- Setting up an Enterprise Risk Management (ERM) Framework
- Running a full Internal Audit Programs in Zain and Outsource partners to ensure consistent compliance with standards.

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 2011, with summary comments, are as follows:

- Fixed Assets and CAPEX Management process – Internal controls over the processes relating to accounting and recording of fixed assets were required to be improved. The internal communication of fixed asset details is not uniform resulting in fixed assets not being accounted on a timely basis.
- Logical Access Controls over Prepaid billing systems and related applications – Logical Access Controls over the prepaid billing systems need to be made more robust to improve data security.
- Receivables, Credit Control, Dunning and Collection process – Controls over the dunning and collection process need strengthening for reducing receivables and better collection of outstanding bills to customers.
- Operations and Maintenance process – The controls over the operations and maintenance processes were fair.
- 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.
- Security and Controls over Call center & Customer Care applications – We made recommendations relating to the logical security over the customer care applications.
- Security and Controls over Wide Area Network – The security and operational controls over the Wide Area Network need enhancements.
- Indirect Sales and Commission and Incentives process – Recommendations were made to strengthen the controls over the processes within the indirect sales function.
- Logical Access and Operational Controls over Data warehouse – Logical security and controls over the data-warehouse generally needed improvements. There were lapses relating to user administration, password control and access controls, which need to be well secured for protection of data therein.

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, 2010	No. of Shares on Dec. 31, 2011	Ownership % on Dec. 31, 2011
Mobile Telecommunication Company K.S.C.	350,000,000	350,000,000	25.00%
Saudi Plastic Factory	96,250,000	96,250,000	6.88%
Faden Trading & Contracting Establishment	96,250,000	96,250,000	6.88%
Public Pension Agency	70,000,000	70,000,000	5.00%

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 Prospectus, 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. Barrak Al-Sabeeh, Non-Executive Director (50 years)

Al-Sabeeh is a Kuwaiti national and currently a Non-Executive Director of the Company. Al-Sabeeh was appointed as a representative of MTC. In June 2010, Al-Sabeeh was appointed Chief Operating Officer of MTC. Prior to holding this position, he worked as a special advisor to MTC's CEO, and as CEO of Business Development, Government and International Relations at MTC. Al-Sabeeh has held several other senior executive positions, including CEO of MTC in 2008, and Chairman and Managing Director of Kuwait Airways Corporation in 2007. Al-Sabeeh obtained BEng in Industrial Engineering in 1984 from the North Carolina A&T State University in the United States, and has also completed various courses and programs in senior management and leadership.

9.7.3. Khaled Sulaiman Al-Omar, Chief Executive Officer and Managing Director (51 years)

Al-Omar was appointed Chief Executive Officer of the Company in October 2011, having previously been the Chief Executive Officer of MTC since June 2010. Having joined MTC in December 1986, he has held key management positions including the role of Chief Technology Officer (overseeing the MTC Group's telecommunications networks and technology strategy) from November 2008, and prior to this he served as Chief Operating Officer (supervising the Networks, IT, Customer Care, Sales and Marketing departments). From 2003 to 2005, in addition to being CTO of MTC, Al-Omar was responsible for the implementation and launch of the Atheer Project establishing a mobile network in Baghdad and Iraq's Southern region, which was the largest microwave infrastructure in Iraq. Al-Omar holds a BSc in Electronic Engineering Technology from Colorado Technical College (Colorado, USA) and, in 2006, successfully completed an Advanced Management Programme at Harvard Business School (Boston, USA). He is also an alumnus of Harvard University.

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. Sheikh Khalifah Ali Alkhaifah Al-Sabah, Non-Executive Director (34 years)

Sheikh Al Sabah is a businessman with interests in the telecommunications and media industries in Kuwait. Sheikh Al Sabah was appointed as a non-executive Director and Board member of MTC in 2005. Sheikh Al Sabah was appointed as a representative of MTC. Sheikh Al Sabah is the Proprietor and Chairman of Al Watan newspapers in Kuwait, the chairman of Lotus Air in Egypt, the chairman of Load Air Cargo in Kuwait and a board member of Noor Financial Investment Co. in Kuwait. Sheikh Al-Sabah holds an MBA from Columbia University, a BSc in Mathematics and Economics (Magna Cum Laude) from Williams College (Williamson, Massachusetts) and undertook undergraduate studies at Harvard University.

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, IndependentDirector (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 and the Company's secretary in Zain KSA:

Board member	Membership type	No. of shares held on 1st January 2011	No. of shares held on 31st December 2011
HRH Prince Hussam Bin Saud Abdul Aziz	Chairman – non-executive	1,000 (+ 6.875% indirect interest in the Company[2])	Unchanged
Barrak Al-Sabeeh	Non-Executive Director	1,000[3]	Unchanged
Khaled Sulaiman Al-Omar	Non-Executive Director	1,000[4] (+0.0008% indirect interest in the Company[5])	Unchanged
Bader Nasser Al-Kharafi	Non-Executive Director	1,000[6] (+0.0006% indirect interest in the Company[7])	Unchanged
Sheikh Khalifah Ali Al Khaifah Al-Sabah	Non-Executive Director	1,000[8] (+0.0022% indirect interest in the Company[9])	Unchanged
Abdullah Ibrahim Al-Rakhis	Non-Executive Director	1,000 (+2.8125% indirect interest in the Company[10])	Unchanged
HH Prince Nayef Bin Sultan Bin Saud Al Kabeer	Independent	1,000 (+2.175% indirect interest in the Company[11])	Unchanged
Fahad Ibrahim Al Deghaither	Independent	1,000	Unchanged
Ammar Abdulwahid Al Khudairy	Independent	Nil	5,000
Waleed Al Hakeem	Company Secretary	Nil	Unchanged

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")and Managing Director[12] - Khaled Sulaiman Al-Omar (51 years).See above section 9.7. Board of directors for brief bio.

9.9.2. Chief Operations Officer ("COO") – Ahmed Jaber Al-Faifi (40 years) is a Saudi national with previous experience as Chief Technical Officer at the Company. Prior to joining the Company, he worked for Ericsson MUME and the CITC (as Head of New Accounts and Business Development Director, and Mobile Licensing Manager, respectively). Within the industry, Al-Faifi has been responsible for customer business development, establishing business relations with Governmental, regulatory and industry entities. Al-Faifi has been involved in mobile licensing and responsible for the restructuring of projects to ensure that appropriate structures are in place and to ensure regulatory compliance. Al-Faifi attained a BSc in Electrical Engineering from the KSU University at Riyadh in 1996 and an MSc. in Telecommunications Engineering (Fibre Optics) from the University of Jeddah in 2000. Al-Faifi also holds an Ericsson Diploma in 2G/3G systems.

2- HRH Prince Dr. Hussam Bin Saud Abdul Aziz owns 100% of the shares of Saudi Plastic Factory.
3- Legally held by MTC.
4- Legally held by MTC.
5- Khaled Sulaiman Al-Omar holds 136,779 shares in (i.e. 0.0032% of) MTC.
6- Legally held by MTC.
7- Bader Nasser Al-Kharafi holds 100,000 shares in (i.e. 0.0023% of) MTC.
8- Legally held by MTC.
9- Sheikh Khalifah Ali Al Khaifah Al-Sabah owns 388,125 shares in (i.e. 0.0090% of) MTC.
10- Abdullah Ibrahim Al-Rakhis owns 39,376,000 shares in (i.e. 90% of) Rakhis Holding Company.
11- HH Prince Nayef Bin Sultan Bin Saud Al Kabeer owns 2,000,000 shares in (i.e. 0.87% of) Almarai Company.
12- Khalid Al Omar joined in October 2011

9.9.3. Chief Financial Officer ("CFO")[13] – Khalil Fawaz (32 years) 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]. Fawaz has over 10 years of experience in the financial sector and was formerly Head of Corporate Finance at Middle East Capital Group, a subsidiary of First National Bank Group (Lebanon). Prior to joining Zain KSA Fawaz worked at Al-Khabeer Merchat Finance Corporation (Saudi Arabia), five years in PricewaterhouseCoopers (Lebanon) as an Audit Manager and in Deloitte and Touche for two years.. Fawaz attained a Bachelor of Business Administrationand an MBA from Lebanese American University, Lebanon, in 2001 and 0211. He achieved the CPA (Certified Public Accountant) in 2004.

9.9.4. Chief Commercial Officer ("CCO")[14] – Saud Al-Bawardi (35 years) is a Saudi national with 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, Bawardi worked at Mobily as Retail Regional Manager-Central & Northern Region 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.

9.9.5. Chief Technology Officer ("CTO")[15] – Nabeel Mohammed (48 years) is a Yemeni national. He began his career in 1986 in the Telecom Department of the Ministry of Information in Kuwait and joined MTC in 1994. He held posts in the Networks division before being appointed as Group Director, Middle East support in 2006. In 2008, he became

responsible for Zain Nigeria and, in 2009, he was promoted to be Group Director, Operations Management for all of the MTC Group's operations. His responsibilities included managing technology network budgets. He acquired a BSc in Electronic Engineering from Colorado Technical University in the United States of America in 1986.

9.9.6. Acting Chief Organization and Development Officer ("CODO")[16] – Zeyad Abdulla Al-Omar (49 years) is a Kuwaiti national. He began his career in 1986 with Kuwait National Petroleum Company where he held posts in Human Resources, with responsibility for salary and benefits, job evaluation and industrial relations. He joined Wataniya Telecom in 2002, where he was Human Resources and Administration Director, Regulatory Affairs Director and Chief Regulatory Officer. He joined the Company in 2011. He is a member of the American Society for Training and Development and the Society for Human Resources Management and attained a BA in English Literature from Kuwait University in 1986.

13- Khalil Fawaz joined in January 2012
14- Saud Al-Bawardi joined in August 2011
15- Nabeel Mohammed joined in October 2011
16- Zeyad Al-Omar joined in October 2011

Shareholdings by executive management in Zain KSA:

Executive	Position	No. of shares held on 1st January 2011	No. of shares held on 31st December 2011
Khaled Sulaiman Al-Omar	Chief Executive Officer and Managing Director	1,000 (+0.0008% indirect interest in the Company)	Unchanged
Ahmed Jaber Alfaifi	Chief OperatingOfficer	40,502	Unchanged
Khalil Fawaz	Chief FinancialOfficer	Nil	Unchanged
Saud Al Bawardi	Chief Commercial Officer	Nil	Unchanged
Nabeel Mohammed	Chief Technology Officer	Nil	Unchanged
Zeyad Al-Omar	Acting Chief Organization and Development Officer	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 5/4/2009. 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: Khalid Al-Omar (Chairperson), HH Prince Nayef Bin Sultan Al Kabeer, Ammar Al-Khudhairy and Bader Al-Kharafi.[17]

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 6 times in 2011.

17- Executive committee's members have been reduced from four (4) to three (3) members by a Board resolution during year 2011. Dr. Saad Al-Barrak, Faisal Al-Sugair and Abdullah Al-Rakhis were replaced by Khalid Al-Omar, Ammar Al-Khudhairy and Badr Al-Kharafi respectively. These changes will be discussed and approved during the next AGM to be held during year 2012.

9.10.2. Audit Committee

Members:HRH Prince Hussam Bin Saud Bin Abdul Aziz (Chairperson), Fahad Ibrahim Al Deghaither and one more member to be appointed in the AGM to be held during year 2012.

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 twicein year 2011.

9.10.3. Nomination and Remuneration Committee

Members:

HH Prince Nayef Bin Sultan Al Kabeer (Chairperson), Khalid Al-Omarand Fahad Ibrahim Al Deghaither.[18]

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the Board of Directors; and establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company. The committee met twice during year 2011.

9.11. Compensation and Remunerationduring year 2011:

SAR'000	Executive members of the Board of Directors	Non-executive members of the Board of Directors	Top five executives (including CEO, COO and CFO)
Salary and allowances	-	-	11,815
Bonus	-	-	538*
Incentives	-	-	-
Other	-	-	-

18- Nomination and Remuneration committee's members have been reduced from five (5) to three (3) members by a Board resolution during year 2011. HH Prince Nayef Bin Sultan Al Kabeer has been appointed as a chairperson of this committee, whilst Dr. Saad Al-Barrak was replaced by Khalid Al-Omar. These changes will be discussed and approved during the next AGM to be held during year 2012.

* This represent only the two salaries granted by the Company according to the royal decree during year 2011, and there is no bonus decided to be allocated to all employees for the same period.

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

Conditional to the proposed capital restructuring, outlined in Section 2, a decision has been taken by shareholders and the Board of Directors to capitalize a proportion of the shareholder loans to equity in 2011, the remainder will be returned to shareholders beyond 2011 as per the table below.

	SAR'000
Total shareholder loans (including intercompany loan)	**3,559,677**
Total to be capitalized	**2,546,190**
Total to be returned to shareholders	**1,013,487**

The Company has redeemable warrants and similar rights included in its Murabaha financing agreement. 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 those mentioned above, 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 2011. 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	20-Feb-11	02-May-11	14-Jun-11	11-Oct-11	26-Oct-11	14-Dec-11	Total attendances
HRH Prince Hussam Bin Saud Bin Abdul Aziz	-	X	X	X	X	X	5
Shaikh Khalif Al Sabah	X	-	-	-	-	-	1
HH Prince Nayef Bin Sultan Al Kabeer	X	X	X	X	X	X	6
Dr. Saad Hamad Al-Barrak	X	X	X	N/A	N/A	N/A	3
Bader Nasser Al-Kharafi	N/A	N/A	N/A	N/A	X	X	2
Ammar Abdulwahid Al Khudairy	N/A	N/A	X	X	X	X	4
Abdullah Ibrahim Al-Rakhis	X	-	-	-	-	-	1
Fahad Ibrahim Al De-ghaither	X	X	X	-	-	X	4
Dr. Faisal Hamad Al-Sugair	X	N/A	N/A	N/A	N/A	N/A	1
Barrak Al-Sabeeh	X	X	X	X	X	-	5
Khlid Al-Omar	X	X	X	X	X	X	6
Total Present	8	6	7	5	6	6	

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 2011.

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 2011, the outstanding statutory payments stood at SAR 691,246,504 payable to:

1. CITC:

a. License fee: SAR 41,967,278 and

b. Revenue sharing with the government: SAR 649,279,226

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 2011, the Company received notifications about number of fines that were imposed by the CITC resulted from breaches in some operational activities. The total fines amounted to SAR 14 million, and the Company did revoke those decisions before the Board of Grievances. The Company made the necessary provisions against this matter, and expects to pay them during the year of 2012 in case we don't win the appealing.

Other than these items, no other punishments or preventive restrictions of legal force were imposed on the Company by Capital Market Authority or any other supervisory, regulatory, or judiciary body.

9.21. Employees' end-of-service benefits

The value of the employees' end-of-service benefits, provided by Zain, amounted to SAR 23,201,000 as of December 31, 2011.

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, 2011

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS AND AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

Index

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, 2011, and the related statements of operations, cash flows and changes in shareholders' equity for the year then ended, and the notes from 1 to 28 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 present fairly, in all material respects, the financial position of the Company as at December 31, 2011, 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

Without modifying our report, we draw attention to Note 1 to the accompanying financial statements. The Company incurred net loss for the year ended December 31, 2011 and its current liabilities exceeded its current assets. The Company believes that it will be successful in meeting its obligations in the normal course of operations and its efforts in securing the necessary funding which is conditional to the Company's capital restructuring. Accordingly, the accompanying financial statements have been prepared under the going concern basis.

Deloitte & Touche
Bakr Abulkhair & Co.

Nasser M. Al-Sagga
License No. 322

Rabi Al-Awal 27, 1433
February 19, 2012

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET

AS AT DECEMBER 31, 2011

	Notes	2011 SR'000	2010 SR'000
Assets			
Current assets			
Cash and cash equivalents	3	**780,273**	702,117
Accounts receivable	4	**1,006,574**	1,463,166
Inventories	5	**43,617**	28,799
Prepaid expenses and other assets	6	**601,706**	408,527
Total current assets		**2,432,170**	2,602,609
Non-current assets			
Property and equipment	7	**4,058,813**	4,298,200
Intangible assets	8	**20,252,778**	21,154,628
Total non-current assets		**24,311,591**	25,452,828
Total assets		**26,743,761**	28,055,437
Liabilities and shareholders' equity			
Current liabilities			
Notes payable	9	**915,876**	-
Short-term borrowing facility	10	**-**	2,193,750
Syndicated Murabaha financing – current	11	**9,747,638**	-
Accounts payable	12	**1,609,284**	2,104,503
Due to related parties	13	**26,673**	117,294
Deferred revenue		**434,392**	451,342

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A SAUDI JOINT STOCK COMPANY)

BALANCE SHEET

AS AT DECEMBER 31, 2011

Derivative financial instruments	14	**45,781**	-
Accrued expenses and other liabilities	15	**2,731,184**	2,587,223
Total current liabilities		**15,510,828**	7,454,112
Non-current liabilities			
Notes payable	9	**153,937**	659,221
Long-term borrowing facility	10	**2,223,529**	-
Syndicated Murabaha financing	11	**-**	9,655,693
Advances from shareholders	16	**4,018,550**	3,665,497
Due to related parties	13	**520,651**	339,776
Derivative financial instruments	14	**-**	134,630
Provision for employee's end-of-service benefits		**23,201**	17,096
Total non-current liabilities		**6,939,868**	14,471,913
Total liabilities		**22,450,696**	21,926,025
Shareholders' equity			
Share capital	17	**14,000,000**	14,000,000
Hedging reserve	14	**(45,781)**	(134,630)
Accumulated deficit		**(9,661,154)**	(7,735,958)
Total shareholders' equity		**4,293,065**	6,129,412
Total liabilities and shareholders' equity		**26,743,761**	28,055,437
Contingencies and Commitments	24, 25		

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, 2011

	Notes	2011 SR'000	2010 SR'000
Revenue	18	6,699,060	5,934,370
Cost of revenue	19	(3,498,893)	(3,403,922)
Gross profit		**3,200,167**	2,530,448
Operating expenses			
Distribution and marketing expenses	20	**(1,972,132)**	(1,848,666)
General and administrative expenses	21	(329,185)	(351,143)
Depreciation and amortization expenses	7, 8	(1,710,328)	(1,494,220)
Total operating expenses		**(4,011,645)**	(3,694,029)
Operating loss		**(811,478)**	(1,163,581)
Other income / (expenses)			
Finance charges	9,10,11,16	(1,113,856)	(1,195,511)
Commission income		**138**	655
Net loss for the year		**(1,925,196)**	(2,358,437)
Loss per share (in Saudi Riyals):	22		
• From operating loss		**(0.58)**	(0.83)
• From non-operating loss		**(0.80)**	(0.85)
• From net loss		**(1.38)**	(1.68)

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, 2011

	Notes	2011 SR'000	2010 SR'000
OPERATING ACTIVITIES			
Net loss for the year		**(1,925,196)**	(2,358,437)
Adjustments to reconcile loss for the year to net cash from operation activities:			
Provision for doubtful receivables and advances	4, 6	**76,461**	159,889
Depreciation and amortization expenses	7, 8	**1,710,328**	1,494,220
Provision for slow moving inventory items	5	**750**	2,250
Finance charges		**1,113,856**	1,195,511
Provision for employee's end-of-service benefits		**7,415**	6,981
Operation income before changes in working capital		**983,614**	500,414
Changes in working capital:			
Accounts receivable		**380,131**	(623,808)
Inventories		**(15,568)**	8,373
Prepaid expenses and other assets		**(193,179)**	(103,052)
Accounts payable		**(344,622)**	289,711
Due to related parties		**90,254**	139,720

MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA

(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

Deferred revenue		**(16,950)**	200,083
Accrued expenses and other liabilities		**(786,365)**	622,474
Cash generated from operation		**97,315**	1,033,915
Financial charges paid		**(183,530)**	(571,186)
Employee's end-of-service benefits paid		**(1,310)**	(285)
Net cash (used in)/ generated from operating activities		**(87,525)**	462,444
INVESTING ACTIVITIES			
Purchase of property and equipment	7	**(302,009)**	(284,633)
Additions to intangible assets	8	**(8,815)**	(24,234)
Proceeds from sale of property and equipment		**1,728**	1,217
Net cash used in investing activities		**(309,096)**	(307,650)

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, 2011

	Notes	2011 SR'000	2010 SR'000
FINANCING ACTIVITIES			
Notes payable	9	**-**	(2,152,219)
Short-term borrowing facility	10	**(2,193,750)**	2,193,750
Proceeds from long-term borrowing facility	10	**2,223,529**	-
Syndicated Murabaha financing		**91,945**	-
Advances from shareholders		**353,053**	-
Net cash generated from financing activities		**474,777**	41,531
Net change in cash and cash equivalents		**78,156**	196,325
Cash and cash equivalents, beginning of the year		**702,117**	505,792
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3	**780,273**	702,117
Non-cash transactions:			
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	14	**88,849**	134,630
Adjustment to property and equipment with corresponding effect to notes payable	9	**410,592**	659,221
Adjustment to property and equipment with corresponding effect to accounts payable	12	**150,597**	-

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, 2011

	Note	Share capital	Hedging reserve	Accumulated deficit	Total equity
January 1, 2010		14,000,000	-	(5,377,521)	8,622,479
Net loss for the year		-	-	(2,358,437)	(2,358,437)
Derivative financial instruments	14	-	(134,630)	-	(134,630)
December 31, 2010		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	14	-	88,849	-	88,849
December 31, 2011		14,000,000	(45,781)	(9,661,154)	4,293,065

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 June 11, 2007) and No. 357 dated 28 Dhu Al-Hijjah, 1428H (corresponding to January 7, 2008), 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 GSM public mobile cellular and 3G public mobile cellular license in the Kingdom of Saudi Arabia for 25 years. The head office of the Company is located in Riyadh, Kingdom of Saudi Arabia.

The Company incurred net loss for the year ended December 31, 2011 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 Board of Directors (the "Board") in their meeting held on February 20, 2011 and subsequent meeting held on October 26, 2011 recommended to restructure the share capital of the Company by reducing it from SR 14,000,000,000 to SR 4,801,000,000 and the total number of shares from 1.4 billion shares to 480,100,000 shares by cancellation of 919,900,000 shares with a 65.7% reduction of share capital, an average reduction of approximately one share for every 1.5219 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Company as at September 30, 2011. Further, the Board has recommended to increase the share capital by SR 6,000,000,000 through the issuance of 600,000,000 new shares (rights issue) which is expected to involve capitalization of advances from shareholders to equity, which is subject to the approval of the founding shareholders, and raising of fresh cash from existing shareholders. The recommendation of the Board is subject to the approval of the stockholders in the extra ordinary general assembly meeting, the Capital Market Authority (the "CMA") and the Ministry of Commerce and Industry (the "MOCI"). The Company has submitted the required document for above-mentioned restructuring plan to the CMA on December 28, 2011 for their review and approval to enable the Company to commence with the rights issue process. Proceeds of the rights issue will be utilized to partially repay the Syndicated Murabaha Financing ("Murabaha Facility"), reduce the working capital and finance capital expenditure as well as the development of the network.

1. ORGANIZATION AND ACTIVITIES (Continued)

On October 11, 2011 the Board approved to commence the negotiations with the current existing lenders and to seek new potential lenders to refinance the existing Murabaha Facility. Currently, the Company is evaluating the terms and conditions of various potential lenders and the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012.

In addition, in the same Board meeting dated October 11, 2011, the Board of Directors approved the appointment of the new CEO Mr. Khalid S. A. Al Omar who replaced the existing CEO Mr. Saad Barrak effective October 11, 2011.

The discussions and negotiations relating to the proposed acquisition by Kingdom Holding Company (KHC) – Saudi Arabia and Batelco Group – Bahrain (the "consortium") of the 25% shareholding in the Company owned by Mobile Telecommunications Company K.S.C. – Kuwait has ended effective September 29, 2011. Consequent to the above, Mobile Telecommunication Company K.S.C. is no longer considering to sell its stake in the Company, it will focus instead on speeding up the Company's capital restructuring plan with its full support.

In December 2011, the Company has formally submitted the request to exercise the option to extend the maturity date of the Murabaha Facility by six months to facilitate these discussions and obtained the required approval from the lenders during January 2012.

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

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

These financial statements were approved by the Board of directors on --------------, 2012.

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").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting principles 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 75.7% (2010: 75.4%) of the Company's total assets, makes the judgments surrounding the estimated useful lives critical to the Company's financial position and performance.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment

Property and equipment also represent a significant proportion of the asset base of the Company, being 15.2% (2010: 15.3%) of the Company's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimate of useful life

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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	
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.

Intangible assets

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	2011 **SR'000**	2010 SR'000
Cash at banks	**SR'000**	201,917
Cash on hand	**234**	200
Time deposits	**551,250**	500,000
	780,273	702,117

4. ACCOUNTS RECEIVABLE

	2011 **SR'000**	2010 SR'000
Billed receivables (Notes 4.1 and 4.2)	**1,231,298**	1,609,535
Unbilled receivables	**116,158**	118,239
Other	**486**	299
Less: provision for doubtful receivables	**1,347,942**	1,728,073
	(341,368)	(264,907)
	1,006,574	1,463,166

Movement in provision for doubtful receivables is as follows:

	2011 **SR'000**	2010 SR'000
Balance as at 1 January	**264,907**	97,018
Additions	**76,461**	167,889
Balance as at 31 December	**341,368**	264,907

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, 2011 and 2010, the net amounts are included in accounts receivable and accounts payable are as follows:

	2011 SR'000	2010 SR'000
Accounts receivables, net	**605,745**	928,154
Accounts payables, net	**738,404**	1,196,810

4.2 Billed receivable includes amount due from related parties amounting to SR 14.6 million (2010: SR 5.3 million) for providing telecommunication services to related parties

5. INVENTORIES

	2011 SR'000	2010 SR'000
Sim cards	**21,769**	21,196
Prepaid recharge cards	**11,134**	1,544
Handsets and accessories	**528**	7,099
Other	**13,186**	1,210
	46,617	31,049
Less: Provision for slow moving inventory items	**(3,000)**	(2,250)
	43,617	28,799

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

	2011 SR'000	2010 SR'000
Balance as at 1 January	**2,250**	-
Additions	**750**	2,250
Balance as at 31 December	**3,000**	2,250

6. PREPAID EXPENSES AND OTHER ASSETS

	2011 SR'000	2010 SR'000
Advances for transmission lines and fiber links	**239,175**	177,110
Advances to suppliers and refundable deposits	**224,867**	102,489
Prepaid rent	**86,938**	71,596
Prepaid advertisement	**13,689**	13,558
Prepaid software license fee	**8,339**	2,358
Prepaid insurance	**3,712**	3,076
Other	**24,986**	38,340
	601,706	408,527

Movement in provision for doubtful advances to suppliers is as follows:

	2011 SR'000	2010 SR'000
Balance as at 1 January,	-	8,000
Reversal during the year	-	(8,000)
Balance as at 31 December,	-	-

Movement in provision for doubtful advances to suppliers is as follows:

7. PROPERTY AND EQUIPMENT

	January 1, 2010	Additions	Disposals/ Transfers	December 31, 2010
Cost				
Leasehold improvements	147,285	16,380	-	**163,665**
Telecommunications equipment	3,309,368	753,695	(9,068)	**4,053,995**
IT systems and servers	247,270	24,752	-	**272,022**
Furniture, fixtures and office equipment	62,134	1,151	(1,205)	**62,080**
Vehicles and other transportation equipment	6,105	-	(340)	**5,765**
Capital work in progress	563,442	608,046	(460,170)	**711,318**
	4,335,604	1,404,024	(470,783)	**5,268,845**
Accumulated depreciation				
Leasehold improvements	35,883	29,357	-	**65,240**
Telecommunications equipment	369,178	411,947	(9,068)	**772,057**
IT systems and servers	71,781	43,578	-	**115,359**
Furniture, fixtures and office equipment	10,537	5,098	(215)	**15,420**
Vehicles and other transportation equipment	1,525	1,157	(113)	**2,569**
	488,904	491,137	(9,396)	**970,645**
Carrying Amount	3,846,700			**4,298,200**

The Company is in the process of expanding its network. Capital work in progress at December 31, 2011 and 2010 principally represents costs incurred on several network expansions.

8. INTANGIBLE ASSETS

	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**

	January 1, 2011	Additions	December 31, 2011
Cost			
License fee*	23,359,180	-	**23,359,180**
Computer software licenses	114,122	24,234	**138,356**
	23,473,302	24,234	**23,497,536**
Accumulated amortization			
License fee*	(1,321,105)	(978,101)	**(2,299,206)**
Computer software licenses	(18,720)	(24,982)	**(43,702)**
	(1,339,825)	(1,003,083)	**(2,342,908)**
Carrying Amount	22,133,477		**21,154,628**

* 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. (Also refer note 1).

9. NOTES PAYABLE

	2011 SR'000	2010 SR'000
Current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**73,125**	-
Motorola Inc.	**842,751**	-
	915,876	-
Non-current:		
Huawei Tech. Investment Saudi Arabia Co. Limited	**153,937**	-
Motorola Inc.	**-**	659,221
	153,937	659,221

10. SHORT AND LONG TERM BORROWING FACILITIES

On April 5, 2011, a long-term borrowing facility was arranged from a syndicate of banks to refinance the Company's obligations under an existing short-term borrowing facility to be repayable on April 9, 2013. This facility consists of a SR portion totaling SR 1,875 million and a US$ portion totaling US$ 100 million (equivalent to SR 375 million) is utilized in full and is secured by a guarantee provided by a founding shareholder. The facility attracts financing charges as specified in the agreement.

The long-term borrowings facility balance as at 31 December 2011 was netted by the un-amortized balance of the upfront fees.

11. SYNDICATED MURABAHA FINANCING

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 SR 7.09 billion and a US$ portion totalling US$ 710 million (equivalent to SR 2.66 billion).
Financing charges as specified under the Murabaha Facility are payable in quarterly instalments over two (2) years. The principal amount was initially payable in one bullet payment on July 27, 2011. As per the terms of the Murabaha financing agreement the Company exercised its two options to extend the initial maturity date (August 12, 2011) for six months each, totaling the renewal of the facility for one full year with the final maturity date is July 27, 2012. The Company has successfully exercised first renewal option and the Murabaha facility was extended till January 27, 2012.

11. SYNDICATED MURABAHA FINANCING (Continued)

In December 2011, the Company has formally submitted the request to exercise its second and final option to extend the maturity date of the Murabaha Facility till July 27, 2012 and obtained the required approval from the lenders on January 24, 2012. Accordingly, the outstanding balance as at December 31, 2011 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.

On October 11, 2011 the Board approved to commence the negotiations with the current existing lenders and to seek new potential lenders to refinance the existing syndicated Murabaha Facility on a long-term basis. Currently, the Company is evaluating the terms and conditions of various potential lenders and the directors believe a formal refinancing agreement will be most likely signed during the first half of 2012, (refer to Note 1).

12. ACCOUNTS PAYABLE

	2011	2010
	SR'000	SR'000
Trade payables	**1,528,001**	2,083,291
Withholding tax provision	**16,310**	6,096
Staff	**350**	301
Other	**64,623**	14,815
	1,609,284	2,104,503

13. RELATED PARTY TRANSACTIONS AND BALANCES

The Company is a member of an affiliated group of companies which are directly or indirectly controlled by the ultimate majority shareholder.

The related parties of the Company include the Zain group and its related entities (including subsidiaries and associates), shareholders who own material numbers of shares and voting interests in the Company, members of the board of directors and senior management.

13. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Related Party Transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are as follows:

	2011 SR'000	2010 SR'000
Revenue	**44,602**	31,416
Cost of revenue	**13,273**	10,738
Consultancy and services	**-**	3,094
Management fees (Note 20)	**180,875**	189,900
Salaries and benefits	**-**	5,900
Financial charges	**162,289**	177,295

Payments were also made on behalf of the Company by the ultimate majority shareholder and its related entities.

Management fee is charged to the Company by one of the founding shareholders as per the basis specified in the underlying agreement.

Also see Note 16 for the advances from shareholders.

Related Party Balances

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

(i) Due from related parties – current

	2011 SR'000	2010 SR'000
Zain Jordan	**15,081**	17,085
Zain Bahrain	**3,762**	7,562
Others	**2,379**	2,379
	21,222	27,026

(ii) Due to related parties – current

	2011 SR'000	2010 SR'000
Mobile Telecommunications Company K.S.C – current account	**9,344**	97,258
Zain Sudan	**37,541**	42,175
MTC Touch	**810**	2,687
MADA	**-**	2,000
Others	**200**	200
	47,895	144,320
Due to related parties – current, net	**26,673**	117,294

(iii) Due to related parties – non current

	2011 SR'000	2010 SR'000
Mobile Telecommunications Company K.S.C – management fee	**520,651**	339,776

14. 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, 2011 SR'000**	**December 31, 2010 SR'000**
Derivative financial instruments	**8,287,500**	**45,781**	**134,630**

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

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2011 SR'000	2010 SR'000
Trade	**1,760,011**	2,148,108
Government fee (Note 19)	**741,572**	176,086
Employees	**62,470**	54,648
Financial charges	**61,861**	140,795
Others	**105,270**	67,586
	2,731,184	2,587,223

16. ADVANCES FROM SHAREHOLDERS

Certain 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 certain founding shareholders as at December 31:

	2011	2010
	SR'000	SR'000
Mobile Telecommunications Company K.S.C.	**2,505,074**	2,350,595
Faden Trading & Contracting Est.	**314,890**	314,890
Saudi Plastic Factory	**301,365**	301,365
Rakisa Holding Company	**136,984**	136,984
Almarai Company	**109,587**	109,587
Ashbal Al-Arab Contracting Est.	**109,587**	109,587
Al Jeraisy Development Company Limited	**54,793**	54,793
Al Sale Al Sharkiyah Company Limited	**27,397**	27,397
	3,559,677	3,405,198
Accrued financial charges	**458,873**	260,299
Total	**4,018,550**	3,665,497

The advances from shareholders as at December 31, 2011 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Murabaha Facility of SR 9.75 billion (Note 11).

As disclosed in note 1, the share capital increase will involve capitalization of advances from the founding shareholders by converting the above advances to equity which is subject to the approval of the founding shareholders.

17. SHARE CAPITAL

The share capital of the Company as of December 31, 2011 and 2010 was comprised of 1.4 billion shares stated at Saudi Riyals 10 per share owned as follows:

Shareholders	Number of shares	Share Capital SR'000
Mobile Telecommunications Company K.S.C.	350,000,000	3,500,000
Saudi Plastic Factory	96,250,000	962,500
Faden Trading & Contracting Est.	96,250,000	962,500
Rakisa Holding Company	43,750,000	437,500
Almarai Company	35,000,000	350,000
Ashbal Al-Arab Contracting Est.	35,000,000	350,000
Al Jeraisy Development Company Limited	17,500,000	175,000
Architectural Elite Est. for Engineering and Contracting	17,500,000	175,000
Al Sale Al Sharkiyah Company Limited	8,750,000	87,500
Total founding shareholders	700,000,000	7,000,000
Public Pension Agency	70,000,000	700,000
Public shareholding	630,000,000	6,300,000
Total	**1,400,000,000**	**14,000,000**

18. REVENUE

	2011 SR'000	2010 SR'000
Usage charges	**6,524,467**	5,814,827
Subscription	**142,941**	114,860
Other	**31,652**	4,683
	6,699,060	5,934,370

19. COST OF REVENUE

	2011 SR'000	2010 SR'000
Access charges	**2,145,240**	2,199,778
Government charges	**644,175**	588,807
Discount on prepaid recharge cards	**274,634**	262,020
Leased lines	**247,480**	205,377
Other	**187,364**	147,940
	3,498,893	3,403,922

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

20. DISTRIBUTION AND MARKETING EXPENSES

	2011 SR'000	2010 SR'000
Advertising	**407,853**	252,053
Repairs and maintenance	**343,665**	417,318
Employees' salaries and related charges	**309,578**	231,019
Dealers' commission	**293,087**	305,975
Rent expenses	**189,843**	189,586
Management fees (Note 13)	**180,875**	189,900
Bad debts expense (Notes 4 and 6)	**76,461**	159,889
Customer promotions	**40,079**	11,302
Systems support and licenses	**31,637**	31,040
Utilities	**23,322**	4,586
Other	**75,732**	55,998
	1,972,132	1,848,666

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2011 SR'000	2010 SR'000
Employees' salaries and related costs	**101,883**	100,699
Consulting services	**69,327**	74,694
System support and maintenance	**42,135**	52,514
Repairs and maintenance expenses	**37,933**	31,991
Withholding tax expense	**33,830**	61,683
Legal and professional charges	**3,873**	8,279
Other	**40,204**	21,283
	329,185	351,143

22. LOSS PER SHARE

Loss per share from operating loss, non-operating loss and from net loss for the year is calculated by dividing operating loss, non-operating loss and net loss for the year by the outstanding number of ordinary shares as at December 31, 2011, which was 1.4 billion shares (2010 :1.4 billion shares).

23. 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:

	2011 SR'000	2010 SR'000
Shareholders' equity at beginning of year	**6,129,412**	8,622,479
Provisions at beginning of year	**284,253**	115,418
Long-term borrowings and shareholders' advances	**6,396,016**	13,980,411
Adjusted net loss for the year (see below)	**(1,842,630)**	(2,189,602)
Property and equipment	**(4,058,813)**	(4,298,200)
Intangible assets	**(20,252,778)**	(21,154,628)
Approximate negative zakat base of the Company	**(13,344,540)**	(4,924,122)

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

Calculation of adjusted net loss

	2011 SR'000	2010 SR'000
Net loss for the year	**(1,925,196)**	(2,358,437)
- Employee termination benefits	**6,105**	6,696
- Provision for doubtful receivables and for slow moving inventory items	**76,461**	162,139
Adjusted net loss for the year	**(1,842,630)**	(2,189,602)

Provision for zakat

No zakat provision has been made in these financial statements as the Company's zakat base is negative and the Company has incurred losses since inception.

Status of assessments

The Company has filed its zakat returns for the period ended December 31, 2008 and for the years 2009 and 2010 with the DZIT, however, no final zakat assessments have been received yet.

24. OPERATING LEASES COMMITMENTS

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

	2011 SR'000	2010 SR'000
Within 12 months	**164,216**	164,520
Within 2 to 5 years	**632,292**	614,753
Over 5 years	**299,840**	294,747
	1,096,348	1,074,020

25. 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:

	2011 SR'000	2010 SR'000
Within 12 months	**318,212**	480,367
Within 2 to 5 years	**97,554**	912,494
	415,766	1,392,861

Also see Note 24 for operating lease commitments.

Furthermore, the Company in the normal course of business is subject to and also pursuing lawsuits 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.

26. SEGMENT INFORMATION

The objective of the segment reporting standard promulgated by the Saudi Organization for Certified Public Accountants is to disclose detailed information on the results of each of the main operating segments. Given that the requirements of this standard, in terms of the prescribed threshold, taking into consideration the Company's operations which 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.

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, and US Dollars which is pegged to the Saudi Riyals. Management closely monitors the exchange rate fluctutations 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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

Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company incurred net loss for the year ended December 31, 2011 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.

28. RECLASSIFICATION

Balance amounting to SR 339,776 thousand as of December 31, 2010 has been reclassified from due to related parties – current liabilities to due to related parties – non-current liabilities to conform with the 2011 presentation.