Board of Directors Report 2016

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Dear shareholders of Mobile Telecommunications Company Saudi Arabia (Zain KSA), we hereby present the annual Board of Directors' report about your Company's activities and operations during the past financial year ending 31st December, 2016.

Company's Establishment and Activities

Mobile Telecommunications Company Saudi Arabia (Zain KSA), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, delivers, installs, manages, and maintains mobile telephone services.
The Company is a "Saudi Joint Stock Company" established pursuant to the Royal Decree No. 48/M dated 26th of Jumada I 1428H (corresponding to 12th of June 2007), Ministerial Resolutions No. 176 dated 25th of Jumada I 1428H (corresponding to 11th of June 2007), No. 357 dated 28th of Dhu Al Hijjah 1428H (corresponding to 7th of January 2008), and Commercial Registration No. 1010246192 issued in Riyadh, Kingdom of Saudi Arabia on 4th of Rabi Al-Awwal 1429H (corresponding to 12th of March 2008), to operate as the third public mobile cellular operator having received the first technology neutral license in the Kingdom of Saudi Arabia for a period of twenty five (25) years, and his been extended for additional 15 years.

Zain KSA Head Office is located in Riyadh, Ash Shuhada, Granada Business Park, Building A3.
P.O. Box 295814 – Riyadh 11351 – KSA.

Zain KSA's License

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

Today, Zain KSA serves more than 10.9 million customers and has extended its network coverage to 94% of the population via around 8,000 cell sites. Through its state-of-the-art network, the ever-evolving operator is attracting thousands of new voice and data customers daily.

Through constant development of the telecommunications infrastructure and proactive marketing initiatives, Zain KSA is committed to offer the most innovative customer experience. With more than 2,000 energetic and inspired majority-Saudi workforces, the company is committed to employing high caliber people as well as nurturing the finest Saudi talent. On the 1st of October 2016, a High order was issued to extend Zain's license by 15 additional years (to 2047), and to grant the Company with a unified license to provide all telecommunication services including, for the first time, fixed services.

Zain KSA's Strategy – "Winning Through Caring"

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

1- Best Customer Experience for Mobile Video

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

2- Superior Customer Service & Distribution Network

The Company's distribution footprint is under expansion as part of a program that brings Zain KSA closer to where our targeted customers are; especially in malls, airports, and megastores. Bringing Zain KSA closer to consumers is a core part of our "Winning Through Caring" strategy. Our Shop concept has been revamped to reflect a smarter customer experience, and we have implemented a program to increase like-for-like sales in each of our stores. Hence, our strategy is to have more stores, each of which is more productive. This distribution network was vital for our success in implementing new regulations on biometric registration of our customers. We successfully registered the majority of our base of subscribers with minimal impact on active customers.

3- Compelling and Smart Products & Services

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

4- Number One Choice for Youth

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

5- Becoming the Digital Operator of Choice

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

Operational Overview

Zain KSA launched its commercial operations on 26th of August 2008, a year after it was awarded its mobile license. By the end of 2016 we have achieved better performance under a challenging competitive environment, and with new regulatory controls applied on the labor market.

The following sections outline some of these operational achievements:

1- Commercial Overview

Since 2014, Zain has been engaged in an ambitious turnaround commercial strategy. Commercial efforts were focused on refreshing the brand, revamping retail outlets, capitalizing on the market appetite for data and repositioning the company on the postpaid segment. Despite 2016 being a year of tremendous changes in the regulatory and competitive landscapes, Zain maintained this ambitious strategy, preserved its commercial position, and kept on building its brand equity through the following principles:

- **Positioning Zain as the caring operator:**

  Zain subscribers were again offered the possibility to call other Zain customers for free in 2016, in order to grow further our customer's community. This free on-net promotion has also been a way to thank our subscribers for contributing to our current commercial success. In addition to maintaining high on-net usage, new features were launched to enable customers to tailor-make their offers, with flexible on-net and all-net bundles. The combination of these moves proved successful in increasing voice usage and revenues.

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

  We have successfully continued the data services monetization strategy that was initiated last year. This move has been planned in line with international benchmarks, as Saudi Arabia was reporting notably low data prices. Efforts have mostly been aiming at better monetizing usage, mainly through phasing out prepaid unlimited plans, and introducing large capped plans. Revenues from data services now accounts for more than 50% of our ARPU (Average Revenue

Per User), while usage keeps on increasing, proving the success of our strategy to become data-centric. The strong market reception of our newly introduced data SIM plans and of data-over-voice bundles leave us confident on the continuity of this growth in 2017.

- Focusing on service quality in challenging market conditions:

  The newly introduced regulation that makes it mandatory to register all subscribers' fingerprints in the Saudi market triggered a series of strong market moves from all operators and resulted in a more competitive environment. Zain increased the value given to its existing customers by opening the time validity of recharges. Newly acquired customers were offered a smart data integrated promotion, preserving the customer value. This prudently aggressive policy proved successful in protecting the base and the brand, while rapidly generating additional demand for data services. Subscribers acquired through the promotion are now showing a data usage higher than the average, hence demonstrating satisfaction towards service offered by Zain.

- Proving relevance to all market segments:

  The second reduction in mobile termination rates (MTR) that occurred in May 2016 was a new enabler for the Company. Besides its positive financial impact, these regulatory changes allowed the company to provide more aggressive tariffs and more generous bundles in order to grow our share in the mid-to-high market segments. While maintaining our strongholds with relevant on-net and data offers for our expatriate customers, we developed a relevant local voice value proposition to reposition ourselves more consistently towards the high value and youth segments.

  The marketing communication has been optimized towards a more digital approach to reach out to the digital-centric Saudi customers.

  Our hero product, Shabab, has been revamped to enhance its monetization, while a complete new postpaid line was designed to penetrate the high-end market segments. This postpaid value proposition generated market appetite immediately after its launch. Attracting high value Saudi-nationals customers in our base is crucial to limit the volatility of our revenues, while rebalancing the composition of our base.

  New roaming offers were also introduced to address the lifestyle of our newly acquired customers. Our strategy remains to attract these young and high value nationals with appealing and relevant data offers, and then turning them into valuable voice customers as well.

- Delivering innovative solutions:

  We are dedicated to providing our subscribers with the best services in the market and to consistently enhance their experience. As such, innovation is a key driver of our overall efforts. Zain has been proud of being a genuine regional innovation leader in 2016, being the first in the region to launch VoLTE (Voice over LTE), VoWiFi (Voice over WiFi) and Apple Pay, amongst other cutting-edge solutions, including Google Play digital wallet. These launches are part of our "Winning through Caring" strategy, aiming at enhancing our value proposition by introducing new products for the benefit of a digital-savvy Saudi customer, and positioning

Zain as the early adopter of new Technology, with the help of advanced network and platforms.

2- Technology Overview

During 2016, Zain KSA completed the delivery of Project Reload Phase 2 (market differentiation phase) and started Phase 3 (market leadership phase), delivery is targeted to be completed during 2017. These two Phases have a major contribution to enhance coverage, speed and quality of customer experience.

- Network Expansion and Coverage

In 2016, Zain KSA continued building its voice and Mobile Broad Band (MBB) services.
3G services now cover more than 433 cities (160% increase compared to 2015) and 30 highways (214% increase compared to 2015); and LTE services now cover 194 cities (206% increase compared to 2015).
After the completion of Project Reload Phase3, network coverage (by technology) will reach the following levels:

- 2G - 98% population coverage
- 3G - 91% population coverage
- 4G/LTE - 87% population coverage

Examples of key Network Enhancements:

- Signed a Metro Fiber Indefeasible Right of Use (IRU) Agreement with one of the fiber network providers to supply dark fiber for network backhaul which enables a faster, reliable and cost efficient connectivity for sites.

- Zain is positioning itself as a primary indoor service provider for companies working in Real Estate, Medical, and Educational sectors through inking multiple exclusive deals for In-Building Solution. Examples include Rafal Real Estate Development Co. where it was agreed to make Zain the technology provider for all of Rafal's future projects and towers.

- Another example is the deal with DAMAC, where Zain is to deploy indoor services for DAMAC's two towers in Jeddah and Riyadh.

- Implemented around 300 Small Cells (a new compact outdoor Radio system) across the Kingdom which addresses coverage and capacity requirements for VIP customers. During 2016 Hajj season, the small cells capabilities were demonstrated and they played a major role in sustaining the increasing traffic growth during Hajj.

- Provided exclusive Wi-Fi coverage during major and important events held at Riyadh International Convention & Exhibition Center (RICEC). These events include the AFED (Armed Forces Exhibition for Diversification of Local Manufacturing), and the Saudi Gamers' Day; where Zain demonstrated its capability of fast deployment and assured quality of service during periods of high traffic demanded by many professional Gamers playing online.

- Spectrum

Re-farming the section of the 900MHZ band to have an MBB layer in the lower band, will result in an enhanced indoor penetration and data band capacity. Being the first operator in the Kingdom to launch LTE services on this band (in the north of Jeddah city), and leveraging on this successful deployment, technical plans were finalized to introduce LTE services on the 900MHz band in Riyadh and the remaining parts of Jeddah. This is expected to have a significant increase in total traffic and will differentiate Zain quality of service.

We are participating in the ongoing consultation with CITC for the review of spectrum assignment and national spectral allocation policies to support the National Transformation Program (NTP) under the umbrella of Saudi Arabia's Vision 2030. We believe that releasing additional radio spectrum for commercial telecommunications is an essential enabler for mobile operators to play a full role in providing high quality MBB (Mobile Broad Band) services and increasing network efficiency.

- Future Plans

Project RELOAD was a success story about building for the future and anticipating the need for a higher capacity. Saudi Arabia is ranked among the top five countries in the world for a digitally engaged society, especially video streaming services (mainly YouTube). This imposes a huge demand on digital services where traffic trends increase in an exponential behavior, driving the need for more network expansions and investment. Accordingly, we have kicked-off the preparation and design for the period following project RELOAD, keeping in mind our "Wining through Caring" strategy.

- Information Technology Systems

A complete transformation program for the IT Capability of Zain has been launched, and will continue until the first quarter of 2018. The aim of this program is to change the legacy business processes and technology platforms which hurdle the required business agility, in an ever competing era. In order to be aligned with our customer care values, this transformation is redefining business processes towards customer centricity, and is building a solution that would bridge the gap between customer needs and technology capabilities.

Our IT transformation program focuses on 3 main objectives:
  - Introduce new revenue streams.
  - Enhance customer experience.
  - Enhance operational efficiency.

- VAS (Value Added Services)

In 2016, Zain KSA started a consolidation project for all VAS services by trading off the old legacy systems with a new consolidated VAS cloud in order to provide up to date and reliable services to end customers and third party partners.

The project consisted of the current capacity expansion to match the increase in customer expectation, support the latest technologies, and provide new capabilities and integration points in preparation for the digital era. This is done through the introduction of:

- Direct Operator Billing (which allows third parties to provide their non-telecom services to our customers).
- Digital Service Enabler (which provides a combination of telecom services for non-telecom third parties).

3- Regulatory Overview

Zain KSA has successfully verified its customer base biometrically, as per the new regulations. This has been a major project during 2016, taking significant focus and resources. These regulations will have a lasting impact on the Saudi telecommunications market.

Mobile Termination Rate (MTR) was dropped from 15 Halala per minute to 10 Halala per minute, which enabled Zain to compete more effectively using its all-net offers.

A High Order was issued on 01/10/2016 G which was announced by the Capital Market Authority on 01/01/1438 H corresponding to 02/10/2016 G directing the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to extend its license for an additional 15-year period, during the period of the extension, the government will be entitled to a 5% of Zain KSA annual net income, in addition, to coordinate with Zain to facilitate the issuance of a Unified Telecommunication License that allows the Company to provide all telecommunication services. The High Order also requires that the Company coordinates with the Ministry of Finance to discuss alternatives regarding the amounts due to the government.

This High Order is expected to have the following positive impacts on the company:

1. The license extension for an additional 15 years, bringing the remaining period to 32 years ending on 21/03/1469 H corresponding to 18/01/2047 G. Thus reducing the annual amortization charge by 433 million Saudi Riyals each year starting from the date of the extension, and reducing our net losses by the same amount.

2. Granting the Company a Unified License to provide all telecommunication services is expected to enable Zain to offer all telecommunication services, including fixed services, and exploring the provision of new services.

3. The coordination efforts with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government, is an on-going effort.

A number of other changes took place in the regulatory environment:

1. An update for interconnection rules and guidelines was drafted by CITC to confirm that all service providers are treated fairly, to ensure good practices with respect to interconnection services between service providers, and to promote the provision of high quality services for interconnection through technical and economic efficiency.

2. CITC has approved and published the Rules for Access to Physical Facilities, which are a set of new guidelines governing a number of aspects such as collocation and sharing of physical facilities; providing a framework for access to physical facilities and networks in a technologically neutral manner; fostering investment in and deployment of next generation networks (NGN); and establishing a process for dealing with access disputes, among other provisions.

3. Tariffs regulation has been amended, in order to streamline the process of introducing products and services into the market. CITC will not require prior approval for launching new products and services, as long as they are in line with set guidelines.

Zain KSA has a number of lawsuits against the Communication and Information Technology Commission ("CITC") at the Administrative Court ("Board of Grievances"); including the following:

- A claim for damages as a result of CITC's delay to enforce Mobile Number Portability (MNP), the Court has issued a preliminary judgment against Zain KSA to dismiss the case; Zain KSA has appealed the judgment to the Administrative Court of Appeal, and the case remains under consideration.
- A claim to invalidate the CITC's decision number (1265\H T) dated 29\01\1430H in connection with 'Zain One Network' product and other similar offers, the Court has issued a preliminary judgment in favor of Zain KSA stating ineligibility of CITC's decision forcing Zain KSA to apply charges for 'Zain One Network' product and international roaming, the judgment may be appealed by the CITC.
- A claim for damages from CITC for its delay to enforce CITC's own decision to force STC to terminate international traffic delivered to STC from Zain KSA, the Court has issued a preliminary judgment against Zain KSA to dismiss the case, Zain KSA has appealed the judgment to the Administrative Court of Appeal, and the case remains under consideration.
- A claim against the eligibility of CITC to demand Zain KSA to pay the percentage of (16%) as government fees on the Internet revenue, the Court has issued a preliminary judgment against Zain KSA compelling Zain KSA to pay (15%) of the Internet revenue, Zain KSA shall appeal the judgment to the Administrative Court of Appeal.
- A claim against the eligibility of CITC to demand Zain KSA to pay the percentage of (16%) as government fees on the unclassified costs, the case remains under consideration.
- Zain KSA has a number of other legal cases concerning CITC fines and penalties issued against the Company.

It should be noted that Zain KSA is the plaintiff in these cases, and the final outcome of those cases is unpredictable.

4- Outlook

Within the very challenging macroeconomic environment for KSA and increased competitive pressures, Zain will focus on accelerating its data centric provision of quality and innovative services to all segments in the market, increasing monetization of digital services, whilst offering value and segment driven quality of service are key drivers of growth for Zain KSA.
New partnerships for the provision of convergent solutions will be explored to allow for the delivery of new services without extensive build of fixed network infrastructure.
Whilst the fundamental priority of the company remains to grow its customer base and revenue share of the market, operational efficiencies will also be vigorously pursued to improve productivity and reduce operational expenditures.
Ongoing regulatory decisions, tariffs regulations and changes to government fees imposed on the company and industry will continue to impact the financial performance of the company in the future. Ongoing consultation with CITC and the Ministry of Communications and Information Technology, is critical in order to resolve various disputes and outstanding matters, including past litigation.
The Board and Management remain very cautiously optimistic about the long term sustainability of the Company and incremental improvement of its financial performance.

Important Events

- **The expected impact of the High Order to extend the Company's License by 15 additional years**

Based on the High Order dated 30/12/1437 H corresponding to 01/10/2016 G which was announced by the Capital Market Authority on 01/01/1438 H corresponding to 02/10/2016 G directing the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to extend its license for an additional 15-year period, during the period of the extension the government will be entitled to a 5% of the Company's annual net income, in addition, to coordinate with Zain to facilitate the issuance of a Unified Telecommunication License that allows the Company to provide all telecommunication services. The High Order also requires that the Company coordinates with the Ministry of Finance to discuss alternatives regarding the amounts due to the government.
The Company announces that this High Order will have the following positive impacts on the company:

1) In regards to the license extension for an additional 15 years, bringing the remaining period to 32 years ending on 21/03/1469 H corresponding to 18/01/2047 G:
Reducing the annual amortization charge by 433 million Saudi Riyals each year starting from the date of the extension, this will reduce the Company's net losses by the same amount.

2) In regards to granting the Company a Unified License to provide all telecommunication services:
The Unified License enables the Company to offer all telecommunication services, including fixed

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

3) In regards to the coordination with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government:
The Company will announce the financial impacts of any agreements reached with the Ministry of Finance following their approval.

- Shareholder Ordinary General Assembly Meeting

The company held its Ordinary General Assembly Meeting on Tuesday April 26, 2016 at 18:30 in the Media Center of Tadawul, King Fahd Road, Taawuniya Towers (Northern Tower) Riyadh, and all resolutions of the meeting are as follows:

1. Approved the Board of Directors report for the financial year ended December 31, 2015.
2. Approved the financial statements for the financial year ended December 31, 2015.
3. Approved the Auditors report for the financial year ended December 31, 2015.
4. Approved to release the Board of Directors members from their liability for the financial year ended December 31, 2015.
5. Approved the appointment of the External Auditors among the candidates of the Audit Committee to be Aldar audit bureau - Grant Thornton, to review the Company quarterly and review annual financial statements for the financial year 2016 and determine their fees.
6. Approved the work of the Board of Directors during the period between the end date of the current Board session till the Ordinary General Assembly convening date.
7. Selected and appointed the following candidates among the Board of Directors candidates for a period of three years starting from the date of the Ordinary General Assembly:
    - HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer
    - Bader bin Nasser Al-Kharafi
    - Raied bin Ali Al Saif
    - Abdulaziz bin Yaqub Al Nafisi
    - Ossama Michael Matta
    - Scott Mark Gegenheimer
    - Thamer Ahmed Obeidat
    - Hisham Mohammed Attar
    - Saud Abdullah AlBawardi
8. To approve the members of Board of Directors direct or indirect interests in work and contracts with Zain that took place during the financial year ended December 31, 2015, and to authorize them for the coming year. The Company follows the same terms and conditions with all third party transaction:
    a. Approved the transaction that Zain KSA signed a contract for telecommunication services with Almarai Company in 2015 by the prevailing market commercial terms for an amount of SAR 13 Thousand, for one year, HH Prince Naif bin Sultan bin

Mohammed bin Saud Al Kabeer, the Chairman of Zain KSA is a Board member in Almarai Company.

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

- ## Deposits of proceed from the sale of fraction shares arising out of the capital decrease into shareholders' portfolio

The completion of selling fractions shares arising out of the company capital decrease based on the approval of extraordinary general assembly meeting which was held on 25th of February 2015 as following:

1. The total number of shares fractions is 148,455 shares.
2. Fractions shares sold on 8th of March 2015 with a total value of SAR 1,794,149.93 by average price SAR 12.10 /share.
3. Amount of the sold fraction shares will be deposited into the eligible shareholders account on 3rd of May 2016 through Al Rajhi Bank by depositing the amount into the current accounts related to investors' portfolio. Other shareholders which do not have an investment portfolio can visit the nearest branch of Al Rajhi Bank to receive their dues after this date.

- ## Refinancing SAR 2.25 billion Commercial loan facility

The Company signed a long-term Commercial loan facility agreement with a two-year tenor that is extendable by one additional year. This facility was provided by a syndicate led by Arab National Bank and includes four banks namely Arab National Bank, Banque Saudi Fransi, Gulf International Bank B.S.C. and Samba Financial Group, and the terms are as following:

1. Loan was signed on 02-06-2016
2. Loan amount of SAR 2.25 Billions
3. Initial Loan duration is from 02-06-2016 to 31-05-2018 extendible to 30-05-2019
4. The proceeds of this facility will be used to repay an existing facility with the same syndicate indicated in the Company's announcement on Tadawul website dated 05-06-2013
5. Loan guarantee: an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C.P (Zain Group)
6. The principal amount will be repaid in one bullet payment at the maturity date, and is subordinated to the main Murabaha Facility amounting to SAR 8.5 billion.

- ## Signing new commercial facility agreement to replace the existing SAR 2.25 billion loan reducing costs of debt by approximately SAR 175M

The Company signed a long-term commercial loan facility agreement with a two-years tenor that is extendable by one additional year. The new facility agreement signed with the Industrial and Commercial Bank of China will replace the existing syndicated facility; this new facility will have lower financing cost compared to the existing facilities based on the terms as follows:

1. Loan was signed on 15-08-2016.
2. Loan amount of USD 599,808,061.42 (SAR 2,249,280,230.33).
3. Initial Loan duration is from 29-8-2016 to 15-08-2018 extendible to 08-08-2019.
4. The proceeds of this facility will be used to repay an existing facility with syndicate indicated in the Company's announcement on Tadawul website dated 05-06-2016. Improving terms and reducing financing cost by approximately SAR 175 million over the three-year period, by reducing the margin and converting from Saudi Riyals to US Dollars.
5. Loan guarantee: an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C.P (Zain Group).

- ## Signing of a Letter of Intent with Dawiyat a subsidiary of Saudi Electricity Company SEC

The company signed on 11/10/2016 an open ended Letter of Intent for with Dawiyat a subsidiary of Saudi Electricity Company to cooperate on the following topics:

- Zain to take advantage of Saudi Electricity Company fiber optic network
- Mutual marketing for both companies products and services
- The provision of new location for telecommunication tower and communication centers
- The use of the digital infrastructure to support Electricity utility network in particular online services (IOT) smart meters

This will be subject to meeting all regulatory and government requirement as well as internal approval for both parties. At this stage the financial impact cannot be assessed; any further developments will be announced in due course.

- ## Resignation of the Company's CEO Mr. Hassan Kabbani, and appointment of Mr. Peter Kaliaropoulos as new CEO

The resignation of the Company's CEO Mr. Hassan Kabbani, due to personal reasons, which he submitted to the Board of Directors on 6th of December 2016, and was approved on the same day to be effective as of 31st December 2016.

Zain KSA also announced the appointment of Mr. Peter Kaliaropoulos, as the new CEO, effective 1st of January 2017 and the Board of the Company has approved this resolution on 6th of December 2016.

The Chairman of the Company, HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer on behalf of the board and employees of Zain Saudi Arabia, has extended his sincere appreciation to Mr. Hassan Kabbani for his efforts and contribution to the transformation of the Company during the past three years and wishes him continued success in the future.

HH Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer Chairman of the Board of Directors of Zain Saudi Arabia welcomed Mr. Peter Kaliaropoulos and commented that Zain KSA is at an important stage of its journey since formation, and the leadership team needs to accelerate its

growth in the market. Mr. Peter Kaliaropoulos joined Zain Saudi Arabia as a highly-accomplished telecom professional with over 30 years' experience in the international ICT sector. In senior executive roles, he led teams to transform and grow a number of mobile and fully integrated operators operating across Asia-Pacific and Middle East regions.
In the last 12 years Mr. Peter led executive teams within Batelco Group, Ooredoo Kuwait and Zain across the Middle East. His previous experience includes leadership roles with Singtel (MD Optus Business, Aus), Telstra (MD Mobiles, Aus), Clear Communications (CEO, NZ), StarHub (COO, Singapore) and various other senior executive roles with BT Asia Pacific and Telstra USA. Mr. Peter has also contributed as a Director on the boards of a number of established telecommunications companies and ICT start-ups in Australia, USA, Singapore, India and the Middle East. Mr. Peter Kaliaropoulos holds a Bachelor of Engineering (Electrical) from the University of NSW (Sydney, Australia) and a Master of Business Administration, from Macquarie University (Sydney).

- ## Claim By An Operator

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

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

The arbitration sessions, which started effective December 20, 2014, were concluded on Thursday, November 10, 2016, when the Arbitration Panel ("Panel") issued its judgment rejecting over 90% of Mobily's claim, allocating just SAR 219,464,509 of the SAR 2.2 billion claim.

The Company announced that the judgment when enforced will not have a negative financial impact on the Company, because the Company had previously made sufficient provision to cover the full amount awarded by the Panel.

Summary of Zain KSA's Financial Results

1- Balance Sheet Highlights as of 31st of December 2012, 2013, 2014, 2015, and 2016

The following table summarizes the financial position of Zain KSA as of 31st of December 2012, 2013, 2014, 2015, and 2016:

SAR Million	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	Change 15/16	% Change 15/16
Current Assets	4,380	3,310	3,888	4,096	**3,312**	(784)	-19%
Non-current Assets	23,636	22,927	21,977	21,952	**23,298**	1,346	6%
Total Assets	**28,016**	**26,237**	**25,866**	26,048	**26,611**	**563**	**2%**
Current Liabilities	15,400	3,821	3,898	6,498	**6,640**	142	2%
Non-current Liabilities	4,164	15,657	16,504	14,998	**16,396**	1,398	9%
Total Liabilities	**19,564**	**19,478**	**20,402**	21,497	**23,036**	**1,539**	**7%**
Shareholders' Equity	8,452	6,759	5,464	4,552	**3,575**	(977)	-21%
Total Liabilities and Shareholders' Equity	**28,016**	**26,237**	**25,866**	26,048	**26,611**	**563**	**2%**

Source: Audited financial statements for the years ended 2012, 2013, 2014, 2015 and 2016

As of 31st of December 2016, the Company had total assets amounted to SAR 26,611 million, of which SAR 15,540 million (58% of total assets) relating to the carrying amount of the CITC license acquired in 2007. In addition; property and equipment amounted to SAR 7,006 million, as of 31st of December 2016, which represented 26% of total assets.

At the same date, the Company's total liabilities amounted to SAR 23,036 million, of which 72% amounting to SAR 16,534 million are related to the following:

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

2- Overview of the Company's Borrowings

As of 31st of December 2016, the outstanding balances of borrowing arrangements amounted to SAR 16,534 million. The following table summarizes those borrowing arrangements as of 31st of December 2016:

SAR Million	Term	Principal Amount	Repaid During 2016	Lender	Outstanding Balance	Maturity
Junior Debt – ANB	3 years	2,250	2,250	Consortium of 4 banks	2,250	05 Jun, 2016
Murabaha Facility	5 years	8,631	824	Consortium of 8 banks	7,686	30 Jun, 2018
Advances from Shareholders	Open	3,989	-	Founding Shareholders	4,569	Open
Junior Debt – ICBC	3 years	2,250	-	Industrial & Commercial Bank of China	2,250	08 Aug, 2019
Government Loan	14 years	Up to 800 per Year	-	Ministry of Finance	1,923	01 Jun, 2027
Vendor Financing	5.5 years	1,219	200	Export Credit Agency	106	31 Jan, 2018
Total					16,534	

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

- Syndicated Murabaha Financing

The Syndicated Murabaha Facility (the "Murabaha Facility") amounting to SAR 8.63 billion was arranged by Banque Saudi Fransi in July 2013. On September 30, 2015 and March 31, 2016, the amounts of SR 121 Million and SR 392 Million were prepaid respectively as per the financing document requirements, on 31th December the company paid the amount of SR 432 Million as a settlement for 5% of the principal amount which represents the first repayment of the facility. This Murabaha Facility consists of a SAR portion totaling SAR 6.26 billion and a USD portion totaling USD 600 million (equivalent to SAR 2.25 billion). The initial purpose of this agreement was to partially finance the acquisition of CITC license back in year 2007.

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

Financial and other covenants imposed by the financing banks are:
- Partial guarantee from Mobile Telecommunications Company K.S.C.
- Pledge of shares of founding and major shareholders.
- Pledge of the main fixed assets.
- Assignment of certain contracts and receivables.

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

- Advances from Shareholders

The founding shareholders have provided and they continue to provide advances to the Company since 2007. The outstanding balance as of 31st of December 2016 amounted to SAR 4.57 billion. Financing cost started to take place in August 2009 following the refinancing of the Syndicated Murabaha Financing which took place at that time, while the loans carry financing costs as agreed with the Founding Shareholders.

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

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

The advances from shareholders as of 31st of December 2016 and the related accrued financial charges are currently not scheduled for repayment until the settlement of the Syndicated Murabaha Facility.

- Junior Debt – ICBC

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

This facility is fully secured by a guarantee provided by Mobile Telecommunications Company K.S.C. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha Facility.

The initial purpose of the previous financing from ANB was to refinance the Company's obligations under previous vendor financing arrangements. The interest is payable from Mobile Telecommunications Company K.S.C. and cross charged back to the Company.

- Governmental Loan

The Company has signed an agreement with the Ministry of Finance, Saudi Arabia, to defer payments of its dues to the government for the next seven years, estimated at an amount not exceeding SAR 800 million per year to be paid over a seven-year period starting in 2021. This agreement is considered as a commercial loan, since it is bearing an interest that's lower than market prevailing levels.

- Vendor Financing

  On the 20th of June 2012, an Export Credit Agency Facility Agreement having two tranches (A and B) totaling USD 325 million was signed between the Company and three international banks. This facility is secured by a guarantee provided by Mobile Telecommunications Company K.S.C. and subordinated to the Murabaha Facility. The purpose of this facility is to:
  - Repay amounts due to one of the Company's technical vendors.
  - To finance further new expansion plans provided by the same technical vendor.

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

3- Statements of Operation Highlights for Years Ended on the 31st of December 2012, 2013, 2014, 2015 and 2016

The following table summarizes the statement of operation for the years ended on the 31st of December 2012, 2013, 2014, 2015 and 2016:

SAR Million	2012 Audited	2013 Audited	2014 Audited	2015 Audited	2016 Audited	Change 15/16	% Change 15/16
Revenues	6,107	6,455	6,170	6,741	**6,927**	186	
Cost of Revenues	(3,247)	(3,320)	(2,948)	(2,790)	**(2,526)**	264	-9%
Gross Profit	2,860	3,135	3,223	3,951	4,401	450	11%
Distribution and Marketing	(1,687)	(2,028)	(2,031)	(2,047)	**(2,366)**	(319)	16%
General and Administrative	(295)	(216)	(91)	(275)	**(240)**	35	-13%
EBITDA	879	891	1,101	1,629	1,795	166	10%
Depreciation and Amortization	(1,810)	(1,840)	(1,633)	(1,770)	**(1,850)**	(80)	5%
Loss from Operations	(932)	(949)	(534)	(141)	(55)	86	-61%
Commission Income	6	21	9	7	**28**	21	298%
Financial Charges	(823)	(723)	(745)	(838)	**(953)**	(115)	14%
Net loss for The Year	(1,749)	(1,651)	(1,270)	(972)	(980)	(8)	1%

Source: Audited financial statements for the years ended 2012, 2013, 2014, 2015 and 2016

Net losses slightly increased by 1% reaching SAR 980 million compared to SAR 972 million due to:

- Revenues increased by 3% reaching SAR 6,927 million (highest since inception) compared to SAR 6,741 million despite the decrease in MTR, biometric fingerprint requirement, slow summer season and the decline in number of pilgrims.

- Gross profits grow by 11% reaching SAR 4,401 million (highest since inception) compared to SAR 3,951 million, with gross margin reaching 64% (highest since inception) compared to 59%, these changes are mainly due to a decrease in cost of revenue and increase in the high margin segment revenues.

- Distribution and marketing expenses increased by 16% reaching SAR 2,366 million compared to SAR 2,047 million mainly driven by the strong competition and the biometric fingerprint requirement, despite certain discount on maintenance cost. General and administration expenses decreased by 13% reaching SAR 240 million compared to SAR 275 million mainly driven by winning legal cases.

- EBITDA increased by 10% reaching SAR 1,795 million (highest since inception) compared to SAR 1,629 million with EBITDA margin reaching 26% (highest since inception) compared to 24%, these changes are mainly driven by the above mentioned points.

- Depreciation and amortization expenses increased by 4% reaching SAR 1,850 million compared to SAR 1,770 million reflecting the expansion and upgrading of Zain KSA network infrastructure to provide an ever improving customer experience despite the decrease in amortization due to the extension of the license by additional 15 years that developed in Q4 2016.

- Operational losses improved by 61% reaching SAR 55 million (lowest since inception) compared to operational loss SAR 141 million, these changes are mainly driven by the above mentioned points.

- Financial charges increased by 14% mainly due to cost increase in SAIBOR.

Other notes:

- In line with the country wide decrease in subscriber numbers, Zain KSA subscriber base decreased by only 12%, reaching 10.9 million subscribers at the end of Q4 2016 compared to 12.4 million subscribers at the end of Q4 2015, after the introduction of the new biometric fingerprint identification regulations.

- In reference to the Company receiving a letter from the General Authority of Zakat and Tax (GAZT) requesting additional payment of SR 619M, of which SR 352M are related to Zakat and SR 267M to withholding Tax, for the financial years of 2009, 2010 and 2011. It is worth noting that the company filed and paid the Zakat and withholding Tax on time and based on the external auditors’ calculation.

On August 27, 2015, the Company filed an appeal within the allowed period of 60 days based on the advice of its Zakat and tax advisor who believes that there is a valid argument to support the Company position.

During Q4 2016, GAZT has referred the matter to Preliminary Appeal Committee with their comments and they have substantially agreed to the view of the Company on the matter of Zakat which should eliminate the exposure completely; whereas on the matters of withholding tax, GAZT has agreed to some extent over certain matters and the none-agreed are still subject to the appeal. Based on external tax advisor, the management is optimistic of favorable outcome of the remaining matters and has the adequate provision to cover the exposure.

The following Table Presents Revenue Breakdown for Years 2012, 2013, 2014, 2015 and 2016:

SAR Million	2012	2013	2014	2015	2016	Change 15/16	% Change 15/16
Usage Charges	5,676	5,751	5,566	6,161	6,128	(34)	-1%
Subscription	232	370	395	437	778	341	78%
Other	199	334	209	143	21	(122)	-85%
Total Revenue	6,107	6,455	6,170	6,741	6,927	185	3%

Source: Company's Information

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

- IFRS Conversion Plan

Mobile Telecommunications Company Saudi Arabia is required to comply with IFRS from the 1st of January 2017. In preparation for this, Zain KSA's level is progressing smoothly in transition as per the plan as follows:

1- The Company completed adjusting its accounting policies in line with the timelines prescribed by the CMA.

2- The Company is in its final stage to complete the preparation of the first IFRS financial statements as at 01/01/2016, this delay is due to busy schedule to close the Year 2016 on time.

3- The management believes that there is no material impact on the financial statements as a result of adopting IFRS.

4- There are no constraints affecting the Company's ability to prepare its financial statements in accordance with IFRS.

5- The Company confirms its readiness in the conversion into IFRS and the preparation of its financial statements starting from the first quarter 2017 and during the regular period specified.

4- Dividend Policy

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

a) Ten percent (10%) of the annual net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals to one-half (1/2) of the Company's capital.
b) The Ordinary General Assembly may, upon recommendation of the Board of Directors, set aside no more than twenty percent (20%) of the annual net profits to form other reserves to be allocated for the purpose or purposes decided by the Ordinary General Assembly.
c) Out of the balance of the profits, if any, shall be paid to the Shareholders as an initial payment of not less than five percent (5%) of the paid-up capital.
d) Out of the balance, a percentage of (5%) shall be paid as remuneration to the members of the Board of Directors.
e) The balance shall be distributed to the shareholders as an additional share of the profit.

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

5- External Auditor's Report Containing Reservation

There is no emphasis of a matter by external auditor.

6- Basis of Preparation of the Financial Statements

The Company's financial statements for the year ended on the 31st of December 2016 have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA").

Disclosures

1- Risk Factors

Telecommunication industry is marked by exciting innovation and disrupting business strategies, it is imperative to have an understanding of current risks and to have foresight of the future risks. The telecommunication industry sector is one of the most advancing and diverse sector in Saudi Arabia and as Zain KSA operates in the telecommunication industry, it is exposed to pressures from changing economic factors and challenges that the telecommunication industry is facing, whether in the form of new waves of disruptive innovation or changes in regulatory requirements.

Zain KSA Board of Directors and management recognize that effective risk management is critical to enable the Company to meet its strategic objectives in-line with Saudi Vision 2030, for promotion of broadband services in Saudi Arabia. As per the Code of Corporate Governance issued by CMA, the Board of Directors has overall responsibility for Zain KSA's risk management and internal controls system. The CEO and Chief Officers under delegation from the Board of Directors, monitor the nature and extent of risk exposure against risk appetite of top risks.

In this endeavor, to mitigate risks and in compliance with Article 10 of Code of Corporate Governance issued by CMA, Zain KSA Board has issued a corporate governance framework. During 2016, ERM framework & policy have also been drafted for finalization and approval. The policy and framework have been developed by adopting leading practices of risk management and Zain Group ERM framework and policy. It is prudent to note that Zain KSA ERM framework provides reasonable (but cannot give absolute) assurance that all top risks have been identified and addressed, as there could be some risks which are unknown to us today and there could be some that were considered as less critical now, but may become more important later.

Zain KSA management has recently updated its top risks through a 'top down' risk identification exercise and is exposed to the following potential risks in the telecommunication industry.

- **Increasing threats from risks posed by digitalization and disruptive technological advances:** The innovative messaging and voice applications, which make use of the internet as a substitute for some of traditional telecom services (voice / SMS messaging) erode our revenue. Reduced demand for core services of voice and messaging, and the development of services by "over the top" (OTT) competition, could significantly impact our future revenue. This risk is being faced by all telecommunications companies who including us are working towards data monetization strategy in order to manage the impact.
- **Changing/evolving regulatory and legal risks:** The telecommunication industry is subject to different regulations by the Government of Saudi Arabia. Zain KSA being a Saudi listed company, is required to comply with any government authorities. The regulatory framework within which we operate is continuing to evolve in the face of liberalization of the sector and competition. There can be no assurance that the applicable laws of Saudi Arabia or the regulatory framework will not change further or be interpreted in a manner that could materially and adversely affect the company's operations. We understand that the potential

impact of any non-compliance is critical for any company, without effective management of regulatory risks. Also, any marginal incremental regulatory changes can add cost to Zain KSA and a small threat of change can create significant uncertainty that can affect the key decision. Regulatory rules can also affect our ability to compete effectively and earn revenues by constraining the Company's ability to implement its business strategies.

- Threats posed by cyber security and information security risks effecting resilience: A successful cyber-attack on telecommunication network could result in us not being able to deliver services to our customers, which will result in reputational damage, revenue loss and the risk of financial penalties. Our networks carry and store large volumes of confidential customer (personal and business) voice traffic and data. Any inability to protect or correctly use this data could result in losses of, or unauthorized access to, customer data. We understand that resilient IT and network systems and associated infrastructure are essential to our commercial success. Other threats include equipment failure, physical attack, theft of customer information, fire, explosion, flooding and extreme weather, power failure, and other problems encountered during upgrades and major changes, and suppliers failing to meet their obligations.
- Changing macro-economic factors as a result of changes in oil price and changes in the customer spend: Economic conditions where Zain KSA operates continue to show nominal levels of growth. These conditions have resulted due to pressure on disposable income of customers in Saudi Arabia, and they may affect our revenues, as the level of spending by customers is subject to change/decrease and customers' demand may shift towards cheaper tariffs or using OTT players. In order to manage customer experience, which is key to our strategy, efforts are being made to personalize services and improve channel customer support.
- Financial risks posed by accumulated losses and increasing interest rates: Management of the Company and the Board are working towards managing the accumulated losses. Management acknowledges that an increase in losses involves additional reporting and compliance requirements, under the new Company Law and procedures issued by CMA for loss making companies. Accumulating losses create additional pressure on management and Board of Directors to optimize the Company's costs and to increase revenue at a higher rate. Recent changes in the SAIBOR have also resulted in an increase of our financial charges, resulting in increased costs for the Company.
- Competition risk: Telecommunication competition is characterized by: constant and rapid change; strong and new competition; pressure on prices and falling revenues; technology changes; market and product convergence; customers moving between providers; and regulation to promote competition and cut wholesale prices. If we don't grow our revenue profitably and sustainably, our cash flows could be impacted. This could limit our ability to invest in the business. Our ability to compete effectively will depend on how successfully we anticipate and respond to various competitive factors, including new services introduced by competitors, changes in consumer preferences, demographic trends, pricing pressures, and new industry business models
- 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.

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

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

2- Subsidiaries

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

3- Compliance with Corporate Governance Regulations in KSA

Board of Directors of Zain KSA has established Corporate Governance Framework in line with the requirements of Code of Corporate Governance, with a view to providing its Board, management, and stakeholders with a structure along with clear policies and guidelines to ensure that the Company's objectives are realized, its stakeholder expectations are managed, and the requirements of the Code of Corporate Governance Regulations issued by CMA are met.

Responding to the new Company Law issued by MOCI, we are working towards updating Zain KSA's By-Laws to comply with the new requirements and incorporate the same in By-Laws within the stipulated timeline. Pursuant, to the update of By-Laws, and to incorporate changes made in the Listing Rules during the year along with issuance of different procedures issued for listing companies by CMA, management has started to refresh /develop the underlying corporate governance documents and processes including but not limited to Zain KSA corporate governance framework, Board's committees' charters, code of conduct and ethics including conflict of interest policy for the Board, disclosure transparency document etc. Once updated the documents shall be presented to relevant authorities in Zain KSA for approval.

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

- Article 10 (a)-Para 1 and (b)-Para 3 of Code of Corporate Governance: policy framework related to risk management is available in draft and under finalization. Further, as explained in risk management section, management has started to take necessary steps to ensure and improve implementation of control procedures appropriate for risk management.

- Article 10 (e)-Para 4: A code of conduct for the company's executives and employees compatible with the proper professional and ethical standards and procedures for supervising the code of ethics are available in draft and under finalization
- Article 6 Para (B) of Code of Corporate Governance: The Company's By-Laws states, it should use the normal voting method.
- Article 6 Para (D) of Code of Corporate Governance: It is a regulatory prerequisite for investors with legal status who act on behalf of others. Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports, their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.
- Paragraph Article 12 (E) of Code of Corporate Governance: The independent members of the Board of Directors were less than two members, or one-third of the members, whichever is more during the following period:

Time Period	Members
1st of January 2016 – 2nd of February 2016	1- Prince Naif bin Sultan Al-Kabeer 2- Mr. Raied Ali Al-Saif
3rd of February 2016 – 31st of December 2016	1- Prince Naif bin Sultan Al-Kabeer 2- Mr. Raied Ali Al-Saif 3- Mr. Hisham Mohammed [1]

1- Mr. Hisham Mohammed was appointed on 3 February 2016.

- Article 14 (a) of Code of Corporate Governance: The Audit Committee members were less than three over different periods of time. The following table displays the details of the audit committee members.

Time Period	Members	Committee Chairman
1st of January 2016 – 20th of February 2016*	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta	Mr. Raied bin Ali Al Saif

* On 20 February 2016, Board appointed Mr. Thamer Ahmed Obeidat as the third member.

4- Internal Audit

The Internal Audit Plan for Zain KSA has been developed using a "risk–based" approach, and in accordance with professional auditing standards, as laid down by the Institute of Internal Auditors and as set out in Zain KSA's Internal Audit Manual.

As part of our internal audit work, we performed a study and evaluation of Zain KSA's system of internal controls to the extent that we considered it 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.

Zain KSA Management is addressing the findings of the Audit report in the normal course of doing business, and there were no fundamental weaknesses in the internal control.

5- Major Shareholders

Over the course of the reporting period, Zain KSA has received no notifications (other than from the Company's directors, senior executives, their spouses, and minor children detailed separately below) pursuant to Article 45 of the Listing Rules. However, in this period, the following shareholders held at least 5% of the Company's share capital.

Shareholder	No. of Shares on 31st of December 2015	No. of Shares on 31st of December 2016	Ownership % on 31st of December 2016
Mobile Telecommunication Company K.S.C.	216,243,575	216,243,575	37.05%
Faden Trading & Contracting Establishment	34,856,143	34,856,143	5.97%
Saudi Plastic Factory	34,125,198	34,125,198	5.85%

6- Board of Directors

The Company is managed and its operations are overseen by the Board of Directors, which currently consists of (9) nine members. Each member of the Board is appointed for a term of three years starting from the 26th of April 2016; the date of the Ordinary General Meeting approved them as the third board members since the Company's inception (except HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer, he has been appointed as a board member and chairman of board on the 21st of October 2015, and Mr. Bader bin Nasser Alkharafi has been appointed as a board member and vice chairman of board on the 21st of October 2015), these appointments came after the resignation of former Board of Directors members. The Board had 4 meetings in 2016 and passed 9 ordinary resolutions.

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

Board Member	Membership Type	No. of Shares Held on 1st of January 2016	No. of Shares Held on 31st of December 2016
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	Chairman/ Independent	1,000	1,000
Bader bin Nasser Alkharafi	Vice Chairman/ Non-Executive	1,540	1,540
Abdulaziz bin Yaqub Al Nafisi	Non-Executive	-*	-*
Ossama Michael Matta	Non-Executive	-*	-*
Scott Mark Gegenheimer	Non-Executive	-*	-*
Thamer Ahmed Obeidat	Non-Executive	-*	-*
Raied bin Ali Al Saif	Independent	543	1,003
Fahd bin Ibrahim Al Dughaither [1]	Non-Executive	1,000	0
Saud Abdullah Al Bawardi [2]	Non-Executive	0	1,000
Hisham Mohammed Attar [3]	Independent	0	1,000

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

1) Fahd bin Ibrahim Al Dughaither has resigned on the 2nd of February 2016.
2) Saud Abdullah Al Bawardi has been appointed as a Board member on the 3rd of February 2016.
3) Mr. Hisham Mohammed Attar has been appointed on the 3rd of February 2016.

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

There are no shareholdings by any of the executive management and their wives and minor children in Zain KSA as of the dates of the 1st of January 2016 and the 31st of December 2016.

7- Committees of the Board of Directors

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

(1) Audit Committee

Duties and responsibilities of the Audit Committee include:

- Monitoring the company's business - empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company.
- Reviewing the audit plan with the external auditor and giving remarks on the same; reviewing the remarks of the external auditor on the financial statements, following up on the actions taken in respect of the same, including reviewing the interim and annual financial statements

before submission of the same to the Board of Directors, giving their opinion and recommendations on the same.

- Preparing an annual report concerning Committee's opinion on the adequacy and efficiency of the company's internal control system.
- Making sure external auditor's report is read out in the General Assembly.
- Supervising the Company's internal audit division in order to verify its efficiency in performing the functions assigned to it by the Board of Directors.
- Reviewing the internal audit system and preparing a written report with its opinion and recommendations on the same.
- Submitting recommendations to the Board of Directors in respect to the appointment or renewal of the external auditors (who will be independent) and determining their fees.
- Reviewing the accounting policies used by the Company and giving opinions and recommendations on the same.

The following table shows the audit committee's details:

Time Period	Members	Committee Chairman
1st of January 2016 – 20th of February 2016	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta	Mr. Raied bin Ali Al Saif
20th of February 2016 – 3rd of May 2016	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta 3- Mr. Thamer Ahmad Obeidat	Mr. Raied bin Ali Al Saif
3rd of May 2016 – 31st of December 2016 (Members appointed by the Board)	1- Mr. Raied bin Ali Al Saif 2- Mr. Ossama Michael Matta 3- Mr. Thamer Ahmad Obeidat	Mr. Raied bin Ali Al Saif

During April /May 2016, in compliance with the Code of Corporate Governance, the Board of Directors appointed three (3) non-executive Board members for the formation of the Audit Committee. Currently, Board and management are working to have the Audit Committee appointed by the General Assembly in compliance with Article 101 (Chapter IV) of Company Law 2015 issued by Royal Decree M/3 dated 28/01/1437. The requirements in the Company Law 2015 requires appointment of Audit Committee members subject to resolutions adopted by General Assembly including approval of their terms of reference. For this purpose, the terms of reference for the Audit Committee have been updated and are in the process of review and recommendation by the Board of Directors.

During the year, the members of the Audit Committee appointed by the Board met on 24 July 2016. Considering the fact that management and Board, are working to have the Audit Committee approved by the General Assembly, the appointed members have reviewed financial statements and internal audit reports by circulation as part of their roles and responsibilities as Board members.

2) Nomination and Remuneration Committee

Duties and responsibilities of the Nomination and Remuneration Committee include recommending individuals for membership of the Board of Directors; conducting an annual review of the skills required for membership of the Board of Directors; identifying the strengths and weaknesses of the Board of Directors; and establishing clear policies in respect of the remuneration of members of the Board of Directors and senior executives of the Company. The committee has met twice during the year 2016.

The following table shows the Nomination and Remuneration committee's details:

Time Period	Members	Committee Chairman
1st of January 2016 – 26th of April 2016 [1]	1- Mr. Scott Mark Gegenheimer. 2- Mr. Raied bin Ali Al Saif. 3- Mr. Thamer Ahmed Obeidat	Mr. Scott Mark Gegenheimer
3rd of May 2016 – 31st of December 2016 [2]	1- Mr. Scott Mark Gegenheimer. 2- Mr. Raied bin Ali Al Saif. 3- Mr. Thamer Ahmed Obeidat	Mr. Scott Mark Gegenheimer

[1] On the 26th of April 2016 new Board of Directors was elected by the General Assembly.

[2] On the 3rd of May 2016 the Board of Directors appointed Nomination and Remuneration Committee members.

8- Compensation and Remuneration during the Year 2016

SAR'000	Executive Members of The Board of Directors	Non-Executive Members of The Board of Directors	Top Five Executives (Including CEO and CFO)
Salary and Allowances	-	-	9,430
Bonus	-	-	4,605
Incentives	-	-	-
Other	-	-	-

9- Board of Directors Memberships in Other Saudi Companies

Director	Company
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	1- Al Marai 2- Yamama Saudi Cement 3- Farabi Petrochemicals Company 4- Zohoor Alreef Trading Company 5- Tarabot Investment & Development Company
Mr. Raied bin Ali Al Saif	1- ANB Invest Company – Chairman 2- Joussour Holding Company - Vice Chairman
Saud Abdullah Al Bawardi	1- National Gypsum Company

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

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

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

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

11- Redeemable Debt Instruments

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

12- Attendance Record of Board of Directors Meetings

The table below details the dates and attendance records for the Board of Directors' four meetings that were held during 2016. Please note that the mark (✓) denotes that the director attended the meeting, while the mark (✗) means the director did not attend:

Director	3rd of February 2016	26th of April 2016	19th of June 2016	21st of September 2016	Attendance
HH Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer	✓	✓	✓	✓	4
Bader bin Nasser Alkharafi	✓	✓	✓	✓	4
Abdulaziz bin Yaqub Al Nafisi	✗	✓	✓	✗	2
Ossama Michael Matta	✓	✗	✓	✓	3
Scott Mark Gegenheimer	✓	✓	✓	✓	4
Thamer Ahmed Obeidat	✗	✗	✓	✓	2
Raied bin Ali Al Saif	✓	✓	✓	✓	4
Saud Abdullah Albawardi [1]	N/A	✓	✓	✓	3
Hisham Mohammed Mahmoud Attar [2]	N/A	✓	✓	✗	2
Total Presence	5	7	9	7	

1- Mr. Saud Abdullah Albawardi was appointed as a member of board on the 3rd of February 2016.

2- Mr. Hisham Mohammed Mahmoud Attar was appointed as a member of board on the 3rd of February 2016.

13- Board of Directors Interests in Contracts with Zain KSA

The following transactions took place during 2016, and reflect direct or indirect interests of Zain KSA Board of Directors members, and require approval from the General Assembly:

In 2015, Zain Saudi Arabia signed a contract agreement with Almarai Company for providing telecom services, according to the commercial conditions prevalent in the market. The contract was for one year, and it was renewed for the year 2016 by the Ordinary General Assembly on Tuesday 19/7/1437H corresponding to 26/04/2016. The total value of the services provided in 2016 amounted to 307,384 Saudi Riyals. It is also worth noting that His Royal Highness, Prince Naif bin Sultan bin Mohammed bin Saud Alkabeer, Chairman of Board of Directors at Zain KSA, is also a member of Almarai's Board of Directors.

14- Transactions with Related Parties

12. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related Party Transactions

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

	2016 SR'000	2015 SR'000
Revenue	**113,688**	118,603
Cost of revenue	**76,719**	84,381
Management fees expenses	**49,960**	48,779
Finance charges	**257,423**	198,555

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

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

Related Party Balances

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

(i) Due from a related party – current

	2016 SR'000	2015 SR'000

	2016	2015
Zain Bahrain	-	551
Mobile Telecommunications Company K.S.C–current account	570	-
Zain - Sudan	85	85
Due from related parties, net	655	636

(ii) Due to related parties – current

	2016 SR'000	2015 SR'000
Mobile Telecommunications Company K.S.C– current account	2,971	2,971
Zain - Jordan	23	23
Due to related parties, net	2,994	2,994

(iii) Due to related parties – non current

	2016 SR'000	2015 SR'000
Mobile Telecommunications Company K.S.C – management fee	884,572	834,612

(Also refer note 11)

15- Waiving of Compensation

There have been no arrangements or agreements under which a BoD member of Zain KSA has waived any compensations have been made during 2016.

16- Waiving of Dividend Payment

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

17- Outstanding Statutory Payments

By the end of 2016, the outstanding statutory payments stood at SAR 2,038,299,042 payable to:

1. **CITC:**
   a. License fee: SAR 7,234,257
   b. Revenue sharing with the government: SAR 108,513,849
2. **Ministry of Finance:**
   Ministry of Finance Loan: SAR 1,922,530,936

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

18- Fines and Penalties

The Communication & Information Technology Commission ("CITC") has issued miscellaneous fine-incurring administrative decisions against the Company. The reasons behind the issuance of such decisions, as claimed by CITC, relates to the Company's incompliance with CITC's decisions number (215) & (325) and other decisions. Zain KSA has challenged these decisions before the Administrative Court ("Board of Grievances") as per the regulations. During 2016, the Administrative Court has looked into (141) administrative lawsuits filed by Zain KSA against CITC. The Court has issued final Judgments in favor of Zain KSA which overturned CITC's decisions in (18) cases with a total amount of SAR (56,023,000). Furthermore, the Court has issued final Judgments against Zain KSA which dismissed (65) cases filed against CITC. Finally, (58) cases remain under consideration by the Administrative Court, to date.

During 2016, the CMA imposed penalty on the Company due to:

- The Company's violation to Paragraph (E) of Article (12) and paragraph (A) of Article (14) of the Corporate Governance Regulations, as the Company did not comply with the sufficient number of independent members when forming its Board of Directors. The company also failed to comply with the specified number of members in the Audit Committee as its members shall not be less than three non-executive board members. The penalty amounted to SAR 60,000.

19- Employees' End-of-Service Benefits

The value of the employees' end-of-service benefits, provided by Zain KSA, amounted to SAR 74 million as at 31st of December 2016.

20- Statement by the Board of Directors

The board hereby certifies the following:

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

Board of Directors
Mobile Telecommunications
Company Saudi Arabia (Zain)