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

FINANCIAL STATEMENTS AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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(A SAUDI JOINT STOCK COMPANY)

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FOR THE YEAR ENDED 31 DECEMBER 2016

INDEX	**PAGE**

Aldar Audit Bureau
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Professional Partnership Co.
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C.R. 1010443881
C.C. 15070

Independent auditors' report
To the shareholders of Mobile Telecommunications Company Saudi Arabia
(A Saudi Joint Stock Company)
Riyadh, Saudi Arabia

Scope of Audit

We have audited the accompanying balance sheet of **Mobile Telecommunications Company Saudi Arabia** (a Saudi joint stock company) ("the Company") as at 31 December 2016 and the income statement and the statements of cash flows and changes in shareholders' equity for the year then ended including the related notes from 1 to 28 which form an integral part of these financial statements. These financial statements have been prepared by the Company in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in accordance with Article 126 of the Regulations for Companies and submitted to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified Opinion

In our opinion, the accompanying financial statements, taken as whole:

- present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and the results of its performance 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 preparation and presentation of these financial statements.

Aldar Audit Bureau
Abdullah Al Basri & Co.

ALDAR AUDIT BUREAU Professional Partnership Co. Head Office Riyadh CR 1010443881 Certified Accountants Abdullah Al Basri & Co.

Abdullah M. Al Basri
Certified Public Accountant
(License No.171)

Riyadh, 9 Jumada Al-Akhir 1438
Corresponding to 8 March 2017

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

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Notes	2016 SR'000	2015 SR'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**918,560**	1,378,498
Accounts receivable, net	4	**1,108,563**	1,092,856
Inventories, net	5	**42,101**	103,613
Prepaid expenses and other assets	6	**1,243,237**	1,521,004
Total current assets		**3,312,461**	4,095,971
Non-current assets			
Property and equipment, net	7	**7,005,995**	5,007,464
Intangible assets, net	8	**16,196,261**	16,812,756
Other non-current assets		**96,208**	132,102
Total non-current assets		**23,298,464**	21,952,322
TOTAL ASSETS		**26,610,925**	26,048,293
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Long-term borrowings – current portion	9	**1,796,992**	2,450,005
Notes payable	10	**450,195**	329,541
Accounts payable	11	**713,760**	286,040
Due to related parties	12	**2,994**	2,994
Deferred revenue		**528,663**	731,944
Accrued expenses and other liabilities	13	**3,147,299**	2,698,059
Total current liabilities		**6,639,903**	6,498,583
Non-current liabilities			
Long-term borrowings – non-current portion	9	**8,244,987**	8,615,727
Advances from shareholders	14	**4,569,147**	3,966,599
Due to related parties	12	**884,572**	834,612
Other non-current liabilities		**2,619,324**	1,507,867
Derivative financial instruments	15	**3,968**	7,204
Provision for employees' end-of-service benefits		**74,114**	66,020
Total non-current liabilities		**16,396,112**	14,998,029
TOTAL LIABILITIES		**23,036,015**	21,496,612
SHAREHOLDERS' EQUITY			
Share capital	16	**5,837,292**	5,837,292
Hedging reserve	15	**(3,968)**	(7,204)
Accumulated deficit		**(2,258,414)**	(1,278,407)
Total shareholders' equity		**3,574,910**	4,551,681
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**26,610,925**	26,048,293
Commitments and contingencies	23,24		

Mehdi Khalfaoui
CFO

Peter Kaliaropoulos
CEO

Naif bin Sultan bin Mohammed bin Saud Al Kabeer
Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements

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

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 SR'000	2015 SR'000
Revenue	17	**6,926,652**	6,741,382
Cost of revenue and sales	18	**(2,525,984)**	(2,790,279)
Gross profit		**4,400,668**	3,951,103
Operating expenses			
Distribution and marketing expenses	19	**(2,365,900)**	(2,047,236)
General and administrative expenses	20	**(239,769)**	(275,065)
Depreciation and amortization expenses	7,8	**(1,849,858)**	(1,770,224)
Total operating expenses		**(4,455,527)**	(4,092,525)
Operating loss		**(54,859)**	(141,422)
Other income / (expenses)			
Finance charges	9,10,12,14	**(953,013)**	(837,937)
Commission income	3	**27,865**	7,410
Net loss for the year		**(980,007)**	(971,949)
Loss per share (in Saudi Riyals):	21		
• From operating loss		**(0.094)**	(0.242)
• From non-operating loss		**(1.585)**	(1.423)
• From net loss		**(1.679)**	(1.665)

Mehdi Khalfaoui	**Peter Kaliaropoulos**	**~~Naif~~ bin Sultan bin Mohammed bin Saud Al Kabeer**
CFO	**CEO**	**Chairman**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 SR'000	2015 SR'000
OPERATING ACTIVITIES			
Net loss for the year		(980,007)	(971,949)
Adjustments to reconcile loss for the year to net cash from operating activities:			
Provision for doubtful receivables and other assets	4	42,335	44,495
Depreciation and amortization		1,849,858	1,770,098
Other provisions		(32,079)	18,997
Provision for slow moving inventory items	5	(10,941)	656
Finance charges		953,013	837,937
Provision for employees' end-of-service benefits, net		8,094	15,756
Operating income before changes in working capital		1,830,273	1,715,990
Changes in working capital:			
Accounts receivable		(58,041)	256,338
Inventories		72,454	(41,590)
Prepaid expenses and other current and non-current assets		313,575	(101,596)
Accounts payable		408	(222,230)
Due to related parties (current and non-current)		50,045	48,227
Deferred revenue		(203,281)	216,133
Accrued expenses and other current and non-current liabilities		895,713	209,025
Cash flows generated from operating activities		2,901,146	2,080,297
Financial charges paid		(535,847)	(511,964)
Net cash generated from operating activities		2,365,299	1,568,333
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(1,967,289)	(1,237,853)
Purchase of intangible assets	8	(299,974)	(344,291)
Net cash (used in) investing activities		(2,267,263)	(1,582,144)
FINANCING ACTIVITIES			
Notes payable	10	120,654	329,541
Short and long-term borrowing facility	9	(823,748)	(121,300)
Advances from shareholders		145,120	91,951
Net cash (used in) / generated from financing activities		(557,974)	300,192
Net change in cash and cash equivalents		(459,938)	286,381
Cash and cash equivalents, beginning of the year		1,378,498	1,092,117
CASH AND CASH EQUIVALENTS, END OF THE YEAR	3	918,560	1,378,498

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MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

Non-cash transactions:	**2016 SR'000**	2015 SR'000
Adjustment to property and equipment with corresponding effect to accounts payable	**964,631**	242,729
Adjustment to advances from shareholders with corresponding effect to financial charges	**257,423**	198,987
Adjustment to advances from shareholders with corresponding effect to long - term borrowing facilities	**200,005**	200,005
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	**3,236**	59,626

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MOBILE TELECOMMUNICATIONS COMPANY SAUDI ARABIA
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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Share capital SR'000	Hedging reserve SR'000	Accumulated deficit SR'000	Total shareholders' equity SR'000
Balance as at 1 January 2016		**5,837,292**	**(7,204)**	**(1,278,407)**	**4,551,681**
Net loss for the period		**-**	**-**	**(980,007)**	**(980,007)**
Derivative financial instruments	15	**-**	**3,236**	**-**	**3,236**
Balance as at 31 December 2016		**5,837,292**	**(3,968)**	**(2,258,414)**	**3,574,910**
Balance as at 1 January 2015		10,801,000	(66,830)	(5,270,166)	5,464,004
Decrease of share capital		(4,963,708)	-	4,963,708	-
Net loss for the period		-	-	(971,949)	(971,949)
Derivative financial instruments		-	59,626	-	59,626
Balance as at 31 December 2015		5,837,292	(7,204)	(1,278,407)	4,551,681

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CFO

Peter Kaliaropoulos
CEO

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1. ORGANIZATION AND ACTIVITIES

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

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

Based on the High Order dated 30 Dhu Al-Hijjah 1437 H (corresponding to 01 October 2016) which was announced by the Capital Market Authority on 01 Muharram 1438 H (corresponding to 02 October 2016) which directed the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to:

a. Extend its license for an additional 15-years period, bringing the remaining period to 32 years ending on 21/Rabi Al Awwal 1469 H (corresponding to 18 January 2047). (Yearly impact will be reduction in amortization charge of license by approximately SR 433M and reduction in loss by the same amount);
b. Grant the Company a Unified License where it can offer all telecommunication services including fixed services; and
c. Coordinate with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government.

On 23 Jumada first 1438 H (corresponding to 20 February 2017) CITC has issued Zain a Unified License to provide all telecommunication services; in line with the High Order dated 30 Dhu Al-Hijjah 1437 H (corresponding to 01 October 2016).

On 7th of December 2016 the Company announced resignation of its CEO Mr. Hassan Kabbani, effective date 31 December 2016, and appointment of Mr. Peter Kaliaropoulos as new CEO.

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

1-2 The Company incurred losses for the period from 1 January 2016 to 31 December 2016 amounting to SR 980 million, after incorporating positive impacts of the stated High Order for the fourth quarter of the year 2016 (SR 109 million), and has accumulated deficit amounting to SR 2,258 million as of 31 December 2016. The Company's management believes that what was granted from the High Order, as stated above, will have positive impact on the Company and it will be successful in meeting its obligations in normal course of operations. The directors of the Company have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

1. ORGANIZATION AND ACTIVITIES (Continued)

Refinancing Arrangements

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

In the second quarter of 2015 and the first quarter of 2016, the Company made a prepayment for the amount of SR 121 million and SR 392 million respectively as a mandatory settlement due to its excess free cash flow. On 31 December 2016, the Company paid the first instalment amounting SR 432 million as 5% of the principle.

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

On 2 June 2016 the Company has renewed its long-term Commercial loan facility agreement amounting SR 2.25 billion with a two years tenor that is extendable by one additional year. The loan is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. The principal amount will be repaid in one bullet payment at the maturity date.
(Also refer to Note 9).

On 15 August 2016 the Company has signed a long-term commercial loan facility agreement amounting to SAR 2.25 Billion 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 to replace the existing syndicated facility. This new facility will have lower financing cost compared to the existing facilities, the Facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. (Zain Group).
(Also refer to Note 9).

Agreement with the Ministry of Finance, Saudi Arabia

During 2013, the Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at SAR 5.6 billion. These deferred payments under this agreement will be bearing commercial commission payable annually, while the amount due will be repayable in equal instalments starting June 2021. The amount deferred by the Company as of 31 December 2016 amounted to SR 1,923 million (2015: SR 1,356 million) included in other non-current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation
The accompanying financial statements have been prepared under the historical cost convention on the accrual basis of accounting and in compliance with accounting standards promulgated by the Saudi Organization for Certified Public Accountants ("SOCPA"). These financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2015.

Critical accounting estimates and judgments

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

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

(a) Intangible assets

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

The relative size of the Company's intangible assets being 63.5 % (2015: 65.5 %) 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.

2. 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 26.3 % (2015: 19.2%) of the Company's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Company's financial position and performance.

Estimate of useful life

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

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

(c) Provision for doubtful receivables

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

Segment reporting

(a) **Business segment**

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

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

(b) **Geographical segment**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translations

(a) **Reporting currency and functional currency**
These financial statements are presented in Saudi Riyals ("SR") which is the reporting currency and functional 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are shown at their net realizable values, which represent billed and unbilled usage revenues net of allowances for doubtful accounts. A provision against doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the income statement 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 income statement.

Inventories

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

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

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

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

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the income statement as and 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 40 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 income statement on a straight-line basis over the estimated useful life from the commencement of service of the network.

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

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

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

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 income statement. 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 income statement.

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 General Authority of Zakat and Tax (the “GAZT”). Provision for zakat, if any, is charged to the income statement. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Revenue from data services and information provision is recognized when the Company has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as discount for facilitating the service. The income from provision of content services, is recognized on net basis to record the extent of its own share of income only.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

3. CASH AND CASH EQUIVALENTS

	2016	2015
	SR’000	SR’000
Cash on hand	**110**	33
Cash at banks	**368,450**	178,465
Time deposits	**550,000**	1,200,000
	918,560	1,378,498

The Company invests part of the surplus cash in time deposits with maturity period of three month or less with local commercial banks. The annual commission rates on these deposits during 2016 were 5.07 % (2015: 0.62 %). The total commission earned by the Company during 2016 was SR 27.86 Million (2015: SR 7.41 Million).

4. ACCOUNTS RECEIVABLE, NET

	2016 SR'000	2015 SR'000
Billed receivables (Notes 4.1 and 4.2)	**1,594,787**	1,527,390
Unbilled receivables	**75,005**	87,194
Other	**4,634**	1,800
	1,674,426	1,616,384
Less: Provision for doubtful receivables	**(565,863)**	(523,528)
	1,108,563	1,092,856

Movement in provision for doubtful receivables is as follows:

	2016 SR'000	2015 SR'000
Balance as at 1 January	**523,528**	479,033
Additions	**43,860**	44,495
Reversal	**(1,525)**	-
Balance as at 31 December	**565,863**	523,528

4.1 The Company has agreements with other operators whereby amount receivable from and payable to the same operator are subject to offsetting. At 31 December 2016 and 2015, the net amounts are included in accounts receivable and accounts payable are as follows:

	2016 SR'000	2015 SR'000
Accounts receivables, net	**646,313**	554,606
Accounts payables, net	**401,113**	412,732

4.2 Billed receivable includes amount due from related parties amounting to SR 111.9 million (2015: SR 115.6 million) for providing telecommunication services to related parties.

5. INVENTORIES, NET

	2016 SR'000	2015 SR'000
Handsets and accessories	**55,850**	131,789
Sim cards	**7,290**	3,565
Prepaid recharge cards	**2,089**	2,757
Other	**1,553**	1,124
	66,782	139,235
Less Provision for slow moving items	**(24,681)**	(35,622)
	42,101	103,613

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

	2016 SR'000	2015 SR'000
Balance as at 1 January	**35,622**	34,966
Additions	**424**	12,557
Reversal	**(11,365)**	(11,901)
Balance as at 31 December	**24,681**	35,622

6. PREPAID EXPENSES AND OTHER ASSETS

	2016 SR'000	2015 SR'000
Advances to suppliers and refundable deposits (Note 6.1)	**860,876**	1,157,783
Prepaid rent	**229,216**	197,071
Advances for transmission lines and fiber links	**61,635**	68,270
Prepaid software license fee	**8,332**	8,736
Prepaid insurance	**7,516**	6,628
Prepaid advertisement	**3,747**	3,550
Other	**71,915**	78,966
	1,243,237	1,521,004

6. PREPAID EXPENSES AND OTHER ASSETS (Continued)

6.1. This includes advances amounting to SR 379 million provided by the Company during 2016 to various suppliers under the agreements signed by the Company for telecommunications infrastructure supply that will increase the network coverage and enchanted the quality of mobile telecommunications services provided by the Company.

7. PROPERTY AND EQUIPMENT, NET

	January 1, 2016 SR'000	Additions SR'000	Disposals/ Transfers SR'000	December 31, 2016 SR'000
Cost				
Leasehold improvements	**317,847**	14,639	13,061	**345,547**
Telecommunications equipment	**8,607,428**	2,164,416	113,695	**10,885,539**
IT systems and servers	**521,282**	19,443	21,370	**562,095**
Furniture, fixtures and office equipment	**132,906**	28,109	(17)	**160,998**
Vehicles and other transportation equipment	**3,770**	8	-	**3778**
Capital work in progress	**293,312**	714,351	(177,630)	**830,033**
	9,876,545	2,940,966	(29,521)	**12,787,990**
Accumulated depreciation				
Leasehold improvements	**241,192**	32,456	-	**273,648**
Telecommunications equipment	**4,111,525**	837,224	(20,305)	**4,928,444**
IT systems and servers	**420,914**	46,313	-	**467,227**
Furniture, fixtures and office equipment	**91,680**	17,250	(24)	**108,906**
Vehicles and other transportation equipment	**3,770**	-	-	**3,770**
	4,869,081	933,243	(20,329)	**5,781,995**
Carrying Amount	**5,007,464**			**7,005,995**

7. PROPERTY AND EQUIPMENT, NET (Continued)

	January 1, 2015 SR'000	Additions SR'000	Disposals/ Transfers SR'000	December 31 2015 SR'000
Cost				
Leasehold improvements	282,050	22,583	13,214	317,847
Telecommunications equipment	7,478,421	1,030,155	98,852	8,607,428
IT systems and servers	465,736	41,849	13,697	521,282
Furniture, fixtures and office equipment	100,735	32,171	-	132,906
Vehicles and other transportation equipment	3,770	-	-	3,770
Capital work in progress	65,252	381,592	(153,532)	293,312
	8,395,964	1,508,350	(27,769)	9,876,545
Accumulated depreciation				
Leasehold improvements	205,607	35,585	-	241,192
Telecommunications equipment	3,426,519	685,132	(126)	4,111,525
IT systems and servers	383,848	37,208	(142)	420,914
Furniture, fixtures and office equipment	79,785	11,895	-	91,680
Vehicles and other transportation equipment	3,770	-	-	3,770
	4,099,529	769,820	(268)	4,869,081
Carrying Amount	4,296,435			5,007,464

8. INTANGIBLE ASSETS, NET

	January 1, 2016 SR'000	**Additions SR'000**	**Disposals/Transfers SR'000**	**December 31, 2016 SR'000**
Cost				
License fee*	**23,359,180**	5,050	-	**23,364,230**
Computer software licenses	**281,779**	15,761	5,637	**303,177**
Rights of use	**378,051**	263,802	2,224	**644,077**
Brand	**-**	7,500	-	**7,500**
	24,019,010	292,113	7,861	**24,318,984**
Accumulated amortization				
License fee*	**6,981,741**	842,988	-	**7,824,729**
Computer software licenses	**198,363**	31,615	-	**229,978**
Rights of use	**26,150**	42,012	(146)	**68,016**
	7,206,254	916,615	(146)	**8,122,723**
Carrying Amount	**16,812,756**			**16,196,261**

8. INTANGIBLE ASSETS, NET (Continued)

	January 1, 2015 SR'000	Additions SR'000	Disposals/ Transfers SR'000	December 31, 2015 SR'000
Cost				
License fee*	23,359,180	-	-	23,359,180
Computer software licenses	251,865	20,199	9,715	281,779
Rights of use	63,675	296,587	17,789	378,051
	23,674,720	316,786	27,504	24,019,010
Accumulated amortization				
License fee*	6,032,287	949,454	-	6,981,741
Computer software licenses	170,016	28,207	140	198,363
Rights of use	3,407	22,743	-	26,150
	6,205,710	1,000,404	140	7,206,254
Carrying Amount	17,469,010			16,812,756

* 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.

Based on the High Order dated 30 Dhu Al-Hijjah 1437 H (corresponding to 01 October 2016) which was announced by the Capital Market Authority on 01 Muharram 1438 H (corresponding to 02 October 2016) which directed the Communications and Information Technology Commission (CITC) to coordinate with Mobile Telecommunication Company Saudi Arabia (Zain) to extend its license for an additional 15-years period, bringing the remaining period to 32 years ending on 21/Rabi Al Awwal 1469 H (corresponding to 18 January 2047).

9. LONG TERM BORROWINGS

	2016 SR'000	2015 SR'000
Syndicate Murabaha facility - current portion (refer note 9.1)	**1,726,154**	-
Local commercial bank – current portion (refer note 9.2)	**-**	2,250,000
Export credit facility - current portion (refer note 9.3)	**70,838**	200,005
	1,796,992	2,450,005
Syndicate Murabaha facility - non-current portion (refer note 9.1)	**5,959,568**	8,509,470
Export credit facility – non-current portion (refer note 9.3)	**35,419**	106,257
Industrial and Commercial Bank of China Facility – non-current (refer note 9.4)	**2,250,000**	-
	8,244,987	8,615,727
Total	**10,041,979**	11,065,732

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

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

On 31 July 2013, the Company has signed an amended and restated "Murabaha financing agreement" with a consortium of banks which also includes existing Murabaha facility investors to extend the maturity date of its Murabaha facility for 5 years ending 30 June 2018 which was due on 31 July 2013. The new facility has been restructured as an amortizing facility, 25% of which will be due during years 4 to 5 of the life of the facility, as mandatory minimum amount due, with 75% due at maturity date. The Company has partially repaid the facility, utilizing a portion of its internal cash resources, and the current outstanding principal stands at SR. 8.6 billion, SR portion totaling SR. 6.3 billion and USD portion totaling USD 0.6 billion (SR 2.3 billion).

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

9. LONG TERM BORROWINGS (Continued)

Financial and other covenants imposed by the financing banks are:

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

In the second quarter of 2015 and the first quarter of 2016, the Company made a prepayment for the amount of SR 121 million and SR 392 million respectively as a mandatory settlement due to its excess free cash flow. On 31 December 2016, the Company paid the first instalment amounting SR 432 million as 5% of the principle.

The Company is still in negotiation with banks to reset the covenant based on the new business plan; Moreover, the Company is complying with the existing loan covenants

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

On 5 June 2013 the Company has signed a new long-term borrowing facility agreement amounting to SR 2.25 billion with three years maturity to refinance the existing facility. The new facility consists of a SR portion totaling SR 1,875 million and a USD portion totaling USD 100 million provided by a syndicate of four banks. This facility attracts financing charges as specified in the agreement, and is subordinated to the existing Murabaha facility, and secured by an unconditional and irrevocable guarantee by Mobile Telecommunications Company K.S.C. The new facility will be repaid in one bullet payment at the maturity date of 5 June 2016.

On 2 June 2016 the Company has renewed its long-term Commercial loan facility agreement amounting SR 2.25 billion with a two years tenor that is extendable by one additional year. The loan is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. The principal amount will be repaid in one bullet payment at the maturity date.

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

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

The Company has utilized tranche A (USD 155 million) in full and also utilized USD 98 million out of USD 170 million of tranche B. The remaining unutilized portion of tranche B has been cancelled during the first quarter of 2013.

Financing charges as specified under this facility agreement are payable in semi-annual instalments over the life of the loan. Repayment will take place over five (5) years on a semi-annual basis starting July 2012 for tranche A (totaling USD 155 million) and July 2013 for tranche B (totaling USD 98 million). As at 31 December 2016, all sixteen (31 December 2015: 12) instalments were repaid in full.

9. LONG TERM BORROWINGS (Continued)

9.4 On 15 August 2016 the Company has signed a long-term commercial loan facility agreement amounting to SAR 2.25 Billion 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 to replace the existing syndicated facility (refer note 9.2); this new facility will have lower financing cost compared to the existing facilities, the Facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. (Zain Group).

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

	2016 **SR'000**	2015 SR'000
2016	**-**	2,881,544
2017	**1,796,992**	1,832,410
2018	**8,244,987**	6,351,778
	10,041,979	11,065,732

10. NOTES PAYABLE

	2016 **SR'000**	2015 SR'000
Current:		
Promissory Note - Huawei Reload Project- Current	**217,932**	158,657
Promissory Note - Nokia Reload Project- Current	**232,263**	170,884
	450,195	329,541

11. ACCOUNTS PAYABLE

	2016 **SR'000**	2015 SR'000
Trade payables	**671,598**	258,567
Other	**42,162**	27,473
	713,760	286,040

Trade payables includes amount due to related parties amounting to SR 90,324 thousands (2015: SR 0) for providing telecommunication services to 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.

12. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

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
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)

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016	2015
	SR'000	SR'000
Accrued Government charges	**1,143,767**	771,767
Trade	**903,126**	980,641
Accrued expenses	**396,304**	459,846
Employees	**44,605**	50,959
Accrued Financial charges	**115,340**	54,136
Others	**544,157**	380,710
	3,147,299	2,698,059

14. ADVANCES FROM SHAREHOLDERS

In accordance with the arrangements agreed with the shareholders during 2009, some of the founding shareholders have provided advances to the Company. During 2012, pursuant to all related approvals, the principal amounts of these advances were utilized to increase the share capital of the Company. Additionally, a founding shareholder has provided additional loans and made certain payments on behalf of the Company. (refer to note 9)

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

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

	2016	2015
	SR'000	SR'000
Mobile Telecommunications Company K.S.C.	**3,173,385**	2,826,939
Infra Capital Investments (Abu Dhabi Investment House)	**8,413**	8,413
	3,181,798	2,835,352
Accrued financial charges	**1,387,349**	1,131,247
	4,569,147	**3,966,599**

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Contracts notional amounts SR'000	Fair Value 2016 SR'000	Fair Value 2015 SR'000
Derivative financial instruments held for cash flow hedges	4,315,385	3,968	7,204

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

16. SHARE CAPITAL

The share capital of the Company as at 31 December 2016 comprised 583,729,175 shares stated at SR 10 per share owned as follows:

	As at 31 December 2016	
	Number of shares	**Share capital SR'000**
Mobile Telecommunications Company K.S.C.	216,243,575	2,162,436
Saudi Plastic Factory	34,125,198	341,252
Faden Trading & Contracting Est.	34,856,143	348,561
Rakisa Holding Company	2,548,320	25,483
Infra Capital Investments (Abu Dhabi Investment House)	12,508,485	125,085
Almarai Company	12,409,162	124,092
Ashbal Al-Arab Contracting Est.	12,409,162	124,092
Al Jeraisy Development Company Limited	6,204,581	62,046
Architectural Elite Est. for Engineering and Contracting	3,243,316	32,433
Al Sale Al Sharkiyah Company Limited	3,102,290	31,023
	337,650,232	3,376,503
Public shareholding	246,078,943	2,460,789
Total	**583,729,175**	**5,837,292**

17. REVENUE

	2016 **SR'000**	2015 SR'000
Usage charges	**6,127,107**	6,160,720
Subscription	**778,067**	437,457
Other	**21,478**	143,205
	6,926,652	6,741,382

18. COST OF REVENUE AND SALES

	2016 **SR'000**	2015 SR'000
Access charges	**1,215,062**	1,555,858
Government charges	**961,543**	860,409
Leased lines	**88,563**	161,224
Other	**260,816**	212,788
	2,525,984	2,790,279

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

19. DISTRIBUTION AND MARKETING EXPENSES

	2016 **SR'000**	2015 SR'000
Employees' salaries and related charges	**539,059**	468,047
Rent expenses	**476,046**	396,805
Dealers' commission	**409,314**	450,898
Repairs and maintenance	**409,129**	298,859
Advertising	**209,892**	195,063
Utilities	**54,469**	37,744
Management fees (Note 12)	**49,960**	48,779
Bad debts expense (Note 4)	**43,860**	44,495
Consulting	**24,102**	45,876
Other	**150,069**	60,670
	2,365,900	2,047,236

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2016 SR'000	2015 SR'000
Employees' salaries and related charges	**127,544**	122,893
Repairs and maintenance	**77,943**	74,179
Legal and professional charges	**25,317**	1,422
Consulting services	**24,044**	40,148
Intercompany provision	**-**	2,179
System support and maintenance	**4,078**	4,634
Legal provision	**(32,079)**	18,997
Other	**12,922**	10,613
	239,769	275,065

21. LOSS PER SHARE

Losses per share are computed by dividing the losses for the period by the weighted average number of shares outstanding at the period end.

22. ZAKAT

Components of zakat base

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

	2016 SR'000	2015 SR'000
Shareholders' equity at beginning of year	**4,554,916**	5,523,630
Provisions at beginning of year	**819,331**	671,653
Long-term borrowings and shareholders' advances	**11,517,166**	14,541,389
Other non – current liabilities	**1,355,888**	800,920
Adjusted net loss for the year (see below)	**(808,636)**	(886,545)
Property and equipment	**(7,005,995)**	(5,007,464)
Intangible assets	**(16,196,261)**	(16,812,756)
Other non-current assets	**(96,208)**	(132,102)
Approximate negative zakat base of the Company	**(5,859,799)**	(1,301,275)

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

22. ZAKAT (Continued)

Calculation of adjusted net loss

	2016 SR'000	2015 SR'000
Net loss for the year	**(980,007)**	(971,949)
- Provision for employees' end-of service-benefits	**8,094**	15,756
- Provision for doubtful and other receivables and for slow moving inventory items	**31,394**	45,151
-Others	**-**	5,500
-Other provision	**131,883**	18,997
Adjusted net loss for the year	**(808,636)**	(886,545)

Status of assessments

The Company had finalized its zakat and tax status up to 2008 and obtained the related certificate.
The Company had submitted its financial statements along with zakat and returns for the years 2009 to 2015 and paid zakat and withholding tax according to the filed returns.

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

The Zakat and tax advisors believe that there is a valid argument to support the Company's position on appealing such assessment; therefore, during the quarter ended 30 September 2015 the Company filed an appeal within the allowed period of 60 days. During the fourth quarter of 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.

23. COMMITMENTS AND CONTINGENCIES

23.1 Capital Commitments

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

	2016 SR'000	2015 SR'000
Within 12 months	**361,259**	493,258
Within 2 to 5 years	**1,203,614**	2,203,849
	1,564,873	2,697,107

23. COMMITMENTS AND CONTINGENCIES (Continued).

23.2 Claim by an operator

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

As a result of the above, the Company 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 6 May 2008 and the related Amendment I, Addendum I and an offer letter (collectively known as the "Amendments"), which were implemented by both parties in normal course of operations till Mobily acted unilaterally to revoke these Amendments.

The Arbitration Panel judgment dated 10 Safar 1438H, (corresponding to 10 November 2016) is as follows:

1) Obliging Zain to pay Mobily the sum of SAR 219,464,509 (Two hundred and nineteen million four hundred sixty-four thousand five hundred and nine Saudi Riyals);

2) Rejecting all the other demands of the parties.

The judgment received on Thursday, 10 Safar 1438 H (corresponding to 10 November 2016) is not enforceable until the lapse of 60 (sixty) days from the date of receiving the judgment, which is the period during which Zain has the right to apply to the competent court for invalidity of the judgment, pursuant to the Arbitration Law the Company has not taken a decision in this regards yet.

On 10 January 2017, Zain announced that it has decided not to apply for invalidation of the judgment

On 20 February 2017, Zain has paid SR 219,464,509 to Mobily. With this payment Zain has fulfilled all of its obligations pursuant to the judgment issued by the Arbitration Panel dated 10 Safar 1438H, (corresponding to 10 November 2016).

As previously announced, execution of the judgment does not have a negative financial impact on Zain as Zain has previously made sufficient provision to cover the full amount awarded by the Arbitration Panel

23.3 Other legal proceedings, penalties and other claims

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

24. OPERATING LEASES COMMITMENTS

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

	2016 **SR'000**	2015 SR'000
Within 12 months	**331,896**	309,984
Within 2 to 5 years	**1,327,585**	1,239,936
Over 5 years	**1,659,481**	1,549,920
	3,318,962	3,099,840

25. SEGMENT INFORMATION

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued).

Fair value and cash flow commission rate risks

Fair value and cash flow commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Company's financial positions and cash flows. The Company's commission rate risks arise mainly from borrowing facilities including syndicated murabaha financing, notes payable and advances from shareholders and which are at floating rate of commission and are subject to repricing on a periodic basis. The Company manages its cash flow commission rate risk on syndicated murabaha financing by using floating-to-fixed commission rate swaps. Such commission rate swaps have the economic effect of converting murabaha financing from floating rates to fixed rates. Under the commission rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate commission amounts calculated by reference to the agreed notional amounts. (refer to note 15)

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

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

Liquidity risk
Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company incurred net loss for the year ended 31 December 2016 and has accumulated deficit as of that date. These conditions indicate that the Company's ability to meet its obligations as they become due and to continue as a going concern are dependent upon the Company's ability to arrange adequate funds in a timely manner. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are made available to meet any future commitments. (Also please refer see note 1).

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

27. COMPARATIVE FIGURES

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

28. APPROVAL OF FINANCIAL STATEMENTS

These year-end financial statements were approved by the Board of Directors on 8 March 2017.